

MANTLE DIAMONDS LIMITED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
31 DECEMBER 2006

Company Registration Number 5561475

MANTLE DIAMONDS LIMITED

FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2006

CONTENTS	PAGE
Company information	1
Report of the directors	2
Independent auditors' report to the shareholders	4
Profit and loss account	6
Balance sheet	7
Notes to the financial statements	8
The following pages do not form part of the financial statements	
Detailed profit and loss account	15
Notes to the detailed profit and loss account	16

MANTLE DIAMONDS LIMITED

COMPANY INFORMATION

Directors

Mr L Kemp
Mr R E I Baring
Mr M B Brennan
Dr A J MacDonald
Mr C Fithen
Mr C Pearce

Company secretary

Mr L Kemp

Registered office

1st Floor Suite 1B
Princes House
38 Jermyn Street
London
SW1Y 6DN

Auditors

F. W. Smith, Riches & Co.
Chartered Accountants
& Registered Auditors
18 Pall Mall
London
SW1Y 5LU

MANTLE DIAMONDS LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2006

The directors present their report and the financial statements of the company for the period ended 31 December 2006.

PRINCIPAL ACTIVITIES

The company was incorporated on 12 September 2005, and commenced trading on 1 February 2006.

The principal activity of the company during the period was diamond exploration.

DIRECTORS

The directors who served the company during the period were as follows:

Mr L Kemp	(Appointed 5 December 2005)
Mr R E I Baring	(Appointed 5 December 2005)
Mr M B Brennan	(Appointed 31 August 2006)
Form 10 Secretaries FD Limited	(Served from 12 September 2005 to 5 December 2005)

Since the period end, the following appointments have been made:

Dr A J MacDonald was appointed as a director on 1 March 2007.

Mr C Fithen was appointed as a director on 1 March 2007.

Mr C Pearce was appointed as a director on 18 April 2007.

GOING CONCERN

The financial statements have been prepared on a going concern basis.

The directors have prepared a financial forecast for the period through to 31 July 2008. This indicates, on the assumptions made, that the adequacy of the company's working capital is subject to the receipt of additional funds which the directors are confident will be forthcoming in the near future.

Subject to the above, the company has adequate financial resources to continue in operational existence and to meet its liabilities as they fall due for the foreseeable future (being a period of at least twelve months from the date of approval of these financial statements).

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

MANTLE DIAMONDS LIMITED

REPORT OF THE DIRECTORS FOR THE PERIOD ENDED 31 DECEMBER 2006 *(continued)*

DIRECTORS' RESPONSIBILITIES *(continued)*

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDITORS

A resolution to re-appoint F. W. Smith, Riches & Co. as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

SMALL COMPANY PROVISIONS

This report has been prepared in accordance with the special provisions for small companies under Part VII of the Companies Act 1985.

Signed by order of the Board

MR L KEMP

Company Secretary

1st Floor Suite 1B
Princes House
38 Jermyn Street
London
SW1Y 6DN

MANTLE DIAMONDS LIMITED**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDED 31 DECEMBER 2006**

We have audited the financial statements of Mantle Diamonds Limited for the period ended 31 December 2006 on pages 6 to 13, which have been prepared on the basis of the accounting policies set out on pages 8 to 9.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

MANTLE DIAMONDS LIMITED**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
FOR THE PERIOD ENDED 31 DECEMBER 2006** *(continued)*

BASIS OF AUDIT OPINION *(continued)*

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

EMPHASIS OF MATTER – GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the future funding of the company, which indicates that the adequacy of the company's working capital is subject to the receipt of additional funds which the directors are confident will be forthcoming in the near future. This indicates the existence of a material uncertainty which may cast doubt about the company's ability to continue as a going concern. In view of the significance of this uncertainty, we consider that it should be brought to your attention, but our opinion is not qualified in this respect.

FW SMITH, RICHES & CO.

Chartered Accountants and Registered Auditors
18 Pall Mall
London
SW1Y 5LU

MANTLE DIAMONDS LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	Note	Period ended 31 Dec 06 £
TURNOVER		–
Administrative expenses		721,231
OPERATING LOSS	2	<u>(721,231)</u>
Interest receivable		7,678
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(713,553)</u>
Tax on loss on ordinary activities		–
LOSS FOR THE FINANCIAL PERIOD	13	<u><u>(713,553)</u></u>

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the period as set out above.

MANTLE DIAMONDS LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2006**

	Note	2006 £
FIXED ASSETS		
Tangible assets	5	<u>15,783</u>
CURRENT ASSETS		
Debtors	6	89,369
Cash at bank		<u>649,246</u>
		738,615
CREDITORS: Amounts falling due within one year	7	<u>123,089</u>
NET CURRENT ASSETS		<u>615,526</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>631,309</u></u>
CAPITAL AND RESERVES		
Called-up equity share capital	9	18,961
Share premium account	10	1,013,563
Share options reserve	11	7,338
Shares to be issued	12	305,000
Profit and loss account	13	(713,553)
SHAREHOLDERS' FUNDS	14	<u><u>631,309</u></u>

The financial statements on pages 6 to 13 were approved by the directors on and were signed on their behalf by:

MR L KEMP

Director

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006**

1. ACCOUNTING POLICIES**Basis of accounting**

The financial statements have been prepared under the historical cost convention.

Going concern

The financial statements have been prepared on a going concern basis.

The directors have prepared a financial forecast for the period through to 31 July 2008. This indicates, on the assumptions made, that the adequacy of the company's working capital is subject to the receipt of additional funds which the directors are confident will be forthcoming in the near future.

Subject to the above, the company has adequate financial resources to continue in operational existence and to meet its liabilities as they fall due for the foreseeable future (being a period of at least twelve months from the date of approval of these financial statements).

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant & Machinery	-	5 years straight line
Fixtures & Fittings	-	3 years straight line
Equipment	-	3 to 4 years straight line

Exploration expenditure

Costs relating to the acquisition and exploration of mineral properties are expensed as incurred.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006****1. ACCOUNTING POLICIES** *(continued)***Share-based payments**

The company has adopted FRS 20 'Share based payments' in respect of share options granted to directors and also certain supplier contracts under which services are provided as consideration for the issue of equity instruments.

Share options granted to directors of the company are valued at the date of grant using an appropriate option pricing model and are charged to operating profit over the vesting period of the option.

2. OPERATING LOSS

Operating loss is stated after charging:

	Period ended 31 Dec 06
	£
Depreciation of owned fixed assets	897
Auditors' remuneration	
- as auditor	5,000
- for other services	3,000
Net loss on foreign currency translation	103

3. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial period amounted to:

	No
Number of administrative staff	1

The aggregate payroll costs of the above were:

	£
Wages and salaries	12,500
Social security costs	1,438
Equity-settled share-based payments	7,338
	21,276

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006****4. DIRECTORS' EMOLUMENTS**

The directors' aggregate emoluments in respect of qualifying services were:

	Period ended 31 Dec 06 £
Emoluments receivable	<u>23,366</u>

In addition to the above, consultancy fees were paid to directors totalling £113,283.

5. TANGIBLE FIXED ASSETS

	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
COST				
Additions	9,580	310	6,790	16,680
At 31 December 2006	<u>9,580</u>	<u>310</u>	<u>6,790</u>	<u>16,680</u>
DEPRECIATION				
Charge for the period	479	34	384	897
At 31 December 2006	<u>479</u>	<u>34</u>	<u>384</u>	<u>897</u>
NET BOOK VALUE				
At 31 December 2006	<u>9,101</u>	<u>276</u>	<u>6,406</u>	<u>15,783</u>

6. DEBTORS

	2006 £
Other debtors	74,633
Directors current accounts	13,846
Prepayments and accrued income	890
	<u>89,369</u>

7. CREDITORS: Amounts falling due within one year

Trade creditors	84,599
Other creditors	17,173
Accruals and deferred income	21,317
	<u>123,089</u>

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006****8. SHARE-BASED PAYMENTS***Equity-settled share-based payments:*

Movements in the number of share options in issue over the company's ordinary shares of 0.1 pence during the year were as follows:

	Number	Weighted average exercise price
Options granted during the period	500,000	10p
At 31 December 2006	<u>500,000</u>	

The company has a share option scheme in place for Mr M. B. Brennan. Options are exercisable at a price of 10p. The vesting dates for the options in issue are as follows:

Vesting date	Number of shares
1 July 2006	250,000
Upon listing on AIM	250,000
	<u>500,000</u>

The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the latest vesting date above, the options expire.

The fair values were calculated using the Black-Scholes Model. The inputs into the model were as follows:

Share price	11.91p
Exercise price	10p
Expected volatility	50%
Expected life	1.5 years
Expected dividend yield	0%
Risk free interest rate	5.5%

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006****8. SHARE-BASED PAYMENTS** *(continued)*

Expected volatility was determined by reference to historic volatility of mining shares listed on the London Stock Exchange. This volatility was then adjusted to reflect a higher expected volatility on the AIM market. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

In addition to the share options in issue the company has also recognised expenses in the period in respect of certain consultancy agreements under which services are provided as consideration for the issue of equity instruments. In total 149,998 shares have been issued, or are due to be issued, under such agreements.

The expense relating to such consultancy agreements has been calculated at the fair value of the services provided with reference to market rates for such services.

The company recognised total expenses of £22,337 related to equity-settled share-based payment transactions during the year.

9. SHARE CAPITAL**Authorised share capital:**

	2006
	£
22,000,000 Ordinary shares of £0.001 each	<u>22,000</u>

Allotted, called up and fully paid:

	No	
Ordinary shares of £0.001 each	<u>18,961,362</u>	<u>18,961</u>

10. SHARE PREMIUM ACCOUNT

Premium on shares issued in the period	<u>1,013,563</u>
Balance carried forward	<u>1,013,563</u>

MANTLE DIAMONDS LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006****11. SHARE OPTIONS RESERVE**

	2006
	£
Recognition of equity-settled share-based payments in the year	7,338
Balance carried forward	<u>7,338</u>

12. SHARES TO BE ISSUED

At 31 December 2006, consideration of £305,000 had been received in full for 2,049,998 ordinary shares in the company which had not yet been issued at that date. As the company does not have any obligation to transfer economic benefit to these investors, the balance of £305,000 has been reported within Shareholders' Funds.

13. PROFIT AND LOSS ACCOUNT

Loss for the financial period	(713,553)
Balance carried forward	<u>(713,553)</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Loss for the financial period	(713,553)
New equity share capital subscribed	18,961
Premium on new share capital subscribed	1,013,563
Shares to be issued	305,000
Recognition of equity-settled share-based payments in the year	7,338
Net addition to shareholders' funds	<u>631,309</u>
Closing shareholders' funds	<u>631,309</u>

15. POST BALANCE SHEET EVENTS

On 26 February 2007 the authorised share capital of the company was increased to £40,000 by the creation of 18,000,000 ordinary shares of £0.001 each.

Since 31 December 2006 the company has issued 12,110,639 shares raising finance of £1,801,596.

16. RELATED PARTY TRANSACTIONS

The company has no ultimate controlling party.

MANTLE DIAMONDS LIMITED

**MANAGEMENT INFORMATION
FOR THE PERIOD ENDED 31 DECEMBER 2006**

**The following pages do not form part of the statutory financial statements
which are the subject of the independent auditors' report on pages 4 to 5.**

MANTLE DIAMONDS LIMITED**DETAILED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	Period ended 31 Dec 06 £
OVERHEADS	
Administrative expenses	<u>721,231</u>
OPERATING LOSS	(721,231)
Bank interest receivable	<u>7,678</u>
LOSS ON ORDINARY ACTIVITIES	<u>(713,553)</u>

MANTLE DIAMONDS LIMITED**NOTES TO THE DETAILED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 DECEMBER 2006**

		Period ended 31 Dec 06 £
ADMINISTRATIVE EXPENSES		
Personnel costs		
Directors salaries	12,500	
Directors national insurance contributions	1,438	
Equity-settled share-based payments	7,338	
		21,276
General expenses		
Travel and subsistence	56,398	
Telephone	15,537	
Office expenses	6,899	
Computer expenses	3,894	
Subscriptions	940	
Conferences	1,445	
Website	5,199	
Printing, stationery and postage	4,259	
Staff training	3,477	
Relocation allowance	5,000	
Insurance	3,617	
General expenses	2,346	
Marketing	3,018	
Entertaining	1,091	
Legal and professional fees	81,740	
Geophysical Consultancy fees	91,933	
Joint Venture fees	42,508	
Survey Costs	236,992	
Consultancy Fees	113,283	
Accountancy fees	3,000	
Auditors remuneration	5,000	
Depreciation	897	
		688,473
Financial costs		
Foreign VAT incurred	569	
VAT agency fees	9,150	
Bank charges	1,660	
Foreign currency gains/losses	103	
		11,482
		721,231
INTEREST RECEIVABLE		
Bank interest receivable		7,678