

MANTLE DIAMONDS LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2007

Company Registration Number 5561475

MANTLE DIAMONDS LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

MANTLE DIAMONDS LIMITED

COMPANY INFORMATION

The board of 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

Third Floor
40-41 Pall Mall
London
SW1Y 5JG

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 YEAR ENDED 31 DECEMBER 2007

The directors present their report and the financial statements of the company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

DIRECTORS

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

Mr L Kemp	
Mr R E I Baring	
Mr M B Brennan	
Dr A J MacDonald	(Appointed 1 March 2007)
Mr C Fithen	(Appointed 1 March 2007)
Mr C Pearce	(Appointed 18 April 2007)

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.

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.

MANTLE DIAMONDS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2007 *(Continued)*

DIRECTORS' RESPONSIBILITIES *(Continued)*

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 on behalf of the directors

MR C PEARCE

Director

11th April 2008

MANTLE DIAMONDS LIMITED

INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

We have audited the financial statements of Mantle Diamonds Limited for the year ended 31 December 2007 on pages 6 to 14, which have been prepared on the basis of the accounting policies set out on page 8.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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 on pages 2 and 3.

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 FOR THE YEAR ENDED 31 DECEMBER 2007 *(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 2007 and of its loss for the year 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.

FW SMITH, RICHES & CO.

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

11th April 2008

MANTLE DIAMONDS LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	Year to 31 Dec 07 £	Period from 12 Sep 05 to 31 Dec 06 £
TURNOVER		–	–
Administrative expenses		1,568,501	721,231
OPERATING LOSS	2	(1,568,501)	(721,231)
Interest receivable		37,120	7,678
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,531,381)	(713,553)
Tax on loss on ordinary activities		–	–
LOSS FOR THE FINANCIAL YEAR	14	(1,531,381)	(713,553)

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 year as set out above.

MANTLE DIAMONDS LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Note	2007 £	2006 £
FIXED ASSETS			
Tangible assets	5	12,066	15,783
Investments	6	2,821	–
		<u>14,887</u>	<u>15,783</u>
CURRENT ASSETS			
Debtors	7	94,695	89,369
Cash at bank and in hand		3,231,324	649,246
		<u>3,326,019</u>	<u>738,615</u>
CREDITORS: Amounts falling due within one year	8	<u>126,152</u>	<u>123,089</u>
NET CURRENT ASSETS		<u>3,199,867</u>	<u>615,526</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,214,754</u>	<u>631,309</u>
CAPITAL AND RESERVES			
Called-up equity share capital	10	44,238	18,961
Share premium account	11	5,368,723	1,013,563
Share options reserve	12	38,394	7,338
Shares to be issued	13	8,333	305,000
Profit and loss account	14	(2,244,934)	(713,553)
SHAREHOLDERS' FUNDS	15	<u>3,214,754</u>	<u>631,309</u>

The financial statements on pages 6 to 14 were approved and signed by the directors on 11th April 2008 and were signed on their behalf by:

MR C PEARCE

Director

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable UK accounting standards.

Consolidation

In the opinion of the directors, the company and its subsidiary undertakings comprise a small group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

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

Deferred taxation

Deferred tax arises as a result of including items of income and expenditure in taxation computations in periods different from those in which they are included in the company's financial statements. Deferred tax is provided in full on timing differences which result in an obligation to pay more (or less) tax at a future date, at the average tax rates that are expected to apply when the timing differences reverse, based on current tax rates and laws.

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.

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.

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

2. OPERATING LOSS

Operating loss is stated after charging/(crediting):

	Year to 31 Dec 07	Period from 12 Sep 05 to 31 Dec 06
	£	£
Depreciation of owned fixed assets	3,717	897
Auditors' remuneration		
- as auditor	7,500	5,000
- for other services	9,285	3,000
Net (profit)/loss on foreign currency translation	<u>(8,467)</u>	<u>103</u>

3. PARTICULARS OF EMPLOYEES

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

	Year to 31 Dec 07	Period from 12 Sep 05 to 31 Dec 06
	No	No
Number of administrative staff	<u>2</u>	<u>1</u>

The aggregate payroll costs of the above were:

	Year to 31 Dec 07	Period from 12 Sep 05 to 31 Dec 06
	£	£
Wages and salaries	92,915	12,500
Social security costs	7,283	1,438
Equity-settled share-based payments	196,890	7,338
	<u>297,088</u>	<u>21,276</u>

4. DIRECTORS' EMOLUMENTS

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

	Year to 31 Dec 07	Period from 12 Sep 05 to 31 Dec 06
	£	£
Aggregate emoluments	<u>50,305</u>	<u>23,366</u>

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

4. DIRECTORS' EMOLUMENTS *(continued)*

Consultancy fees totalling £345,622 (2006: 120,621) were paid to directors of which £138,334 (2006: £4,999) related to shares issued (or due to be issued) to directors and £31,056 (2006: £7,338) was recognised in respect of the fair value of services received under share option agreements.

In addition £70,923 (2006: £nil) was paid to certain directors as commission relating to the issue of new equity share capital.

5. TANGIBLE FIXED ASSETS

	Plant & Machinery £	Fixtures & Fittings £	Equipment £	Total £
COST				
At 1 January 2007 and 31 December 2007	<u>9,580</u>	<u>310</u>	<u>6,790</u>	<u>16,680</u>
DEPRECIATION				
At 1 January 2007	479	34	384	897
Charge for the year	<u>1,916</u>	<u>104</u>	<u>1,697</u>	<u>3,717</u>
At 31 December 2007	<u>2,395</u>	<u>138</u>	<u>2,081</u>	<u>4,614</u>
NET BOOK VALUE				
At 31 December 2007	<u>7,185</u>	<u>172</u>	<u>4,709</u>	<u>12,066</u>
At 31 December 2006	<u>9,101</u>	<u>276</u>	<u>6,406</u>	<u>15,783</u>

6. INVESTMENTS

	Shares in Group Undertakings £
COST	
Additions	<u>2,821</u>
At 31 December 2007	<u>2,821</u>
NET BOOK VALUE	
At 31 December 2007	<u>2,821</u>
At 31 December 2006	<u>-</u>

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

6. INVESTMENTS *(Continued)*

The company owns 100% of the issued share capital of the companies listed below,

	2007 £	2006 £
Aggregate capital and reserves		
Mantle Diamond S.a.r.l. (incorporated in Mali)	(206,480)	–
Mantle Diamonds Finland Oy (incorporated in Finland)	1,843	–
Profit and (loss) for the year		
Mantle Diamond S.a.r.l.	(207,581)	–
Mantle Diamonds Finland Oy	124	–

7. DEBTORS

	2007 £	2006 £
Other debtors	90,938	74,633
Directors current accounts	404	13,846
Prepayments and accrued income	3,353	890
	<u>94,695</u>	<u>89,369</u>

8. CREDITORS: Amounts falling due within one year

	2007 £	2006 £
Trade creditors	48,909	84,599
Other taxation and social security	2,811	–
Other creditors	13,325	17,173
Accruals and deferred income	61,107	21,317
	<u>126,152</u>	<u>123,089</u>

9. SHARE-BASED PAYMENTS

Equity-settled share-based payments:

Details of the share options outstanding during the year are as follows:

	2007 Number	2007 Weighted average exercise price £	2006 Number	2006 Weighted average exercise price £
Outstanding at beginning in period	500,000.00	10p	–	–
Options granted on 1 July 2006	–	–	500,000.00	10p
Options granted on 16 April 2007	500,000.00	15p	–	–
Outstanding at end of period	<u>1,000,000.00</u>	<u>12.5p</u>	<u>500,000.00</u>	<u>10p</u>

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

9. SHARE-BASED PAYMENTS *(continued)*

The company has a share option scheme in place for directors. Options granted on 1 July 2006 are exercisable at a price of 10p. Options granted on 16 April 2007 are exercisable at a price of 15p. The vesting dates for the options in issue are as follows:

Vesting date	Number of shares
1 July 2006	250,000.00
16 April 2007	250,000.00
Upon listing on AIM	500,000.00
	<u>1,000,000.00</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:

Granted on 1 July 2006

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%

Granted on 16 April 2007

Share price	16.80p
Exercise price	15p
Expected volatility	50%
Expected life	1 year
Expected dividend yield	0%
Risk free interest rate	5.5%

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 1,063,496 shares (2006: 149,998 shares) have been issued, or are due to be issued, under such agreements.

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

9. SHARE-BASED PAYMENTS *(Continued)*

The expense relating to such consultancy agreements has been calculated with reference to the market value of the shares at the date of issue. The weighted average value of the shares issued or due to be issued during the year was 18.08p (2006: 10p).

The company recognised total expenses of £223,290 (2006: £22,337) related to equity-settled share-based payment transactions during the year.

10. SHARE CAPITAL

Authorised share capital:

	2007	2006
	£	£
100,000,000 Ordinary shares of £0.001 each	<u>100,000</u>	<u>22,000</u>

Allotted, called up and fully paid:

	2007		2006	
	No	£	No	£
Ordinary shares of £0.001 each	<u>44,237,766</u>	<u>44,238</u>	<u>18,961,362</u>	<u>18,961</u>

During the year 25,276,404 ordinary shares of £0.001 each were issued. The nominal value of the shares issued is £25,277. The consideration received for these shares was £4,549,205.

11. SHARE PREMIUM ACCOUNT

	2007	2006
	£	£
Balance brought forward	1,013,563	–
Premium on shares issued in the year	4,523,928	1,013,563
Issue costs	(168,768)	–
Balance carried forward	<u>5,368,723</u>	<u>1,013,563</u>

Issue costs include commission paid to certain directors of the company relating to the issue of new share capital amounting to £70,923, see note 4.

12. SHARE OPTIONS RESERVE

	2007	2006
	£	£
Balance brought forward	7,338	–
Recognition of equity-settled share-based payments in the year	31,056	7,338
Balance carried forward	<u>38,394</u>	<u>7,338</u>

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration, see note 4.

MANTLE DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

13. SHARES TO BE ISSUED

	20 07	2006
	£	£
Balance brought forward	305,000	–
Shares issued in year	(305,000)	–
Shares becoming due for issue	8,333	305,000
	<u>8,333</u>	<u>305,000</u>

This reserve is used to record the value of the consideration received or shares that have yet to be issued. As the company does not have any obligation to transfer economic benefit to these investors, the balance has been reported within shareholders' funds.

14. PROFIT AND LOSS ACCOUNT

	2007	2006
	£	£
Balance brought forward	(713,553)	–
Loss for the financial year	(1,531,381)	(713,553)
Balance carried forward	<u>(2,244,934)</u>	<u>(713,553)</u>

15. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2007	2006
	£	£
Loss for the financial year	(1,531,381)	(713,553)
New equity share capital subscribed	25,277	18,961
Premium on new share capital subscribed less issue costs	4,355,160	1,013,563
Movement on shares to be issued reserve	(296,667)	305,000
Recognition of equity-settled share-based payments in the year	31,056	7,338
Net addition to shareholders' funds	<u>2,583,445</u>	<u>631,309</u>
Opening shareholders' funds	631,309	–
Closing shareholders' funds	<u>3,214,754</u>	<u>631,309</u>

16. POST BALANCE SHEET EVENTS

Since 31 December 2007 the company has issued 9,166,667 shares in return for a 17% stake in European Diamonds Limited, a company incorporated under the laws of the British Virgin Islands.

17. RELATED PARTY TRANSACTIONS

The company has no ultimate controlling party.

During the year the company loaned Mantle Diamond S.a.r.l £227,387 (2006: £nil). At the year end this amount was provided against in full.