

INTERIM FINANCIAL  
STATEMENTS 2011



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## CHAIRMAN'S STATEMENT

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### I AM PLEASED TO PRESENT THE FIRST INTERIM FINANCIAL STATEMENTS FOR PARAGON DIAMONDS LIMITED (THE "COMPANY" OR THE "GROUP") FOR THE SIX MONTH PERIOD TO 30 JUNE 2011 AND REPORT ON DEVELOPMENTS OF THE GROUP.

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The acquisition of a further 54.2 per cent. of International Diamond Consultants has strengthened the Groups' asset base considerably and transformed it into a hard rock diamond exploration and development company. The acquisition increases the Group's interest to 98.5 per cent. and gives the Group direct interests in the Lemphane Kimberlite in Lesotho, the Kabale River and Kaplamp licences in Zambia as well as the recently awarded Kopje licence in Botswana. These combined with the Group's existing interest in Tanzania and alluvial operations in Sierra Leone give the Group a diversified asset base on which to operate.

#### LEMPHANE - LESOTHO

The Lemphane licence covers a known 6Ha surface area kimberlite in the world renowned diamondiferous region of the Kingdom of Lesotho. The Group has undertaken an immediate strategic review of the work underway at Lemphane and commenced a bulk sampling programme which will initially mine 25,000 tonnes of kimberlite to assess the grade and value of stones contained within the pipe. A bulk sampling plant has been assembled on site and stockpiles created ready for processing. It is anticipated that the initial results of the bulk sampling will be available around the end of the year.

The Company has also lodged a full application for a recently identified area in Lesotho, which has been previously mined on an artisanal level and is known to be diamondiferous.

#### KOPJE - BOTSWANA (AWARDED POST PERIOD END)

In July 2011 the Group's Botswana subsidiary was awarded a new exploration licence covering 15 km<sup>2</sup> and is located circa 35 km due east of the world-class Orapa Kimberlite mine and north of the Francistown road in the East Orapa Kimberlite Field. The 15 km<sup>2</sup> licence area is also adjacent, to the east, of Firestone's BK14 kimberlite project.

The licence area lies within the large regional (40 x 30 km) "K1" anomaly which was established by DeBeers in the 1990's and of which the "Orapa-type" kimberlites of the BK series are a part. The eastern part of the "K1" anomaly has been held by DeBeers and Petra Diamonds for a number of years, and holds the potential of a new kimberlite field.

#### SIERRA LEONE HARD ROCK

Our operations in Sierra Leone in the first half of 2011 generated revenue of £0.7 million on the sale of two parcels totalling 3,629 carats of diamonds. The average value generated was \$291/ct including 114 carats of "special" stones which generated \$191,500 in total. A recent deterioration in the fiscal regulatory environment in Sierra Leone, which involves large increases in the annual cost of holding title, has prompted the Board to initiate a review of its operating strategy.

#### FINANCIAL RESULTS

Excluding impairment and depreciation the Group reported a loss of £1.3 million for the six months period to 30 June 2011. The Group reported a one off impairment charge of £4.4 million relating to impact of the deterioration of the fiscal operating environment on the Group's assets in Sierra Leone. The net assets of Group have increased 30% to £37.5 million due to the acquisition of

## CHAIRMAN'S STATEMENT CONTINUED

a further £12.5 million interest in International Diamond Consultants and the completion of a fundraising of £2.9 million in January 2011. This was done by way of issuing 8.5 million new shares at a price of 34 pence per share. As at 30 June 2011 the Group held £3.7 million of cash.

### THE BOARD

On 21 June 2011 Francesco Scolaro stepped down from the Board of Directors in order to focus on other projects. I would like to take this opportunity to thank him for his valuable contribution to the Company in its early stages and for his continued support as a major shareholder.

### OUTLOOK

I am optimistic about what the rest of the year will bring, at this very exciting time for the Company. I look forward to the initial results

from our bulk sampling at the newly acquired Lemphane Kimberlite, expected by the end of the year as well as initial grab sampling at the newly awarded Kopje licence. It is a great time to be evaluating new hard rock diamond projects with rough diamond prices strengthening on the back of growing investment demand in these turbulent economic times.

Luc Huyghebaert  
Chairman

26 September 2011

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

	NOTES	SIX MONTHS TO 30 JUNE 2011 (UNAUDITED) £000	PERIOD TO 31 DECEMBER 2010 (AUDITED) £000
Revenue		687	349
Operating expenses		(1,465)	(545)
<b>Operating Loss</b>		<b>(778)</b>	<b>(196)</b>
Impairment of tangible assets	6	(4,410)	–
Administration costs		(509)	(242)
Expenses for IPO		–	(335)
Depreciation	6	(605)	(354)
Finance income		3	
Finance costs		(24)	(11)
<b>Loss Before Taxation</b>		<b>(6,323)</b>	<b>(1,138)</b>
Taxation		–	–
<b>Loss for the Period</b>		<b>(6,323)</b>	<b>(1,138)</b>
Other comprehensive income:			
Exchange differences on translation of foreign operations		(480)	646
<b>Total Comprehensive Income for the Period Attributable to Owners of the Parent</b>		<b>(6,803)</b>	<b>(492)</b>
<b>Loss Per Share</b>			
Basic and diluted (pence)	4	(3.98)	(3.95)

The loss arises from the Group's continuing operations.

Comparatives for the period since incorporation on 27 April 2010 to 30 June 2010 have not been included as the Company was dormant during this period.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2011

	SHARE CAPITAL £000	SHARE PREMIUM £000	FOREIGN EXCHANGE RESERVE £000	SHARE BASED PAYMENT RESERVE £000	RETAINED DEFICIT £000	TOTAL £000	NON- CONTROLLING INTERESTS £000	TOTAL EQUITY £000
<b>At 27 April 2010</b>								
Loss for the period	-	-	-	-	(1,138)	(1,138)	-	(1,138)
Exchange differences on translation of foreign operations	-	-	646	-	-	-	-	646
Total comprehensive income for the period	-	-	646	-	(1,138)	(1,138)	-	(492)
Issue of shares	1,427	28,105	-	-	-	-	-	29,532
Expenses on issue of shares	-	(150)	-	-	-	-	-	(150)
Share based payment	-	-	-	20	-	-	-	20
<b>AT 31 DECEMBER 2010</b>	<b>1,427</b>	<b>27,955</b>	<b>646</b>	<b>20</b>	<b>(1,138)</b>	<b>(1,138)</b>	<b>-</b>	<b>28,910</b>
Loss for the period	-	-	-	-	(6,323)	(6,323)	-	(6,323)
Exchange differences on translation of foreign operations	-	-	(480)	-	-	-	-	(480)
Total comprehensive income for the period	-	-	(480)	-	(6,323)	(6,323)	-	(6,803)
Issue of shares	455	15,014	-	-	-	-	-	15,469
Expenses on issue of shares	-	(91)	-	-	-	-	-	(91)
Share based payment	-	-	-	48	-	-	-	48
Acquisition of subsidiary	-	-	-	-	-	-	291	291
<b>AT 30 JUNE 2011</b>	<b>1,882</b>	<b>42,878</b>	<b>166</b>	<b>68</b>	<b>(7,461)</b>	<b>(7,461)</b>	<b>291</b>	<b>37,824</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	NOTES	30 JUNE 2011 (UNAUDITED) £000	31 DECEMBER 2010 (AUDITED) £000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investments	8	–	6,055
Intangible exploration and evaluation assets	5	27,068	2,524
Property, plant and equipment	6	14,930	20,457
<b>Total Non-Current Assets</b>		<b>41,998</b>	<b>29,036</b>
<b>Current Assets</b>			
Trade and other receivables		31	355
Inventory		9	197
Cash and cash equivalents		3,653	1,989
<b>Total Current Assets</b>		<b>3,693</b>	<b>2,541</b>
<b>Total Assets</b>		<b>45,691</b>	<b>31,577</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		(542)	(339)
Loan from parent		(2,067)	(2,021)
<b>Total Current Liabilities</b>		<b>(2,609)</b>	<b>(2,360)</b>
<b>Non-Current Liabilities</b>			
Site restoration provision		(406)	(307)
Deferred tax liability		(4,852)	–
<b>Total Non-Current Liabilities</b>		<b>(5,258)</b>	<b>(307)</b>
<b>Total Liabilities</b>		<b>(7,867)</b>	<b>(2,667)</b>
<b>Net Assets</b>		<b>37,824</b>	<b>28,910</b>
<b>Equity</b>			
Share capital	9	1,882	1,427
Share premium	10	42,878	27,955
Foreign exchange reserve		166	646
Share based payment reserve		68	20
Retained deficit		(7,461)	(1,138)
Equity attributable to the owners of the parent		37,533	28,910
Non-controlling interests		291	–
<b>Total Equity</b>		<b>37,824</b>	<b>28,910</b>

Comparatives for the period since incorporation on 27 April 2010 to 30 June 2010 have not been included as the Company was dormant during this period.

Approved by the board and authorised for issue on 26 September 2011

**Luc Huyghebaert**  
Executive Chairman

**Simon Retter**  
Finance Director

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011

NOTES	SIX MONTHS TO JUNE 2011 £000	PERIOD TO DECEMBER 2010 £000
<b>Operating Activities</b>		
Loss before taxation	(6,323)	(1,138)
Adjustment for:		
Depreciation of plant and equipment	605	354
Impairment	4,410	–
Interest expense	24	8
Foreign exchange gains	123	(58)
Share based payment charge	48	20
Decrease in trade and other receivables	324	(355)
Decrease in inventory	188	(197)
(Decrease)/Increase in trade and other payables	(125)	214
<b>Net Cash Outflow from Operations</b>	<b>(726)</b>	<b>(1,152)</b>
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(200)	(101)
Purchase of subsidiary	(124)	(323)
Expenditure on mining licences	(94)	(16)
Overdraft acquired with subsidiary undertaking	–	(145)
<b>Net Cash Outflow from Investing Activities</b>	<b>(418)</b>	<b>(585)</b>
<b>Financing Activities</b>		
Proceeds from issue of share capital	2,890	3,797
Expenses of issue of share capital	(91)	(150)
Increase in loan from parent	22	96
<b>Net Cash Inflow from Financing Activities</b>	<b>2,821</b>	<b>3,743</b>
<b>Increase in Cash and Cash Equivalents</b>	<b>1,677</b>	<b>2,006</b>
Cash and cash equivalents at beginning of period	1,989	–
Effects of foreign exchange	(13)	(17)
<b>Cash and Cash Equivalents at End of Period</b>	<b>3,653</b>	<b>1,989</b>

Comparatives for the period since incorporation on 27 April 2010 to 30 June 2010 have not been included as the Company was dormant during this period.



## NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

### 1 BASIS OF PREPARATION

The interim financial statements of Paragon Diamonds Limited are unaudited condensed consolidated financial statements for the six months to 30 June 2011. These include audited comparatives for the period to 31 December 2010.

### 2 SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historic cost convention. The accounting policies adopted are consistent with those found in the preparation of the Group's annual financial statements for the period ended 31 December 2010.

### 3 SEGMENTAL REPORTING

The operations of the Group are located in Sierra Leone, Tanzania and the recently acquired projects in Lesotho, Zambia, Botswana. Head office costs are incurred in Guernsey.

The Group's primary reporting segments are geographical segments, being Sierra Leone, Tanzania and the recently acquired Southern Africa.

The following tables show the segment analysis of the Group's loss before tax for the period, net assets and other segment information:

	SIX MONTHS ENDED 30 JUNE 2011			TOTAL £000
	PRODUCTION - SIERRA LEONE £000	EXPLORATION - TANZANIA £000	EXPLORATION - SOUTHERN AFRICA £000	
<b>Income Statement</b>				
Revenue	687	–	–	687
Operating expenses	(1,465)	–	–	(1,465)
Depreciation	(605)	–	–	(605)
Impairment	(4,410)	–	–	(4,410)
Interest expense	(24)	–	–	(24)
Segmental result	(5,817)	–	–	(5,817)
Head office administration costs				(509)
Interest income				3
Loss after tax				(6,323)
<b>Net Assets</b>				
Assets	14,921	2,438	24,781	42,140
Liabilities	(2,636)	–	(346)	(2,982)
Deferred tax liability	–	–	(4,852)	(4,852)
Segment net assets	12,285	2,438	19,583	34,306
Unallocated assets				3,550
Unallocated liabilities				(32)
Net assets				37,824

## NOTES TO THE INTERIM FINANCIAL STATEMENTS - CONTINUED

### FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

#### 3 SEGMENTAL REPORTING - CONTINUED

	SIX MONTHS ENDED 30 JUNE 2011			TOTAL £000
	PRODUCTION - SIERRA LEONE £000	EXPLORATION - TANZANIA £000	EXPLORATION - SOUTHERN AFRICA £000	
<b>Other Segment information</b>				
Capital expenditure:				
Property, plant and equipment	–	–	124	124
Intangible exploration and evaluation assets	–	–	24,364*	24,364

\* includes intangible assets acquired as part of the acquisition of International Diamonds Consultants Limited (refer note 7).

	PERIOD ENDED 31 DECEMBER 2010			TOTAL £000
	PRODUCTION - SIERRA LEONE £000	EXPLORATION - TANZANIA £000		
<b>Income Statement</b>				
Revenue		349	–	349
Operating expenses		(545)	–	(545)
Depreciation		(354)	–	(354)
Interest expense		(11)	–	(11)
Segmental result		(561)	–	(561)
Head office administration costs				(242)
Expenses for IPO				(335)
Loss after tax				(1,138)
<b>Net Assets</b>				
Assets		20,654	2,524	23,178
Liabilities		(2,472)	–	(2,472)
Segment net assets		18,182	2,524	20,706
Unallocated assets				8,399
Unallocated liabilities				(195)
<b>Net assets</b>				<b>28,910</b>
<b>Other Segment information</b>				
Capital expenditure:				
Property, plant and equipment		20,084	–	20,084
Intangible exploration and evaluation assets		–	2,516	2,516

#### 4 LOSS PER SHARE

Basic loss per share is based on the net loss for the period of £6,323,000 attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period of 158,925,808.

## 5 INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	EXPLORATION LICENCES £000
<b>Cost and Book Value at 27 April 2010</b>	–
Purchase of mining licences	2,500
Acquisition costs	16
Foreign exchange differences	8
<b>Cost and Book Value at 31 December 2010</b>	<b>2,524</b>
Acquisition of subsidiary	24,265
Exploration costs capitalised	94
Foreign exchange differences	185
<b>Cost and Book Value at 30 June 2011</b>	<b>27,068</b>

The above value of intangible assets represents the cash and non-cash consideration paid by the Group at the time of acquisition.

#### Purchase of mining licences

##### International Diamond Consultants

During the period the Group acquired a further 54.2% interest in International Diamond Consultants. The consideration was satisfied by the issue of 36,994,235 new ordinary shares in the Company at a price of 34 pence per share representing £12,578,040 (refer note 7 for further details).

#### Impairment

The Directors have considered the following factors when undertaking their impairment review of the intangible assets:

- (a) Geology and lithology on each licence as outlined in the most recent CPRs (independent Competent Person's Reports)
- (b) The expected useful lives of the licences and the ability to retain the license interests at renewal
- (c) Comparable information for large mining and exploration companies in the vicinity of each of the licences
- (d) History of exploration success in the regions being explored
- (e) Local infrastructure
- (f) Climatic and logistical issues
- (g) Geopolitical environment

After considering these factors, the Directors have not made any impairment for the period to 30 June 2011.

## NOTES TO THE INTERIM FINANCIAL STATEMENTS - CONTINUED

### FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

#### 6 PROPERTY, PLANT AND EQUIPMENT

Cost	CAMP BUILDINGS £000	MOTOR VEHICLES £000	MINING EQUIPMENT £000	MINE £000	TOTAL £000
<b>At 27 April 2010</b>	–	–	–	–	–
Acquired with subsidiary	70	43	1,829	18,041	19,983
Additions in period	–	–	101	–	101
Foreign exchange differences	3	2	66	656	727
<b>At 31 December 2010</b>	<b>73</b>	<b>45</b>	<b>1,996</b>	<b>18,697</b>	<b>20,811</b>
Additions in period	–	–	200	–	200
Foreign exchange differences	(3)	(2)	(72)	(635)	(711)
<b>At 30 June 2011</b>	<b>70</b>	<b>43</b>	<b>2,124</b>	<b>18,061</b>	<b>20,299</b>
<b>Depreciation</b>					
<b>At 27 April 2010</b>	–	–	–	–	–
Charge for the period	(3)	(3)	(133)	(215)	(354)
<b>At 31 December 2010</b>	<b>(3)</b>	<b>(3)</b>	<b>(133)</b>	<b>(215)</b>	<b>(354)</b>
Charge for the period	(8)	(9)	(382)	(206)	(605)
Impairment	–	–	–	(4,410)	(4,410)
<b>At 30 June 2011</b>	<b>(11)</b>	<b>(13)</b>	<b>(515)</b>	<b>(4,831)</b>	<b>(5,369)</b>
<b>Net Book Value</b>					
<b>At 27 April 2010</b>	–	–	–	–	–
<b>At 31 December 2010</b>	<b>70</b>	<b>42</b>	<b>1,863</b>	<b>18,482</b>	<b>20,457</b>
<b>At 30 June 2011</b>	<b>60</b>	<b>31</b>	<b>1,608</b>	<b>13,231</b>	<b>14,930</b>

#### Impairment

The Directors have considered the following factors when undertaking their impairment review of the tangible mining assets:

- Geology and lithology on each licence as outlined in the most recent CPRs (independent Competent Person's Reports)
- The expected useful lives of the licences and the ability to retain the license interests at renewal
- Comparable information for large mining and exploration companies in the vicinity of each of the licences
- History of exploration success in the regions being explored
- Local infrastructure
- Climatic and logistical issues
- Geopolitical environment

After considering these factors, the Directors have decided to impair the mining asset in Sierra Leone by 25% to represent the anticipated dilution of the Group's interest in the licences when negotiating the renewal of the licences.

**7 ACQUISITION OF SUBSIDIARY UNDERTAKING**

On 17 May 2011 Paragon Diamonds completed the acquisition of a further 54.2% interest in International Diamond Consultants Limited bringing the total ownership to 98.5%. The initial 44.3% of IDC was purchased in 2010 and accounted for as an investment in associate as at 31 December 2010. Consideration for the 54.2% was settled by way of issuing 35,670,705 new ordinary shares in the Company at the market price of 34 pence per share equating to £12.1 million. In addition 1,323,530 new ordinary shares in the Company were issued to the vendors of IDC at a market price of 34 pence per share to fully settle outstanding debts of approximately £450,000 owed by IDC to its previous owners. A total staggered consideration of USD700,000 was also paid to the vendors under the terms of a joint venture agreement, this has been treated as cash consideration.

	BOOK VALUE £000	FAIR VALUE £000
Net assets acquired:		
Capitalised exploration expenditure	1,416	24,265
Site restoration provision	(46)	(46)
Trade Creditors	(328)	(328)
Deferred Taxation	-	(4,852)
Minority Interest		(291)
	1,042	18,748
Total consideration		
Consideration satisfied by:		
Issue of new shares		18,311
Cash (including £124,000 paid in current period)		437
		18,748

**8 INVESTMENTS**

A summary of investments is as follows:

	AVAILABLE FOR SALE INVESTMENTS £000	INVESTMENT IN ASSOCIATE £000	TOTAL INVESTMENTS £000
Cost and fair value at 27 April 2010	-	-	-
Additions at cost	317	5,732	6,049
Acquisition costs	-	6	6
Cost and fair value at 31 December 2010	317	5,738	6,055
Transfer to acquisition of subsidiary (refer note 7)	(317)	(5,738)	(6,055)
Cost and fair value at 30 June 2011	-	-	-

## NOTES TO THE INTERIM FINANCIAL STATEMENTS - CONTINUED

### FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

#### 9 SHARE CAPITAL

	NUMBER	£000
Authorised:		
Ordinary shares of £0.01 each	Unlimited	Unlimited
Allotted, issued and fully paid ordinary shares of £0.01 each:		
Issued in the period	142,682,819	1,427
At 31 December 2010	142,682,819	1,427
Issued in the period	45,494,235	455
At 30 June 2011	188,177,054	1,882

Fully paid ordinary shares carry one vote per share and carry rights to dividends.

On 27 January 2011 the Company issued 8,500,000 new ordinary shares in the Company at a price of 34 pence per share raising gross proceeds of £2,890,000

On 17 May 2011 the Company issued 36,994,235 new ordinary shares in the Company at a price of 34 pence per share as consideration for the acquisition of International Diamond Consultants (refer note 7).

#### 10 SHARE PREMIUM ACCOUNT

	£000
At 27 April 2010	–
Premium on issue of shares (see note 9)	28,105
Expenses on issue of shares	(150)
At 31 December 2010	27,955
Premium on issue of shares (see note 9)	15,013
Expenses on issue of shares	(90)
At 30 June 2011	42,878

## DIRECTORS AND OFFICERS

### DIRECTORS

Luc Huyghebaert	(Non-Executive Chairman)
Stephen Grimmer	(Managing Director)
Simon Retter	(Finance Director)
Rudi Saaiman	(Operations Director)
James Ede-Golightly	(Non-Executive Director)
Buddy Doyle	(Non-Executive Director)

### COMPANY SECRETARY

William Place Secretaries Limited

### COMPANY NUMBER

51819 (Guernsey)

### COMPANY WEBSITE

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