REPORT & ACCOUNTS 2014

PARAGON DIAMONDS LIMITED

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CHAIRMAN'S STATEMENT

for the year ended 31 December 2014

The past year has been a transformational time for our Company as your Board has made significant strides towards achieving our strategy of developing a vertically integrated diamond company with material interests at all stages of a diamond's journey from the ground to the consumer and investor. 2014 saw a number of strategic initiatives implemented, including my appointment as Executive Chairman and Titanium Capital Investments' investment in Paragon in August 2014, which have laid the foundations for significant growth as we look to move our impressive kimberlite asset base in Lesotho, Africa into diamond production later in 2015.

We will shortly have two flagship diamond assets within our portfolio, the 48Mt Lemphane kimberlite project ('Lemphane') alongside signed contracts to acquire the 39Mt large/high value diamond Mothae Kimberlite mine ('Mothae') in Lesotho from diamond major Lucara Diamond Corporation ("Lucara") for US$8.5 million, which as I write this, remains subject to Government approval following a constructive meeting with the Lesotho Minister of Mining on 22 June 2015. Both of these projects are located in a diamondiferous region in Lesotho, a Kingdom renowned for large diamond discoveries and high value kimberlite pipes. Notably both Lemphane and Mothae are located close to the renowned Letšeng mine, 27km and 5km away respectively and have the potential to produce exceptionally large sized diamonds of over 100+ carats. With US$26 million of non-dilutive debt and equity based funding committed from International Triangle General Trading LLC ('ITGT'), a global investment group based in Dubai, subject to the completion of our acquisition of Mothae, we should see one or both of these assets move into first production in 2015, targeting combined revenues of approximately US$36 million in the first full year of having both mines in production.

Whilst we are looking to diamond production later this year, our vision expands far beyond solely building a typical mining company where diamonds are recovered and sold at the first opportunity. This will not be how Paragon operates. Our mission is to build Paragon into a leading international diamond company, which retains ownership of a diamond from the mine (source) through the manufacturing phase all the way to the sale of diamonds downstream to the consumer and investment markets to ensure as much value as possible is retained for Paragon and its shareholders. It is no different to a typical equity portfolio with each stone and parcel being optimised for the duration of ownership prior to sale.

This holistic business model clearly differentiates us from almost all other one dimensional diamond mining companies currently listed on the global equity markets. The rationale for our vertically integrated business model is supported by our belief in diamonds as the optimal monetary investment choice and portable store of wealth, whilst exploiting an ongoing secular shift within the diamond sector which is changing the distribution and retail landscape along with the geography of diamond sales.

Diamonds are a proven store of value with a 600 year track record. Investment grade diamonds are increasingly replacing gold and silver as the monetary commodity asset and store of value in financial portfolios, providing a haven against the risks associated with geopolitical crises, accelerating paper currency debasement in most countries, deteriorating global government fiscal balances, rising wealth taxes and negative bond yields. Critically, diamonds are portable outside of the banking system, and are internationally tradable in any currency with a market price. Importantly they cost nothing to store (unlike gold). Importantly, they have a price inelasticity where price strength does not cause higher production and this can only be exacerbated as widespread and respected forecasts predict that the market will move into a deficit situation by 2019.

Interestingly, in their 2013 report on the global diamond industry, Bain & Co. agrees with our stance and states 'The diamond investment market retains its allure. Investors continue searching for the best way to capitalise on the growth in diamond prices, expecting that diamonds, just like gold and platinum, are destined to become the next big alternative investment.'

At the same time, the diamond sales market is undergoing substantial structural change, creating in our opinion a huge opportunity for a vertically integrated company. Globally, wholesalers and retailers are ceding control and price margin to producers as the supply of investment grade diamonds contracts whilst demand continues to grow. Price transparency is forcing transactions to migrate away from Antwerp as a result of wider electronic transmission and the use of tenders, auctions and private placement as sales points become more widely available. As Paragon controls more of its own distribution more efficiently, wholesalers are under threat of being squeezed into a marginal position in the industry, as investors and buyers come direct to us at the mine gate. As part of our strategy, we will be spearheading this trend in Lesotho and from other global distribution points including Dubai.

After achieving so much in the last 12 months, thereby increasing the enterprise value of the company significantly, what are Paragon's next steps? Once the acquisition of Mothae has completed and we successfully move into production at both Mothae and Lemphane, the Board of Paragon will look to cement its vertically integrated business model by the use of vehicles such as JVs, SPVs and offtake agreements with suitable partners. In addition to integrating vertically, there also exist a number of potentially lucrative lateral opportunities for Paragon which we are keen to explore, such as the establishment of diamond investment vehicles for investors specifically looking for exposure to hard assets and commodity currencies. Lastly, should another exciting non-exploration status asset become available, we could add further to our existing asset base.

CHAIRMAN'S STATEMENT

for the year ended 31 December 2014

Operations

Lemphane

During the period under review, we have made significant progress in advancing our Lemphane kimberlite deposit, in which we hold an 80% interest in the project with the Government of Lesotho holding the remaining 20%, towards first production.

In February 2014, we were delighted to secure a Mining Lease extendable up to 40 years at Lemphane which is renewable for a further three consecutive 10 year periods. Under the terms of the Lease, the approved programme for our current 48Mt kimberlite deposit would be split over two Stages. Stage 1 being a two-year mine plan processing 1Mt of kimberlite targeting 20,000 carats (2,500 carats per quarter) with an average value forecast to be US$930-US$1,025 per carat, generating annual revenues of approximately US$9m-US$10m. This would be followed by an eight year Stage 2 mine plan of approximately 3,000,000 tonnes per annum for an initial open pit life of fifteen years with peak production of 65,000 carats per year.

Our work conducted since February 2014 strongly points to Lemphane being a similar large high value deposit as Gem Diamond's Letseng mine. In June 2014 an independent size frequency and revenue modelling report was commissioned to verify the Company's in-house estimates of diamond values. The report was based on the 2012/3 bulk sampling programme at Lemphane which recovered stones of up to 8.9 carats valued in excess of US$2,400/ct, and states that there is the potential for at least one +100 carat diamond to be discovered per 1Mt of kimberlite processed with forecast diamond values of between US$930/carat and US$1,025/carat, the results are highly encouraging. Size frequency indicates 12% of carats as diamonds could potentially exceed 9 carats. Based on these results, Stage 1 production is currently forecast to recover in excess of 100 diamonds larger than 9 carats, including some stones up to 100 carats in size. Over the entire 48.6Mt of kimberlite delineated by drilling to date, our forecasts predict approximately 50 diamonds in excess of 100 carats and 175 diamonds in excess of 50 carats (i.e. two to three a year and one a month respectively if mined at 3Mt/yr), including diamonds of over 300 carats in size, being recovered.

Notably in November 2014, a sale of diamonds taken from the 2012/2013 bulk sample programme was undertaken as an exercise to test market demand for diamonds recovered at Lemphane, ahead of Stage 1 production. The diamonds sold include fancy yellow stones which achieved values as high as US$2,500 per carat.

Further work was also conducted in November 2014 including drilling and finalisation of the plant design at Lemphane.

The drilling programme consisted of nine holes totalling 1,248m which demonstrated the potential for a further increase in Lemphane's present tonnage estimate of 48Mt of kimberlite at depth which would have positive implications for the overall tonnage and the economics of Lemphane.

Additionally we were pleased to announce the finalisation of the design and order plans for a state of the art 75 tonne per hour (0.5Mt/yr.) processing plant at Lemphane. The plant's modular design of and use of the latest X-Ray Transmission (XRT) diamond recovery technology will reduce both capital and operating costs at Lemphane, improve diamond recovery, and as a result significantly enhance the project's economics. Metallurgical test work has been concluded, and long-lead-time item procurement has been undertaken ahead of fabrication of the main plant components. Long lead-time items include scrubbers, crushers, x-ray transmission recovery machines and water recovery thickeners. We have also finalised provisional tailings storage facilities (TSF) designs with its civil engineers, and the terms for contract mining for Stage 1. Site clearance for the new plant has been undertaken, and civil construction activities are planned to commence upon receipt of funding. Discussions have also been held with the national power company's main contractor, for access to the privately funded open-access power line (presently nearing completion) for electrical supply to the mine and with the providers of camp accommodation and services, and security.

Originally Stage 1 production had been planned to commence in H1 2015, however following the announcement of the proposed Mothae MOU acquisition development we have held back the start of production to allow development of Mothae and Lemphane concurrently to benefit from significant economies of scale, resulting in cost savings for equipment, management and services.

Mothae

In May 2015, we signed a Memorandum Of Understanding "MOU" with diamond major Lucara to acquire a 75% equity stake in the Mothae Kimberlite mine. This MOU was a transformational move for us, which on completion should re-rates Paragon's business model.

Mothae consists of a circa 8 hectare kimberlite with a stated 39Mt resource (indicated/inferred) per the independent 28 February 2013, NI 43-101 compliant Technical Report and Mineral Resource Estimate* (@-1.5mm bottom cut) of:

Tonnes (M)	Grade (cpht)	US$/ct	Cts contained (M)	Value – US$ (M)
38.96	2.72	1,062	1.060	1,125

*in accordance with Canadian Institute of Mining (CIM) standards for reporting of resources and reserves (2010)

Mothae, has the potential to hold 100+ carat stones, and our current mine plan for an initial 25 million tonne mine includes a minimum in-situ value of US$867m from the potential US$1,125m available; an NPV of US$115m (discounted at 12%) which far outstrips Paragon's current market cap, and is forecast to generate US$60m annual revenues over a minimum 12 years of full production, based on management's preliminary internal model. The project has extensive infrastructure, including a nominal 75tph (0.5Mt/yr) processing plant, workshops, diesel-generated power supply, accommodation camp, offices, water dams and tailings storage facility TSF exists on site and forms part of the acquisition.

It is our intention to fast-track Mothae into substantial production by using and upgrading the existing 75 tonne per hour trial mining plant. Production can be re-established at minimal cost within a four month period, at a rate exceeding 100tph and once established, development will commence on a full-scale 300tph+ long-term main production facility which is earmarked to be operational in producing within 18 months of initiation. Production will initially be concentrated on the most economic higher-grade/higher-value, low waste: or ratio Southwest/Southcentral resource, which is believed to exceed 25Mt and over 0.7Mcts.

Furthermore, this sub-resource follows a large diamond/high grade mine model and has the potential to host circa 15% of carats as diamonds in excess of 10 carats, and 2% of carats in diamonds in excess of 100 carats. The highest value diamond recovered from Mothae to date has been 56.5 carat diamond valued at over US$31,000 per carat in December 2011, and the single highest diamond value achieved was US$42,000 per carat for a 28.9 carat stone also in December 2011.

It is also our intention once the acquisition has been completed to engage independent mining consultants to re-calculate the resource status for the southern lobe, confirming the current in-house estimates.

Financial Results

The Group generated a loss after tax of £10.3 million during the year (2013: loss of £1.3 million). In order to ensure as much funds as possible are invested in the ground, administration costs continue to be tightly controlled and totalled £0.8 million during the year (2013: £0.7 million). There is a non cash impairment charge of £9.2 million (2013: £nil) recognised during the year as a result of divesting of the majority of the Group's interest in the Motete dyke project, a non-core asset.

During the year the group increased its borrowings by £1.3 million by way of a loan from Titanium Capital Investments Limited (an investment vehicle controlled by Philip Falzon Sant Manduca). The proceeds of this loan were utilised by the company to buy back and cancel 63 million shares in the Company from Lanstead Capital Partners and close down the associated equity swap facility.

After the year end the Group secured an MOU with a Dubai based investment group, International Triangle General Trading Limited to provide financing for the development of both Lemphane and Mothae, which will ensure a swift path to production for both of the assets.

The Group held cash of £0.1 million as at 31 December 2014 (2013: £0.2 million).

The Group had net assets of £24.5 million as at 31 December 2014, (2013: £30.9 million) and intangible exploration assets are carried at £33.4 million (2013: £40.6 million).

Group borrowings totalled £2.5 million at 31 December 2014 (2013: £2.6million) principally comprising the convertible loans held by Titanium Capital Investments. After the year end the Group obtained an additional loan of £500,000 bridge finance repayable on 30 September 2015.

Overview

Our business model is to recover large highly sought after investment grade diamonds from our mines and then tailor each stone's distribution path to its individual characteristics so as to maximise margins. With supply struggling to keep up with rising demand, securing a source of large investment grade stones is key, as it provides the foundation from which we can roll out our strategy. Thanks to the progress made during both the year under review and post period end, we have what we believe are two impressive development projects located in a renowned diamondiferous region of Lesotho. Once both Lemphane and Mothae reach full operational capacity within the next three years, we anticipate that Paragon will be a 5Mt/yr producer of in excess of 100,000 exceptional carats with average values exceeding US$1,500/carat (at current prices), which management anticipate could generate combined annual revenue of approximately US$160 million and combined profit of approximately US$97 million.

We aim to fast track both Lemphane and Mothae towards production in 2015. Once this milestone has been achieved, Paragon will have a first class platform from which to operate and build a fully vertically integrated diamond company. Paragon is undergoing a rapid transformation, one which promises to generate substantial value for our shareholders and I look forward to providing further updates on our progress in due course.

Philip Falzon Sant Manduca
Executive Chairman

25 June 2015

MANAGING DIRECTOR'S REVIEW

for the year ended 31 December 2014

The Management of Paragon Diamonds is happy to report on significant progress at its Lesotho diamond projects in the Kingdom of Lesotho.

Lesotho

We have refocused your company specifically to take advantage of the tremendous opportunities we see in the Lesotho diamond mining sector – Lesotho is internationally famed for producing the largest, highest quality diamonds world-wide, and is the select address for producing some of the world's top grade "investment quality" diamonds. We see your company's future in developing large-scale, low-cost, long-term diamond mines, and joining the select ranks of independent large and high value diamond producers.

Meso Diamonds Ltd – The Lemphane Mine

The Lemphane Mine is a 6 hectare kimberlite hosting circa 48 million tonnes of kimberlite, subject to a ten year mining lease (issued 2014) extendable for a further three periods of 10 years. Paragon holds 80% of the equity in the project, along with the Government of the Kingdom of Lesotho (20%). The diamond royalty rate has been set at an initial 4% subject to performance review.

At the Lemphane project, revised tonnage estimates demonstrate the presence of some 48.6 million tonnes of kimberlite extractable by open pit mining methods, at a provisional rate of 3 million tonnes per year, for a life exceeding 15 years. Lemphane has demonstrated the presence of large, high-value diamonds. Recent independent studies on our bulk sampling results show the presence of some 10% of carats in diamonds exceeding 10 carats in size, and circa 1% exceeding 100 carats in size. Modelling of the diamond values suggests values exceeding an average of US$1,000 per carat can be achieved during trial mining. Including large diamonds of 300 carats and above, demonstrated by the diamond size frequency distribution, potential values of up to US$1,500 per carat, in line with the scoping study parameters, are considered to be achievable.

Lemphane is currently undergoing development for trial mining. Following the award of the 10 year (extendable for a total of 40 years) Mining Lease in March of 2014, the company has undertaken a full study for process plants, including 4 independently tendered designs, as well as additional 3d modelling of the kimberlite, and feasibility studies for grid-based power delivery and the initial and long-term tailings storage facility (TSF). The selected design is for a 75 tonne per hour (0.5 million tonnes per year) purpose-designed plant with Tomra® X ray transmission technology to recover diamonds exceeding 100 carats without secondary crushing. The state-of-the art plant, being supplied by Consulmet Ltd of South Africa, is designed to minimize power and water consumption, and avoid crusher damage to larger diamonds (>15mm or ~20 carats) prior to recovery.

The Lemphane Mine is also benefitting from general improvements to the regional infrastructure associated with the development of the nearby Liqhobong (Firestone Diamonds) and Kao (Storm Mountain) Mines. An independently funded 22km 132kV overhead power line to within 6km of the Lemphane site, capable of supplying 1MW to Lemphane initially, rising to 4MW for Stage, is nearing completion. Substantial upgrades to the road system, capable of supporting the construction of the 3.6 million tonne per year Liqhobong mine, now bring a custom-built heavy access road to within 5 km of Lemphane. The last mover advantages to Paragon are considerable in this regard.

Paragon secured an undertaking of financing for this project in January 2015, to cover the capital development and initial working capital (operating costs). Dubai-based International Triangle General Trading LLC ('ITGT') is to provide a US$8 million equity and US$ 4 million debt financing package. The capital costs include US$ 6 million for process plant and US$1 million each for infrastructure and electrification and initial TSF construction costs; US$ 4 million will provide working capital for an initial 6 months operating costs – during this period it is expected to process over 250,000 tonnes of kimberlite, yielding 5,000+ carats provisionally valued at in excess of US$ 5 million.

Mothae Diamonds Ltd – The Mothae Mine

Recently (May 2015) Paragon has entered into an agreement with Lucara Mining Corp of Canada to acquire its interest in the Mothae Mine, some 22 km SE of Lemphane and only 6 km from the world-famous Letšeng la Terai Diamond Mine.

The Mothae Mine is an 8 hectare kimberlite with an indicated and inferred resource of circa 38 million tonnes of kimberlite, hosting circa 1 million carats valued at US$ 1.1 billion dollars. Mothae is subject to a ten year mining lease (issued in 2009) extendable for a further period of 10 years. Upon completion of this deal, announced in May 2015, and for a consideration of US$8.5 million and a limited life profit share/royalty consideration, Paragon will own 75% of the equity in the project, along with the Government of the Kingdom of Lesotho (25%).

Mothae is a notable large diamond producer. The South-West/South-Central portion of the kimberlite, representing over half the kimberlite's area and 65% of the resource, hosts circa 15% of carats in diamonds exceeding 10 carats and 2% exceeding 100 carats in size. Past mining has yielded diamonds over 80 carats in size and values up to US$42,000 per carat. Conservative modelling indicates an average diamond value exceeding US$1,365 for this area at a grade of 2.85carats per hundred tonnes (cpht). Exclusion of the smaller, low value diamonds, as is currently the practice at the nearby Letšeng Mine, suggests that values exceeding US$2,000 per carat at grades over 1.5 cpht are achievable – comparable to the 5 hectare Letšeng satellite pipe.

At Mothae, we see an immediate development strategy, bringing the mine back into production through judicious low-cost upgrades to the existing plant, and revising the resource to maximize economic potential. Subject to Government approval, Paragon intends to establish a 0.7 million tonne per year operation within 6 months of completion of the deal, investing circa US$ 5 million in plant and infrastructure and US$3 million as working capital.

Current (ongoing) re-assessment of the resource and mining pit optimizations indicate that in excess of 25 million tonnes hosting 2.1cpht at diamond values in the region of US$1,600 per carat will be accessible at a low (<1.5:1) waste:ore ratio. The longer-term future involves construction of a 2 million tonne per year mine at a provisional cost not exceeding US$50 million, which can be expected to yield 42,000 carats per annum and US$70 million in revenue. Whilst this mine is in design and construction, the interim operation can be expected to yield 15,000 carats and US$25 million in annual revenue over an 18-24 month period.

The Mothae Mine comes with established infrastructure, including an existing 75 tonne per hour process plant. Mothae is accessed from the South African border by a recently completed heavy duty asphalt road, cutting the journey to 100 km and just over an hour. This places the Mothae Mine closest of all Lesotho's diamond mines to the support services and infrastructure of the Johannesburg area, within 400 km or 5 hours drive. Paragon is also investigating the option of bringing adequate power supply from the Lemphane area, to support a 2 million tonne per year full-scale mining operation.

Combined Operations

The Lemphane and Mothae Mines will be developed as stand-alone operations but benefiting from significant synergies and cost savings by utilizing common contractors, shared infrastructure and combined management and overheads. It is our objective, subject to completion of the acquisition and the approval of Government, to develop both Mothae, at a rate of 0.7 million tonnes per year, using the existing (upgraded) process facilities and infrastructure, as well as Lemphane, as originally envisaged, at a rate of 0.5 million tonnes per year.

The intention is to establish operations at Mothae and Lemphane with full stage 1 production by year end. On this basis, for 2016 the company aims to process some 1.2 million tonnes of kimberlite, with the potential to yield 24,000 carats and revenues exceeding US$30 million.

Professional recruitment of an experienced operational team is already underway, and our main contractors are familiar and comfortable with mining operations and plant design, construction and operations, not only at the presently envisaged Stage 1 scale, but ultimately for the long-term 2 & 3 million tonne per year operations.

Other Business

In line with our strategy of focusing on the development of large-scale, low cost and high value diamond mining operations, the company has sought to divest of its higher-risk exploration projects and smaller, high cost projects. To this end we will be seeking zero-cost opportunities to partner, or otherwise divest of exploration outside Lesotho. At the Motete Kimberlite Dyke Project, which is a limited tonnage, low diamond value and high cost fissure project, we have recently entered into an agreement with a private company, Northern Fissures Limited, who intend to develop the project as a small-scale labour intensive underground operation. Paragon will retain an interest in the project, free-carried should the mine go into development post a comprehensive trial mining period.

Outlook

Paragon Diamonds is now set to join the ranks of the established Lesotho kimberlite-diamond producers. On conclusion of the Mothae acquisition, and with the establishment of a resource from trial mining at Lemphane, Paragon can expect to hold a 75%+ interest in some 75 million tonnes of kimberlite at grades exceeding 2 cpht and diamond values in excess of US$1,500 per carat. Mined at a combined rate of 5 million tonnes per annum, within a development time for full-scale production at both projects of 3-4 years, Paragon can expect to be a producer of 100,000 carats and US$150 million of revenue by 2020, establishing the company as a front-ranking Lesotho diamond producer and a leading independent diamond miner of large, high value diamonds over at least the next 15 years.

The exceptional value and international desirability of Lesotho's diamonds opens up other value-adding business opportunities. Paragon now has a strategic relationship with an independent distribution company to extract additional value from the assortment, manufacturing and sale of select, top quality "investment grade" diamonds; margins that are normally lost to the producer at mine-gate point of sales. With an assured long-term supply of large diamonds from its own mines, the relationship will establish both companies as significant players in the long-term diamond investment world.

Stephen Grimmer
Managing Director

25 June 2015

DIRECTORS' REPORT

for the year ended 31 December 2014

The Directors submit their report on the affairs of the Group, together with the consolidated financial statements and auditor's report for the year ended 31 December 2014.

Paragon Diamonds Limited was incorporated on 27 April 2010 under Guernsey Law with registration number 51819. The Company listed on AIM on 1 November 2010.

PRINCIPAL ACTIVITIES AND CORPORATE DEVELOPMENT

The principal activities of Paragon Diamonds Limited are the mining, exploration and development of mineral projects, acquisition of mineral resource licences and investment in other mineral exploration and development companies. These activities are undertaken through both the Company and its subsidiaries. The Company is listed on AIM and is incorporated and domiciled in Guernsey.

Details of all of the subsidiary companies held at 31 December 2014 are given in note 8 of the financial statements. The principal operating subsidiary companies comprise:

Undertaking	**Sector**
African Rock Resources Limited	Resources
Meso Diamonds (Pty) Limited	Resources
Botle Diamonds (Pty) Limited	Resources
Tamarisk Investments Limited	Resources
Kopje (Pty) Limited	Resources

BUSINESS REVIEW

A review of the Group's performance and future prospects is included in the Chairman's Statement on pages 1 to 4, and in the Managing Director's Review on pages 5 to 7.

RESULTS AND DIVIDENDS

The consolidated loss for the year after taxation was £10,275,000 (2013: loss of £1,321,000).

The Directors do not recommend payment of an ordinary dividend (2013: £nil).

SHARE CAPITAL AND FUNDING

Full details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 19. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

The Company has unlimited authorised share capital divided into ordinary shares of 1p each, of which 275,524,654 had been issued as at 31 December 2014.

POST BALANCE SHEET EVENTS

Please refer to note 26 for details.

DIRECTORS

The Directors, who served since 1 January 2014, were as follows:

Philip Falzon Sant Manduca	(appointed 26 August 2014)	(*Executive Chairman*)
Stephen Grimmer		(*Managing Director*)
Simon Retter		(*Finance Director*)
Buddy Doyle	(resigned 10 November 2014)	(*Non-executive Director*)
Martin Doyle		(*Non-executive Director*)

DIRECTORS' INTERESTS

Directors' interests in the shares of the Company at 31 December were:

	2014 Ordinary shares of 1p each	2013 Ordinary shares of 1p each
Philip Falzon Sant Manduca	60,700,000	–
Stephen Grimmer	922,600	200,000
Simon Retter	1,151,257	517,258
Buddy Doyle	–	–
Martin Doyle	1,022,600	400,000

Options

The following Directors held share options at 31 December:

	Number of share options 2014	Average exercise price (p) 2014	Number of share options 2013	Average exercise price (p) 2013
Stephen Grimmer	4,950,000	15	4,950,000	15
Simon Retter	4,425,000	11	4,425,000	11
Martin Doyle	3,900,000	8	3,900,000	8
Buddy Doyle	1,350,000	8	1,350,000	8

The options issued in July 2011 vest in three equal instalments on the first, second and third anniversary of the grant date at exercise prices of 25.25p, 34p and 42.75p respectively. The options are not eligible to be exercised unless the share price is in excess of 34p, 42.75p and 51.5p respectively.

The options issued in 2013 vest in three equal instalments on the grant date, first and second anniversary of the grant date at exercise prices of 7p, 8p and 9p respectively.

DIRECTORS' INDEMNITY INSURANCE

The Group has maintained insurance throughout the year for its Directors and officers against the consequences of actions brought against them in relation to their duties for the Group.

DIRECTORS' REMUNERATION

The remuneration of the individual Directors who served in the year to 31 December 2014 was:

	Salary & fees £000	Share Based Payment £000	Total 2014 £000	Total 2013 £000
Martin Doyle	54	34	88	135
Stephen Grimmer	100	44	144	110
Simon Retter	83	36	119	88
Buddy Doyle	–	–	–	15
Total	237	114	351	348

It is the Company's policy that Executive Directors should have contracts with an indefinite term providing for a maximum of 3-6 months notice. The current salaries payable to Stephen Grimmer and Simon Retter are £100,000 and Philip Falzon Sant Manduca does not receive a salary.

The Non-Executive Director is employed on a letter of appointment which may be terminated on not less than one month's notice. The current basic fee payable to the Non-Executive Director is £12,000 per annum.

DIRECTORS' REPORT

for the year ended 31 December 2014

SUBSTANTIAL SHAREHOLDERS

The Company is aware that the following have at 22 June 2015 an interest in three per cent. or more of the issued ordinary share capital of the Company:

Name	Number of 1p ordinary shares	Percentage of the issued share capital
Titanium Capital Investments Limited	60,000,000	21.6%
Martin Matekane	35,471,510	12.8%
Grandinex International Corp	33,277,984	12.0%
Investor Nominees	12,475,499	4.5%
Barclayshare Nominees	10,660,748	3.8%
Commerz Nominees	10,095,435	3.6%

GOING CONCERN

As with all exploration companies at this stage of the resource development cycle and no cash-flow from production, funding is derived through equity financing. On 17 June 2015 the company obtained a loan of £500,000, which will ensure it has enough working capital to continue. Paragon continues to seek additional further sources of liquidity and expects to complete the anticipated project funding in the not too distant future. Failure to obtain additional funding could result in delay or indefinite postponement of further exploration. The Directors continue to adopt the going concern basis in preparing the accounts as they have a reasonable expectation that sufficient funding will be available to enable the Group to meet its commitments for at least the 12 months from the date of approval of the financial statements.

PROFILE OF THE CURRENT DIRECTORS

PHILIP FALZON SANT MANDUCA, AGED 57, EXECUTIVE CHAIRMAN

Philip Falzon Sant Manduca is Chief Executive Officer of Titanium Capital Group, a venture capital and private equity investment group of companies, focused on executing strategic hard asset investments. He has achieved capital gains for shareholders through the realisation of enterprise value growth in a number of asset management businesses over the last 25 years. His vision for the company is to expand Paragon Diamonds into a vertically integrated diamond company, controlling the production, manufacturing, polishing, investment fund and retail distribution of diamonds, which he expects to continue to significantly increase in value in both the near and long term.

STEPHEN GRIMMER, AGED 54, MANAGING DIRECTOR

Stephen Grimmer holds a PhD in geology from Keele University and an MSc from the Royal School of Mines. He has worked in senior management roles in the diamond industry since 1988, in Angola, Southern and West Africa, South America, Scandinavia and Russia. In his career he has planned and/or built a number of diamond mines, both alluvial and kimberlite, and managed several advanced kimberlite evaluation projects. He also has extensive exploration, mining and production experience gained working for a number of major private producers and London/Toronto listed companies.

SIMON RETTER, AGED 33, FINANCE DIRECTOR

Simon Retter read accounting and finance at Bristol University, after which he joined Deloitte LLP and qualified as a chartered accountant. He specialised in resources focused corporate finance transactions including numerous LSE market flotations, extractive industries accounting, finance and internal controls assurance. During his time at Deloitte he advised numerous African based resource companies. Simon has also provided financial consulting services for London listed companies with overseas operations.

MARTIN DOYLE, AGED 59, NON-EXECUTIVE DIRECTOR

Martin Doyle begun his career with Anglo American in 1977 as a field geologist conducting diamond exploration in Botswana and he has worked in many other parts of the world in progressive roles for De Beers and Anglo American. These roles include the pioneering evaluation of marine diamond deposits and the development of seabed mining systems for De Beers Marine in South Africa; the exploration and investigation of seabed gold deposits in Chile; managing exploration research and support services for Anglo American in South Africa before returning to diamond exploration for De Beers in Brazil, Uruguay and Venezuela. Martin graduated in 1977 with a BSc (Hons) Geology from the University of Aberdeen, Scotland and in 1987 graduated with an MBA from the University of Cape Town, South Africa. He is a Registered Professional Geologist (P.Geo) of the Association of Professional Geoscientists of Ontario (APGO), a Fellow of the Society of Economic Geologists (SEG), a Director of Debut Diamonds (DDI), a Director of the Prospectors and Developers Association of Canada (PDAC) and a Director of the Canadian Mining Innovation Council (CMIC).

DIRECTORS' REPORT

for the year ended 31 December 2014

CORPORATE GOVERNANCE

The board of directors is accountable to the Company's shareholders for good corporate governance and the Company has regard for the Quoted Companies Alliance's Corporate Governance Code for Small and Mid Size Quoted Companies 2013 which the directors consider appropriate guidance for the Group's size and its stage of development. Set out below is a summary of how, at 31 December 2014, the Group was dealing with corporate governance issues.

THE BOARD

The Board currently comprises three Executive Directors and one Non–Executive Director.

AUDIT COMMITTEE

The Board has established an audit committee with formally delegated duties and responsibilities. Martin Doyle is chairman of the audit committee which meets with the executive chairman no less than twice in each financial year.

REMUNERATION COMMITTEE

The remuneration committee meets as and when required. The remuneration committee comprises Martin Doyle and meets with the other directors as appropriate.

The policy of the committee is to reward Executive Directors in line with the current remuneration of directors in comparable businesses in order to recruit, motivate and retain high quality executives within a competitive market place.

There are three main elements of the remuneration packages for Executive Directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Discretionary annual bonus to be paid in accordance with a bonus scheme developed by the remuneration committee. This takes into account individual contribution, business performance and commercial progress; and
- Discretionary share option scheme which takes into account the need to motivate and retain key individuals.

NOMINATIONS COMMITTEE

The Directors do not consider that, given the size of the Board, it is appropriate at this stage to have a nominations committee. However, this will be kept under review by the Board.

INTERNAL CONTROL

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate, risk and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

(i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least four times per year;

(ii) The Group has operational, accounting and employment policies in place;

(iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and

(iv) There is a clearly defined organisational structure and there are well-established financial reporting and control systems.

RISK MANAGEMENT

The business of exploring for minerals involves a high degree of exploration, technical, political and regulatory risk. In addition, the Group is exposed to a number of financial risks which the Board seeks to minimise by adopting a prudent approach which is consistent with the corporate objectives of the Group. These risks are summarised below:

EXPLORATION RISK

The Group is exposed to exploration risk in respect of its mineral licence projects. The Group mitigates this risk by having established mineral investment project appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

TECHNICAL RISK

Substantial expenditure is required to establish reserves and to conduct feasibility studies. Although substantial benefits may be derived from the discovery of a significant mineralised deposit, no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations, or that funds required for development can be obtained on a timely basis.

POLITICAL AND REGULATORY RISK

The Group is currently conducting its operations mainly in Lesotho and exploration work is also undertaken in Zambia, Botswana and Tanzania. The Board believes that the Governments of all of these countries support the development of natural resources and the countries have established track records of promoting diamond mining. However, there is no assurance that future political and economic conditions in these countries will not result in the Governments changing their political attitude towards mining and adopting different policies in respect of the exploration, development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, land tenure and mineral licences, taxation, environmental protection and repatriation of income and capital, which may adversely impact the Group's ability to carry out its activities.

MARKET RISK

The Group has no external financing facilities other than convertible loans that carry no interest and the bridge finance obtained after the period end which carries a fixed interest rate. The interest rate risk is therefore limited and there is minimal interest earned on the Group's cash deposits.

LIQUIDITY RISK

The Group seeks to manage liquidity by regularly reviewing cash levels and expenditure budgets to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had cash balances of £0.1 million as at 31 December 2014 (2013: £0.2 million).

CREDIT RISK

The Group's principal financial asset is cash. The Group holds security over cash being held with the counter party of the derivative financial instrument. The credit risk associated with cash is considered to be limited given it is held by banks with good credit ratings.

EMPLOYMENT POLICIES

The Group supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully-informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Guernsey company law requires the directors to prepare group financial statements for each financial year in accordance with generally accepted accounting principles. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

DIRECTORS' REPORT

for the year ended 31 December 2014

The financial statements of the group are required by law and IFRS to give a true and fair view and are required by IFRS adopted by the EU to present fairly the financial position of the group.

In preparing the group financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain the group's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements are properly prepared and in accordance The Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Paragon Diamonds Limited website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

Baker Tilly UK Audit LLP has indicated its willingness to continue in office. A resolution for their re-appointment will be put to the members at the forthcoming Annual General Meeting.

On behalf of the board

Simon Retter
Finance Director

25 June 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PARAGON DIAMONDS LIMITED

for the year ended 31 December 2014

We have audited the consolidated financial statements of Paragon Diamonds Limited are properly prepared and in accordance for the year ended 31 December 2014 which comprise the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable Guernsey law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law 2008. 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 auditor's 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 auditor

As more fully explained in the Directors' Responsibilities Statement on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements arising from the requirements of International Standards on Auditing (UK and Ireland) is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the group financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law 2008, as amended.

Opinion on other matter

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the Group's ability to continue as a going concern and the uncertainty surrounding the amount and timing of future equity funding. This, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law 2008 requires us to report to you if, in our opinion:

- the company has not kept proper accounting records have not been kept by the company; or

- the company individual financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit

BAKER TILLY UK AUDIT LLP, Auditor
Chartered Accountants and Registered Auditors
25 Farringdon Street
London
EC4A 4AB

25 June 2015

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME

for the year ended 31 December 2014

Continuing operations	Notes	2014 £000	2013 £000
Administration costs		(760)	(706)
Fair value loss in remeasuring derivative financial instrument	12	(252)	(558)
Finance costs	5	(30)	(57)
Impairment of intangible assets	9	(12,310)	–
LOSS BEFORE TAXATION		(13,352)	(1,321)
Taxation	6	3,077	–
LOSS FOR THE YEAR		(10,275)	(1,321)
Attributable to:			
Owners of the parent		(8,893)	(1,321)
Non-controlling interests	23	(1,382)	–
		(10,275)	(1,321)
Items that may be subsequently be reclassified to profit or loss:			
Currency translation differences		1,161	(1,555)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(9,114)	(2,876)
Attributable to:			
Owners of the parent		(7,645)	(2,918)
Non-controlling interests	23	(1,469)	42
		(9,114)	(2,876)
LOSS PER SHARE			
From continuing operations			
Basic and diluted (pence)	7	(3.29)	(0.60)

The notes on pages 19 to 39 form an integral part of the consolidated financial statements.

There is no tax effect on currency differences in other comprehensive income.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Share capital £000	Share premium £000	Convertible loan reserve £000	Foreign exchange reserve £000	Share based payment reserve £000	Retained deficit £000	Total £000	Non-controlling interests £000	Total attributable to owners of parent £000
AT 1 JANUARY 2013	1,951	44,882	–	(231)	484	(19,875)	27,211	3,177	30,388
Loss for the year	–	–	–	–	–	(1,321)	(1,321)	–	(1,321)
Exchange differences on translation of foreign operations	–	–	–	(1,597)	–	–	(1,597)	42	(1,555)
Total comprehensive income for the year	–	–	–	(1,597)	–	(1,321)	(2,918)	42	(2,876)
Issue of shares	935	2,352	–	–	–	–	3,287	–	3,287
Expenses on issue of shares	–	(66)	–	–	–	–	(66)	–	(66)
Share based payment	–	–	–	–	180	–	180	–	180
AT 31 DECEMBER 2013	2,886	47,168	–	(1,828)	664	(21,196)	27,694	3,219	30,913
Loss for the year	–	–	–	–	–	(8,893)	(8,893)	(1,382)	(10,275)
Exchange differences on translation of foreign operations	–	–	–	1,248	–	–	1,248	(87)	1,161
Total comprehensive income for the year	–	–	–	1,248	_	(8,893)	(7,645)	(1,469)	(9,114)
Issue of shares	(131)	1,163	–	–	–	–	1,032	–	1,032
Acquisition of Non-controlling interests	–	–	–	–	–	1,187	1,187	(1,655)	(848)
Issue of shares to Non-controlling interests	–	–	–	–	–	–	–	(2,466)	(2,846)
Expenses on issue of shares	–	(65)	–	–	–	–	(65)	–	(65)
Convertible loans issued	–	–	858	–	–	–	–	–	858
Cancellation of shares	–	(65)	–	–	–	(1,260)	(1,260)	–	(1,260)
Share based payment	–	–	–	–	105	–	105	–	105
AT 31 DECEMBER 2014	2,755	48,266	858	(580)	769	(30,162)	21,906	2,561	24,467

The notes on pages 19 to 39 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 31 December 2014

	Notes	2014 £000	2013 £000
ASSETS			
NON-CURRENT ASSETS			
Intangible exploration and evaluation assets	9	33,438	40,635
Derivative financial instrument	11	–	607
Property, plant and equipment	10	221	422
TOTAL NON-CURRENT ASSETS		33,659	41,664
CURRENT ASSETS			
Trade and other receivables	12	115	131
Inventory	13	11	38
Derivative financial instrument	11	–	751
Cash and cash equivalents	15	92	226
TOTAL CURRENT ASSETS		218	1,146
TOTAL ASSETS		33,877	42,810
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	16	(326)	(230)
TOTAL CURRENT LIABILITIES		(326)	(230)
NON-CURRENT LIABILITIES			
Site restoration provision	18	(113)	(118)
Borrowings	17	(2,547)	(2,600)
Deferred tax liability	6	(6,424)	(8,949)
TOTAL NON-CURRENT LIABILITIES		(9,084)	(11,667)
TOTAL LIABILITIES		(9,410)	(11,897)
NET ASSETS		24,467	30,913
EQUITY			
ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	19	2,755	2,886
Share premium	21	48,266	47,168
Foreign exchange reserve		(580)	(1,828)
Share based payment reserve		769	664
Convertible loan reserve	22	858	–
Retained deficit		(30,162)	(21,196)
Equity attributable to the owners of the parent		21,906	27,694
Non-controlling interests	23	2,561	3,219
TOTAL EQUITY		24,467	30,913

The notes on pages 19 to 39 form an integral part of the consolidated financial statements.

Approved by the board and authorised for issue on 25 June 2015

Philip Falzon Sant Manduca
Executive Chairman

Simon Retter
Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
OPERATING ACTIVITIES			
Loss before taxation		(10,275)	(1,321)
Adjustment for:			
Interest expense	5	30	57
Foreign exchange losses		174	8
Share based payment charge		105	180
Decrease/(increase) in trade and other receivables		16	46
Decrease/(increase) in inventory		27	(38)
(Decrease)/increase in trade and other payables		96	(80)
Impairment of intangible assets		9,232	–
Fair value loss on remeasuring derivative financial instrument	12	252	558
NET CASH OUTFLOW FROM OPERATIONS		(343)	(590)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	11	–	(94)
Expenditure on exploration licences	10	(259)	(975)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(259)	(1,069)
FINANCING ACTIVITIES			
Proceeds from issue of share capital	20	–	1,150
Purchase of own share capital		(1,890)	–
Proceeds from derivative financial instrument	12	1,106	221
Expenses of issue of share capital	22	(65)	(66)
Proceeds from loans	18	1,317	88
NET CASH INFLOW FROM FINANCING ACTIVITIES		468	1,393
DECREASE IN CASH AND CASH EQUIVALENTS		(134)	(266)
Cash and cash equivalents at beginning of year		226	492
Effects of foreign exchange		–	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	16	92	226

The notes on pages 19 to 39 form an integral part of the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2014

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS"). The financial statements have been prepared under the historical cost convention.

Paragon Diamonds Limited is an AIM-quoted mineral production and exploration company. The Company is incorporated and domiciled in Guernsey.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate those of Paragon Diamonds Limited and all its subsidiary undertakings ("the Group").

Paragon Diamonds Limited was incorporated on 27 April 2010 and was listed on AIM on 1 November 2010.

The consolidated financial statements for the Group are for the year to 31 December 2014, the comparatives are for the year to 31 December 2013.

SUBSIDIARIES

A subsidiary is defined within these accounts to mean a company, over which the Group has control. The Group controls an entity where the Group is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date control passes.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in profit or loss.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group. All financial statements are made up to 31 December 2014.

OPERATING SEGMENTS

The reportable segments are identified by the Board (which is considered to be the Chief Operating Decision Maker) by the way management has organised the Group. The Group operated as one division comprising exploration activities in Southern and East Africa. In addition, there is a head office function in Guernsey.

REVENUE RECOGNITION

Revenue from the sale of diamonds is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred in respect of the transaction can be measured reliably.

Finance income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

GOING CONCERN

An assessment of going concern is made by the Directors at the date the Directors approve the financial statements, taking into account the relevant facts and circumstances at that date including:

- Review of profit and cashflow forecasts for the year ahead
- Review of actual results against forecast
- Timing of cashflows
- Any financial or operational risks

As with all exploration companies at this stage of the resource development cycle and no cash-flow from production, funding is derived through equity financing. On 17 June the company obtained a loan of £500,000, which will ensure it has enough working capital to continue. Paragon continues to seek additional further sources of liquidity and expects to complete the anticipated project funding in the not too distant future. Failure to obtain additional funding could result in delay or indefinite postponement of further exploration. The Directors continue to adopt the going concern basis in preparing the accounts as they have a reasonable expectation that sufficient funding will be available to enable the Group to meet its commitments for at least the 12 months from the date of approval of the financial statements.

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

Transactions and balances

In individual entities, transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on translation are included in profit or loss for the period.

In the consolidated financial statements, the assets and liabilities of subsidiaries with different functional currencies to the Company are translated into sterling at the rate ruling at the reporting date. The results and cash flows are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the results for the period are translated into sterling are taken directly to a foreign exchange reserve and reported directly in equity as other comprehensive income. Exchange gains and losses arising on long-term intra-group foreign currency loans used to finance the subsidiary undertakings, which are deemed to be part of the net investment in the subsidiary, are also taken directly to equity as other comprehensive income. On disposal of a subsidiary with a different functional currency to the Company, the deferred cumulative exchange differences recognised in equity relating to that particular operation are recognised in profit or loss.

Foreign currency translation rates for the significant currencies the Group uses are:

	At 31 December 2014	Average for period	At 31 December 2013	Average for period
US dollars	1.5532	1.6447	1.6491	1.5653
South African Rand	18.020	17.864	17.322	15.260

INTANGIBLE EXPLORATION AND EVALUATION ASSETS

All costs associated with mineral exploration and evaluation, including the costs of acquiring prospecting licences, mineral production licences, and annual licence fees, rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling and activities to evaluate the technical feasibility and commercial viability of extracting a mineral resource, along with the sales of diamonds in pre-production period are capitalised as intangible exploration and evaluation assets.

The costs are allocated to gemstone groupings within a region ("field"), which are treated as cash-generating units ("CGUs") because the underlying geology and risks and rewards of exploration within a field are considered to be similar. If an exploration project is successful, the related expenditures will be transferred at cost to property, plant and equipment and depreciated over the estimated life of the commercial reserves on a unit of production basis. Where a project does not lead to the discovery of commercially viable quantities of mineral resources and is relinquished, abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off to profit or loss.

The recoverability of deferred exploration costs is dependent upon the discovery of economically viable reserves, the ability of the Group to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the extraction thereof.

The useful economic lives of the intangible assets are deemed to be the life of the mineral resources they contain. Once the commercial viability of a mining property is confirmed and upon reaching commercial production then the asset will be transferred to property, plant and equipment and amortised on a unit of production basis over the life of the resource contained within the mining area.

PROPERTY, PLANT AND EQUIPMENT AND MINE PROPERTIES

Property, plant and equipment and mine assets are stated at historical cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on property, plant and equipment assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Mine	over the life of the mine
Mining equipment	over 2 - 7 years
Motor vehicles	over 3 years
Camp buildings	over 2 - 5 years

Accumulated mine development costs within producing mines are depreciated/amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight line method is applied.

The unit-of-production rate for the depreciation/amortisation of mine development costs takes into account expenditures incurred to date.

The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment of exploration and evaluation assets and property, plant and equipment

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying value. Impairment losses are recognised in profit and loss.

Impairment reviews for intangible exploration and evaluation assets and property, plant and equipment are carried out on the basis of mineral/gemstone fields with each field representing a single CGU. An impairment review is undertaken when indicators of impairment arise and typically when one of the following circumstances applies:

- unexpected geological occurrences render the resources uneconomic;
- title to the asset is compromised;
- variations in mineral/gemstones prices render the project uneconomic;
- variations in foreign currency rates; or
- the Group determines that it no longer wishes to continue to evaluate or develop the field.

FINANCIAL INSTRUMENTS

The Group classifies its financial instruments as follows:

TRADE AND OTHER RECEIVABLES

Trade and other receivables do not carry any interest and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS ("FVTPL")

Financial investment assets are classified at fair value through profit or loss where they contain a contract with one or more embedded derivatives.

The fair value is derived from the closing bid-market price at the reporting date. Gains and losses arising from changes in fair value are recognised directly in profit or loss.

TRADE AND OTHER PAYABLES

Trade and other payables are not interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

FINANCIAL LIABILITIES

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at hand and deposits on a term of not greater than three months.

SHARE CAPITAL

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is recognised on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share based payment reserve.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle the obligation. Provisions are measured at the Directors' best estimate of the present value of the expenditure required to settle the obligation at the reporting date.

INVENTORIES

Inventories, which include rough diamonds, are stated at the lower of cost of production on the weighted average basis or estimated net realisable value. Cost of production includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business.

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable is based on taxable result for the period. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable result, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon rates enacted and substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except where it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity, or items charged or credited directly to other comprehensive income in which case, the deferred tax is also recognised in other comprehensive income.

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and based on management's historical experience and other mitigating factors, including future expectations and events that are believed to be reasonable. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed below.

INTANGIBLE EXPLORATION AND EVALUATION ASSETS AND GOING CONCERN

Management's critical judgements within the financial statements relate to the valuation of intangible exploration and evaluation assets of £33.4m (2013: £40.6m) and the going concern assumptions. The ability to recover the full carrying value of the intangible exploration and evaluation assets is dependent upon the successful extraction of deposits which in turn is dependent upon the future diamond prices, capital expenditures and environmental and regulatory restrictions. Under IFRS6 – Exploration for and Evaluation of Mineral Resources, the directors are required to perform an impairment review when facts and circumstances suggest that the carrying amount of the net assets may exceed the recoverable amount. From a review of the activities in the year, the exploration licenses held by the group and recent results from the test drilling the directors consider that circumstances suggest that the carrying amount of the net assets may exceed the recoverable amount.

The estimates and associated assumptions used for these deliberations are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and judgements are continually evaluated. Revisions to accounting estimates are recognised in the period in which the estimates are revised or in future periods if applicable.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT APPLIED

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

		Effective date
	Annual Improvements to IFRSs 2012-2014 Cycle	1 Jan 16
IFRS 9	Financial Instruments	1 Jan 18
IFRS 10 and IAS 28	Amendments: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 Jan 16
IFRS 10, IFRS 12 and IAS 28	Amendments: Investment Entities: Applying the Consolidation Exception	1 Jan 16
IFRS 11	Amendments: Accounting for Acquisitions of Interests in Joint Operations	1 Jan 16
IFRS 14	Regulatory Deferral Accounts	1 Jan 17
IFRS 15	Revenue from Contracts with Customers	1 Jan 16
IAS 1	Amendments: Disclosure initiative	1 Jan 16
IAS 16 and IAS 41	Agriculture: Bearer Plants	1 Jan 16
IAS 16 and IAS 38	Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 16
IAS 27	Amendments: Equity Method in Separate Financial Statements	1 Jan 16

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

2 SEGMENTAL REPORTING

The board of directors are the chief operating decision maker. The group operates within one segment with operations in south and east Africa. The costs of these operations are being capitalised to the intangible exploration and evaluation asset as all projects are at an early stage of development. The administration costs are incurred in Guernsey in relation to the Head office function and are expensed through the income statement.

3 LOSS BEFORE TAXATION

	Year ended 2014 £000	Year ended 2013 £000
Loss before taxation is stated after charging/(crediting):		
Staff costs, including directors	290	436
Professional and regulatory fees	262	119
Impairment of assets	9,232	–
Foreign exchange loss on operating activities	174	8
Auditor's remuneration:		
Audit services		
Fees payable to the Company auditor for the audit of the consolidated accounts	27	27

4 STAFF COSTS

	Year ended 2014 £000 Number	Year ended 2013 £000 Number
The average monthly number of persons (including Directors) employed by the Group during the year was:		
Mining and exploration	10	14
Administration and management	7	7
Total	17	21
	£000	£000
The aggregate remuneration comprised:		
Wages and salaries	381	655
Share based payment	105	180
Social security costs	14	11
	500	846
Directors' remuneration included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	357	351

No pension contributions were made on behalf of the Directors.

During the year wages and salaries of £210,000 were capitalised as part of the intangible exploration and evaluation asset (2013: £410,000).

5 FINANCE COSTS

	Year ended 2014 £000	Year ended 2013 £000
Loan Interest	30	57

6 TAXATION

	Year ended 2014 £000	Year ended 2013 £000
CURRENT TAX:		
Tax on loss of the year	–	–
DEFERRED TAX:		
Origination and reversal of temporary differences	3,077	–
TAX ON LOSS ON ORDINARY ACTIVITIES	3,077	–

	Year ended 2014 £000	Year ended 2013 £000
Factors affecting tax charge for the year		
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
Loss on ordinary activities before tax	(10,275)	(1,321)
Loss on ordinary activities multiplied by the average rate of corporation tax of 25%	(2,569)	(330)
Effects of:		
Different tax rates in areas of operations	258	128
Expenses not deductible	(766)	–
Deferred tax asset not recognised on losses in year	3,077	202
TAX CHARGE FOR THE YEAR	–	–

A tax rate of 25% has been used despite the prevailing corporation tax rate of 0% in Guernsey in order to better demonstrate the underlying tax position of the countries in which the group operates, being Lesotho, Botswana, Zambia and Tanzania.

The Group has estimated losses of £4.4 million (2013: £3.0 million) available for carry forward against future profits generated in Lesotho. No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

The movement in the Group's deferred tax position during the year was as follows:

	£000
AT 1 JANUARY 2013	9,127
Effects of foreign exchange	(178)
AT 31 DECEMBER 2013	8,949
Effects of foreign exchange	552
Write off due to impairment of asset	(3,077)
AT 31 DECEMBER 2014	6,424

Deferred tax has been provided for at the prevailing rate of between 25% and 35% based on the prevailing rate in each of the countries the group operates in.

7 LOSS PER SHARE

Basic loss per share is based on the net loss for the period of £10,275,000 (2013: £1,321,000 loss) attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period of 312,537,804 (2013: 221,074,821).

Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume conversion of all dilutive potential ordinary shares, being share options held by the certain employees. The company also has convertible loan notes which are potentially dilutive. However, assuming that the convertible loan notes are converted into ordinary shares, this would reduce the loss per share and therefore in accordance with IAS 33 paragraph 41, these have been excluded in the consideration of diluted loss per share. The result of this is that basic and diluted loss per share are the same.

8 INVESTMENTS

At 31 December 2014 the Group held the following subsidiaries:

UNDERTAKING	Nature of Business	Country of incorporation	% of issued ordinary share capital and voting rights
Paragon Diamonds Mauritius Limited	Holding Company	Mauritius	100.0
African Rock Resources Limited [1]	Resources	England & Wales	100.0
ARR (Tanzania) Limited [2]	Resources	Tanzania	99.5
International Diamond Consultants [1]	Holding Company	British Virgin Islands	100.0
Meso Diamonds (Pty) Limited [4]	Resources	Lesotho	80.0
Botle Diamonds (Pty) Limited [4]	Resources	Lesotho	85.0
Tamarisk Investments Limited [3]	Resources	Zambia	100.0
Kopje (Pty) Limited [3]	Resources	Botswana	100.0
Obtala Resources (SL) Limited	Resources	Sierra Leone	100.0

The companies operate predominately in the country of incorporation.

All subsidiary undertakings are included in the consolidated financial statements. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the group.

The total non-controlling interest for the period is £2,561,000, of which £2,466,000 is for Meso Diamonds pty Ltd and £95,000 is attributed to Botle Diamonds pty Ltd. The non-controlling interest in respect of ARR (Tanzania) Limited is not material.

1 Held directly by the Company

2 Held by African Rock Resources Limited

3 Held by International Diamond Consultants

4 Held by Paragon Diamonds Mauritius Limited

The companies operate predominately in the country of incorporation.

All subsidiaries are included in the consolidated financial statements.

9 INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Exploration licences £000
COST AND BOOK VALUE AT 1 JANUARY 2013	41,151
Foreign exchange differences	(1,757)
Capitalised exploration costs	1,241
COST AND BOOK VALUE AT 31 DECEMBER 2013	40,635
Foreign exchange differences	2,191
Capitalised exploration costs	455
Capitalised mining lease	2,466
Impairment charge	(12,310)
COST AND BOOK VALUE AT 31 DECEMBER 2014	33,438

Included in capitalised exploration costs during the year is depreciation charge of Property, plant and equipment of £196,000 (2013: £267,000).

At the date of approval of the financial statements, two of the group's exploration licences remain due for renewal in 2015. These two licences have a carrying value of £5.3m (2013 – two licences due for renewal in 2014 with carrying value of £16.3m). Applications are due to be submitted for renewal of these licences as they become due and the Directors have no reason to believe the renewals will be unsuccessful.

Capitalisation of costs associated with obtaining a mining lease at Lemphane of £2,466,000 represent the value of issuing a 20% interest in the equity of the subsidiary which holds the mining lease to the government of Lesotho in accordance with the terms of the mining lease.

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 licence 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 recognised an impairment charge of £12,310,000 (£2013: nil) as a result of the disposal of its interest in the Motete Dyke project after the period end. .In addition to the impairment of the intangible asset, £3,077,000 of deferred tax liability has been written back with both being taken through the income statement.

10 PROPERTY, PLANT AND EQUIPMENT

COST	Camp buildings £000	Motor vehicles £000	Mining equipment £000	Total £000
AT 1 JANUARY 2013	148	62	795	1,005
Additions in period	45	–	49	94
Foreign exchange differences	(36)	(13)	(206)	(255)
AT 31 DECEMBER 2013	157	49	638	844
Additions in period	–	–	–	–
Foreign exchange differences	(1)	–	(4)	(5)
AT 31 DECEMBER 2014	156	49	634	839
DEPRECIATION				
AT 1 JANUARY 2013	(73)	(9)	(154)	(236)
Charge for the period	(83)	(19)	(165)	(267)
Disposals	–	–	–	–
Foreign exchange differences	25	4	52	81
AT 31 DECEMBER 2013	(131)	(24)	(267)	(422)
Charge for the period	(23)	(16)	(157)	(196)
AT 31 DECEMBER 2014	(154)	(40)	(424)	(618)
NET BOOK VALUE				
AT 1 JANUARY 2013	75	53	641	769
AT 31 DECEMBER 2013	26	25	371	422
AT 31 DECEMBER 2014	2	9	210	221

During the year depreciation of £196,000 was capitalised to the intangible exploration and evaluation asset (2013: £267,000).

11 DERIVATIVE FINANCIAL ASSET

	2014 £000	2013 £000
Derivative financial asset – current	–	751
Derivative financial asset – non-current	–	607
	–	1,358

During the prior year the Group entered into two financing agreements with Lanstead Capital L.P ("Lanstead") which include an equity swap price mechanism in the region of 75% of the shares issued as detailed in note 20. During the current year the Group entered into a share buy back agreement with Lanstead whereby the 63,000,000 remaining shares held by Lanstead were bought back by the Company. At this time the equity swap facility over all of the remaining outstanding shares was closed with all swaps settling.

	Lanstead (June 2013)	Lanstead (November 2013)	Total
Number of unpaid shares outstanding 1/1/14	14,062,500	43,125,000	57,187,500
Share price at date of inception	6.13p	4.17p	
Number of shares paid up	(14,062,500)	(43,125,000)	(57,187,500)
Number of unpaid shares outstanding 31/12/14	–	–	–

	Lanstead (June 2013)	Lanstead (November 2013)	Total
Number of unpaid shares outstanding 1/1/13	–	–	–
Share price at date of inception	6.13p	4.17p	–
Inception of new instruments	18,750,000	45,000,000	63,750,000
Number of shares paid up	(4,687,500)	(1,875,000)	(6,562,500)
Number of unpaid shares outstanding 31/12/13	14,062,500	43,125,000	57,187,500

	Lanstead (June 2013)	Lanstead (November 2013)	Total
Value of derivative at 1/1/14	332	1,026	1,358
Cash received during the year	(249)	(857)	(1,106)
Loss on fair value remeasured	(83)	(169)	(252)
Value of derivative at 31/12/14	–	–	–

	Lanstead (June 2013)	Lanstead (November 2013)	Total
Value of derivative at 1/1/13			
Inception of new instruments	887	1,250	2,137
Cash received during the year	(185)	(36)	(221)
Loss on fair value remeasured	(370)	(188)	(558)
Value of derivative at 31/12/13 (based on year end share price of 3.77p)	332	1,026	1,358

As described in note 24, an option was granted to Mr Matekane in respect of the 15% of equity in Meso Diamonds, one of the subsidiaries of the Group during the year, which was purchased from him by the Company. It is considered very unlikely by the board that this option will be exercised and the value of any option to the group is considered immaterial.

12 TRADE AND OTHER RECEIVABLES

	2014 £000	2013 £000
Other receivables	115	118
Prepayments	–	13
	115	131

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

13 INVENTORIES

	2014 £000	2013 £000
Diamonds	11	38

Diamonds are valued at the lower of cost and net realisable value and represents stores of rough diamonds that could be readily monetised. Some of the diamond inventory were sold during the year to test the market of the specific stones.

14 FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The overall strategy of the Company and Group is to minimise costs and liquidity risk.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the consolidated Statement of Changes in Equity.

The Group is exposed to a number of risks through its normal operations, the most significant of which are technical, political, regulatory, exploration, market, credit, foreign exchange and liquidity risks. The management of these risks is vested in the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

CATEGORISATION OF FINANCIAL INSTRUMENTS

2014

Financial assets/(liabilities)	Assets at fair value through the profit or loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
Trade and other receivables	–	115	–	115
Cash and cash equivalents	–	92	–	92
Trade and other payables	–	–	(326)	(326)
Loans	–	–	(3,405)	(3,405)
	–	207	(3,731)	(3,524)

2013

Financial assets/(liabilities)	Assets at fair value through the profit or loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
Trade and other receivables	–	118	–	118
Cash and cash equivalents	–	226	–	226
Derivative financial instrument	1,358	–	–	1,358
Trade and other payables	–	–	(230)	(230)
Loans	–	–	(2,600)	(2,600)
	1,358	344	(2,830)	(1,128)

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value by reference to the Company's share price, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 2 fair value measurements at 31 December 2014

Derivative financial instruments	2014 £000	2013 £000
Opening balance	1,358	–
Additions	–	2,137
Repayment	(1,106)	(221)
Net loss recognised in income statement	(252)	(558)
Total	–	1,358

MANAGEMENT OF MARKET RISK

The most significant area of market risk to which the Group and Company are exposed is interest risk.

As the Group has loans which carry interest at a fixed margin above LIBOR, the Directors do not consider the interest rate risk as significant given the current low worldwide interest rates.

	2014 Floating rate £000	2014 Total £000	2013 Floating rate £000	2013 Total £000
Cash and cash equivalents	92	92	226	226

MANAGEMENT OF CREDIT RISK

The principal financial assets of the Company and Group are bank balances and derivative financial assets. The Company and Group deposit surplus liquid funds with counterparty banks that have high credit ratings.

No aged analysis of financial assets is presented as no financial assets are past due at the reporting date.

The Group's maximum exposure to credit by class of individual financial instrument is shown in the table below:

	2014 Carrying Value £000	2014 Maximum Exposure £000	2013 Carrying Value £000	2013 Maximum Exposure £000
Cash and cash equivalents	92	92	226	226
Derivative financial asset	–	–	1,358	1,358
Total	92	92	1,584	1,584

MANAGEMENT OF FOREIGN EXCHANGE RISK

The Company and Group have a limited level of exposure to foreign exchange rate risk through their foreign currency denominated cash balances.

	2014 £000	2013 £000
Cash and cash equivalents		
GBP	82	220
ZAR	10	2
USD	–	4
Total	92	226

The table below summarises the impact of a 10 per cent. increase/decrease in the relevant foreign exchange rates versus the pound sterling rate, on the Group's pre tax loss for the period and on equity:

IMPACT OF 10% RATE CHANGE	2014 £000	2013 £000
Cash and cash equivalents	1	–

MANAGEMENT OF LIQUIDITY RISK

The Group and Company seek to manage liquidity risk by regularly reviewing cash flow budgets and forecasts to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group deems there is sufficient liquidity for the foreseeable future.

15 CASH AND CASH EQUIVALENTS

	2014 £000	2013 £000
Cash at banks	92	226

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

16 TRADE AND OTHER PAYABLES

	2014 £000	2013 £000
Trade and other payables	112	202
Accruals	214	28
	326	230

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

17 BORROWINGS

	2014 £000	2013 £000
Loan from Obtala	–	1,986
Loan from Titanium Capital Investment	2,475	–
Loan from Non-controlling interests	72	614
	2,547	2,600

During the year Titanium Capital Investments, a vehicle controlled by Philip Falzon Sant Manduca, Chairman of the Company acquired the £1,996,000 loan from Obtala Resources. As a term of the acquisition the company enabled the loan to be converted in to equity at a price of 2.75p per share and carries zero interest and is repayable in 2019.

In December 2014, Titanium Capital Investments loaned a further £1,337,000 to the Company to enable it to buy back and cancel 63,000,000 shares held by Lanstead Capital Partners along with an equity swap facility over some of these shares. This loan is convertible into new shares in the company at a price of 3p per share and carries no interest and is repayable in 2016.

The liability portion of the two convertible loans above has been valued using an effective interest rate of 8%. The difference between the fair values of the liability and the principal amount of the loans has been classified as equity in accordance with IAS 32 and carried within reserves, refer to note 22.

Under the terms of the shareholders agreement for the Group's two operating subsidiaries in Lesotho, the holder of the 15% non-controlling interest has to contribute 15% of the running costs of the operation. This contribution has been treated as a loan. On the 12 May 2014 the Group purchased the non-controlling interest in one of its subsidiaries, Meso Diamonds and with it the balance due under the loan. Consideration was satisfied by way of issuing 35,471,510 new ordinary shares in the Company.

18 PROVISIONS

	£000
AT 1 JANUARY 2013	148
Foreign exchange differences	(30)
AT 31 DECEMBER 2013	118
Foreign exchange differences	(5)
AT 31 DECEMBER 2014	113

The Group is exposed to restoration, rehabilitation and environmental liabilities relating to its mining and exploration operations. Estimates of the cost of this work, including reclamation costs, close down and pollution control, are made on an ongoing basis, based on the estimated life of the mine.

19 SHARE CAPITAL

	Number	£000
Authorised:		
Ordinary shares of £0.01 each	Unlimited	Unlimited
Allotted, issued and fully paid:		
AT 1 JANUARY 2013	195,095,917	1,951
Issued in the year	93,500,000	935
AT 31 DECEMBER 2013	288,595,917	2,886
Issued in the year	49,928,737	499
Purchased by the company and cancelled	(63,000,000)	(630)
AT 31 DECEMBER 2014	275,524,654	2,755

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

On 10 January 2014 the Company issued 6,000,000 new ordinary shares in the Company at a price of 5 pence per share following approval at a general meeting in respect of an equity swap agreement being accounted for as a derivate financial instrument during 2013.

On 10 January 2014 the Company issued 1,000,000 new ordinary shares in the Company at a price of 5 pence per share following approval at a general meeting in respect of a placing for new shares carried out with certain directors of the Company during 2013.

On 12 June 2014 the Company issued 35,471,510 new ordinary shares in the Company as consideration for acquiring 15% of the share capital of one of its subsidiaries, Meso Diamonds Pty Ltd from a non-controlling interest.

On 1 October 2014, the Company issued 1,500,000 new ordinary shares in the Company at a price of 3.5 pence per share to a third party consultant as consideration for services provided to the Company.

On 10 December 2014 the Company issued 5,957,227 new ordinary shares in the Company at a price of 4.5 pence per share raising gross cash proceeds of £268,000.

On 11 December 2014 the company purchased and cancelled 63,000,000 of its own shares at a price of 3 pence per share.

20 SHARE BASED PAYMENTS

OPTION SCHEME

The Group established a share option plan during 2011, under which certain Directors and employees have been granted options to subscribe for ordinary shares. All options are equity settled and the Group has no legal or constructive obligation to settle the options in cash. The first options were issued on 27 July 2011 (“2011 options”) and vest in three equal tranches on the first, second and third anniversary of the grant date. There were 4,725,000 options outstanding as at the year end with exercise prices between 25.25p and 42.75p. 16,450,000 options were issued to certain employees and Directors of the Company during 2013 which vest in three equal instalments immediately, on the first anniversary and the second anniversary of the grant date with exercise prices between 7 and 9 pence per share.

Certain share price performance criteria are required to be fulfilled before the 2011 Options issued to employees and directors will vest.

The 2011 Options with market conditions issued to employees of the Company have been valued using the binomial method. The options issued in the year were valued using a Black Scholes model. The inputs of the model used are as follows:

	2014	2013
Weighted average share price	11p	11p
Weighted average exercise price	14p	14p
Expected volatility	50%	50%
Expected life	2.5 yrs	2.5 yrs
Risk free rate	3.0%	3.0%
Expected dividends	N/A	N/A

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

In addition to the company scheme for directors and employees, the company issued 3,000,000 options to certain existing employees and consultants of International Diamond Consultants as part of the acquisition of the subsidiary. These vested one year after the date of grant being 17 May 2012 at an exercise price of 34p. These were valued using a Black Scholes model using the same inputs as above.

No options were exercised during the year.

The Group recognised total expenses of £105,000 (2013: £180,000) relating to equity settled share-based payment transactions.

The number and weighted average exercise prices of the share options are as follows:

	Number of share options	Weighted average exercise price per share (pence)
At 1 JANUARY 2013	4,725,000	34.0
Granted during the year	16,450,000	8.0
Outstanding as at 31 DECEMBER 2013	21,175,000	13.8
Granted during the year	–	–
Outstanding as at 31 DECEMBER 2014	21,175,000	13.8
Exercisable as at 31 DECEMBER 2014	9,800,000	17.9

21 SHARE PREMIUM ACCOUNT

	£000
AT 1 JANUARY 2013	44,882
Premium on issue of shares	2,352
Expenses on issue of shares	(66)
AT 31 DECEMBER 2013	47,168
Premium on issue of shares (see note 20)	1,163
Expenses on issue of shares	(65)
AT 31 DECEMBER 2014	48,266

22 CONVERTIBLE LOAN RESERVE

	£000
AT 1 JANUARY AND 31 DECEMBER 2013	–
Recognition of equity portion of convertible loans	858
AT 31 DECEMBER 2014	858

During the year the company issued two convertible loans to Titanium Capital Investments Limited, details of which are set in out in note 25 and 17.

23 NON-CONTROLLING INTERESTS

	£000
AT 1 JANUARY 2013	3,177
Non-controlling interest in share of losses post acquisition	–
Non-controlling interest foreign exchange differences	42
AT 31 DECEMBER 2013	3,219
Non-controlling interest in share of losses	(1,382)
Acquisition of Non-controlling interest	(2,035)
Issue of shares to Non-Controlling interests	2,846
Non-controlling interest foreign exchange differences	(87)
AT 31 DECEMBER 2014	(2,561)

24 CAPITAL AND OPERATING LEASE COMMITMENTS

The Group had total operating commitments under non-cancellable agreements falling due as follows:

	2014 Mining licence rentals £000	2013 Mining licence rentals £000
Within one year	17	17
Between two and five years	68	68
	85	85

The mining lease rentals paid during the year have been capitalised within exploration expenses.

25 RELATED PARTY TRANSACTIONS

TRADING TRANSACTIONS

During the year the Group companies entered into the following transactions with related parties:

	Transactions in 2014 £000	Balance at 31 December 2014 £000	Transactions in 2013 £000	Balance at 31 December 2013 £000
Loans from shareholders	(1.337)	(3,333)	(144)	(1,986)
Loans from non-controlling shareholders	(542)	(72)	161	(614)

During the year Titanium Capital Investments, a vehicle controlled by Philip Falzon Sant Manduca, Chairman of the Company acquired the £1,996,000 loan from Obtala Resources. As a term of the acquisition the company enabled the loan to be converted in to equity at a price of 2.75p per share and carries zero interest.

In December 2014, Titanium Capital Investments loaned a further £1,337,000 to the Company to enable it to buy back and cancel 63,000,000 shares held by Lanstead Capital Partners along with an equity swap facility over some of these shares. This loan is convertible into new shares in the company at a price of 3p per share and carries no interest.

On 15 April 2014, as a result of the mining lease negotiations with the government of Lesotho, the Company agreed to buy the 15% it did not already own of Meso Diamonds, a subsidiary company from Mr Matekane. Consideration was satisfied by way of issuing 35,471,500 new ordinary shares in the Company as set out in note 19. At the same time an option was granted to Mr Matekane in respect of the 35,471,500 shares held, that should the company sell any of the 15% of Meso that was required to be made available to any potential incoming Lesotho based investor, Mr Matakane would have the right to sell a portion of his shares in the Company back to the Company in exchange for any such cash consideration obtained in the transaction. The option is valid for two years. The directors are of the opinion that it is unlikely that any such investors will materialise and that the option will lapse unexercised.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Group's key management personnel comprised only the Executive Directors of the Company. The share based payment charge relates to non-cash expense as a result of the share options detailed in note 20.

2014 Short-term employment benefits

	Salaries & fees £000	Bonus £000	Employer's national insurance £000	Share based payment £000	Total £000
Philip Falzon Sant Manduca	–	–	–	–	–
Simon Retter	83	–	14	36	133
Stephen Grimmer	100	–	–	44	144
	183	–	14	80	277

2013 Short-term employment benefits

	Salaries & fees £000	Bonus £000	Employer's national insurance £000	Share based payment £000	Total £000
Martin Doyle	120	15	–	39	174
Simon Retter	75	13	12	47	147
Stephen Grimmer	100	10	–	54	164
	295	38	12	140	485

At the year end the following amounts were due to Directors in respect of loans advanced to the Company and salaries due included with trade and other payables. The loans carry no interest.

	2014 £000	2013 £000
Philip Falzon Sant Manduca	–	–
Martin Doyle	54	20
Simon Retter	67	10
Stephen Grimmer	94	40
Buddy Doyle	–	3
	215	73

26 POST BALANCE SHEET EVENTS

On 5 May 2015, the company announced a memorandum of understanding had been signed to buy the Mothae Kimberlite project from Lucara Diamond Corp for consideration of US$8.5million. Exclusivity was granted until 30 September 2015 to complete the transaction and obtain necessary funding and government approvals.

On 12 March 2015 the Company issued 2,363,537 new ordinary shares in the Company at a price of 5.5 p per share raising gross cash proceeds of £130,000.

On 17 June 2015 the Company obtained £500,000 bridge finance carrying an interest rate of 1.2% per month repayable on 30 September 2015. In additional 3,571,428 warrants were issued exercisable at a price of 7p per share.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2015 Annual General Meeting of Paragon Diamonds Limited (the "Company") will be held at the Company's registered office, Dixcart House, Sir William Place, St Peter Port, Guernsey GY1 1GX on 4 August 2015 at 11.00am. to transact the following business:

ORDINARY BUSINESS

As ordinary business to consider and, if thought fit, pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive and adopt the Directors' Report, the Audited Statement of Accounts and Auditors' report for the year ended 31 December 2014.
2. To re-elect Martin Doyle as a director of the Company, who retires by rotation pursuant to the Articles of Association of the Company.
3. To re-elect Philip Falzon Sant Manduca as a director of the Company, who retires by rotation pursuant to the Articles of Association of the Company.
4. To re-appoint Baker Tilly UK Audit LLP as auditors of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

As special business to consider and, if thought fit, pass the following resolutions, of which Resolution 5 will be proposed as an ordinary resolution and Resolutions 6 and 7 will be proposed as special resolutions of the Company:

Allotment of shares

5. THAT the Directors be hereby generally and unconditionally authorised, in substitution for all previous powers granted to them, pursuant to Article 8 of the Company's Articles of Incorporation ("the Articles") to exercise all the powers of the Company to allot and make offers to allot equity securities (as defined in Article 8 of the Articles) up to an aggregate nominal amount of £2,869,708.44 provided that this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2016 or 30 September 2016 (whichever is earlier) save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as the authority conferred hereby had not expired.

Disapplication of pre-emption rights

6. THAT the Directors be authorised and empowered, in substitution for all previous power granted to them, pursuant to Article 9 of the Articles to allot equity securities (as defined in Article 8 of the Articles) for cash pursuant to the authority referred to in resolution 5 above as if Article 9.2 of the Articles did not apply to any such allotment provided that this power should be limited to the allotment of equity securities:

   a. on a pro rata basis to the holders of ordinary shares in the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under law of, or the requirements of any regulatory body or any recognised stock exchange in, any territory; and

   b. with an aggregate nominal amount of £2,869,708.44 otherwise than pursuant to paragraph above;

   and this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2016 or 30 September 2016 (whichever is earlier) save that the Company may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as the authority conferred hereby had not expired.

Buy-back of shares

7. THAT, the Company be generally and unconditionally authorised for the purposes of Article 50.3 of the Articles to make market purchases (as defined in Article 50.5 of the Articles) of ordinary shares of the Company on such terms and in such manner as the directors of the Company shall determine provided that:

    a. the maximum aggregate number of ordinary shares which may be purchased is 27,788,829 ordinary shares;

    b. the minimum price (excluding expenses) which may be paid for each ordinary share is 1p;

    c. the maximum price (excluding expenses) which may be paid for any ordinary share does not exceed 5 per cent. above the average closing price of such shares for the five business days on the London Stock Exchange prior to the date of purchase; and

    d. this authority shall expire at the conclusion of the next annual general meeting of the Company or 30 September 2016 (whichever is earlier) unless such authority is renewed prior to that time (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of such authority, in which case such purchase may be concluded wholly or partly after such expiry).

By order of the Board

William Place Secretaries Limited
Company Secretary

25 June 2015

Registered office:
Dixcart House
Sir William Place
St Peter Port
Guernsey, GY1 1GX

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY NOTES

Entitlement to attend and vote

1. The time by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting is 6.00 pm on 2 August 2015. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date fixed for the adjourned meeting. Changes to entries on the register of members after such times shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - completed and signed;
   - sent or delivered to Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 º3DA no later than 11.00 a.m. on Sunday, 2 August 2015.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment as above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by Neville Registrars no later than 11.00am on Sunday, 2 August 2015. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

   Issued shares and total voting rights

9. As at 6.00pm on 24 June 2015 the Company's issued share capital comprised 277,888,291 ordinary shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00pm on 24 June 2015 was 277,888,291.

Documents on display

10. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (weekends excepted) from the date of this notice until 31 July 2015 and at the place of the Meeting for 15 minutes prior to and during the Meeting:

    a. copies of the service contracts of executive directors of the Company; and

    b. copies of letters of appointment of the non-executive directors of the Company.

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on the 4 August 2015 at 11.00am and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

    In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Neville Registrars Limited (CREST Participant ID: 7RA11), no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

    CREST members and, where applicable, their CREST sponsor or voting service provider should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

    The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

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DIRECTORS AND OFFICERS

DIRECTORS

Philip Falzon Sant Manduca	*(Executive Chairman)*
Martin Doyle	*(Non-Executive Director)*
Stephen Grimmer	*(Managing Director)*
Simon Retter	*(Finance Director)*

COMPANY SECRETARY

William Place Secretaries Limited

COMPANY NUMBER

51819 (Guernsey)

COMPANY WEBSITE

www.paragondiamonds.com

REGISTERED OFFICE

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Chartered Accountants
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LEGAL ADVISER

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REGISTRAR

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