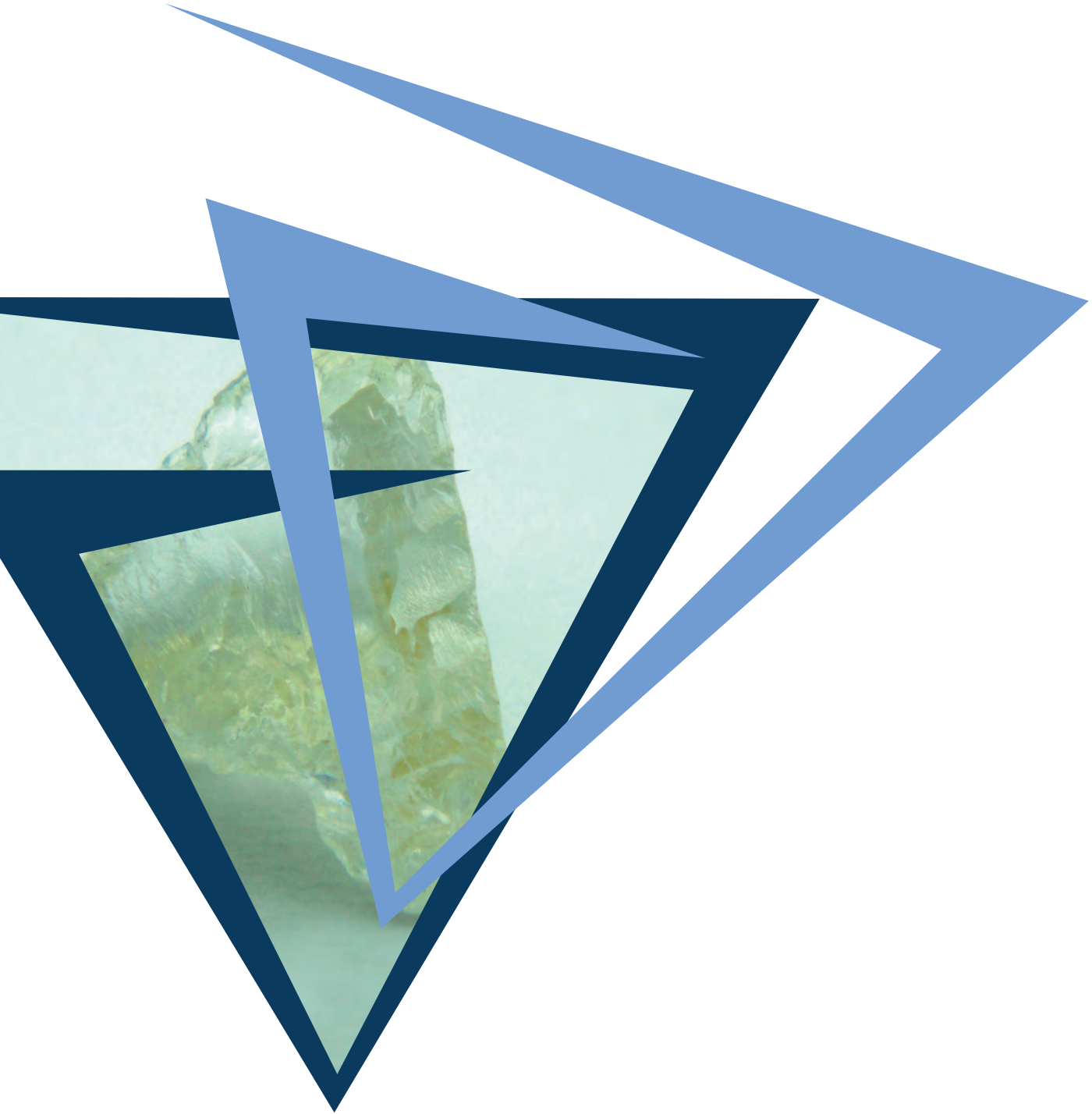




Target Resources



Target Resources Plc Annual Report and Financial Statements

for the year ended 31 October 2008

Target Resources plc (“Target”) is an alluvial diamond and gold mining and exploration company developing diamond and gold mining assets and projects primarily in Sierra Leone.

Target operates through its UK subsidiary Milestone Trading Ltd (“Milestone”), its US subsidiary Pride Diamonds LLC and its Sierra Leone subsidiaries (together the “Group”). The Group’s mining leases are all located within the Kono district, which is recognised as the most prospective area for diamond mining in Sierra Leone. Milestone also has exclusive prospecting licences in other areas.

Sierra Leone is a major producer of gem quality diamonds. It has been responsible for mining of some of world’s most impressive diamonds. The Group is among the first large scale mining ventures to be established in Sierra Leone since the end of the civil war.

Target’s main objective is the recovery of alluvial diamonds and gold in Sierra Leone, and their sale on world markets.

In the 5 months following the financial year end date we recovered 3,700 carats of high quality stones

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Highlights

- Admitted to AIM in July 2006 raising funds to expand operations.
- Milestone has successfully entered into joint venture agreements with the Chiefdoms in Sierra Leone specifically in the Chiefdoms of Sandoh, Nimikoro & Nimiyama.
- The Group has 4,263 acres (17.25 sq km) under mining leases in the rich diamond and gold area of Kono, recognised as the most prospective area for diamond mining in Sierra Leone.
- The Group's first corporate acquisition was the acquisition of Pride Diamonds, LLC ("Pride Diamonds") in March 2007.
- In October 2007, Target raised US\$15.4 million net of costs in equity and long term debt, contracted new mining management and signed a 10 year, first refusal, marketing agreement with a subsidiary of Tiffany & Co for the sale of its diamond production.
- In January 2008, Target acquired two new exclusive prospecting licences. One is for gold and other minerals in the Tonkolili district covering 520 sq km and the other for diamonds and gold in Kenema district (known for its "fancy" diamonds), covering 253 sq km.
- In April and July 2008, Target raised a further US\$6 million in equity and short term debt to be used in its new prospecting licences and for working capital.
- In October to December 2008, as it started to produce substantial quantities of Diamonds, Target received a US\$2.5 million prepayment from Laurelton Diamonds, for Diamond output, to be used for working capital.
- Between October 2008 and February 2009, Target produced some 3,700 carats of high value diamonds. Unfortunately, as world prices for diamonds deteriorated, the company could not cover expenses and therefore mothballed diamond mining as of end March 2009.
- The company is currently exploring for alluvial gold in its licensed areas, for which it received, in February 2009, a US\$ 1million, 3 year loan from Tiffany & Co.

Chairman's Statement

I am pleased to announce the final audited results of Target Resources Plc ("Target" or "Company") for the year ended 31 October 2008. The financial information comprises the consolidated results of Target, its direct subsidiaries Pride Diamonds LLC and Milestone Trading Limited and Milestone's Sierra Leone subsidiaries.

The year under review was a difficult one for the Group. Much of it was spent bringing to site and setting up the new earthmoving and processing equipment, the final items (the dredge and scrubber) becoming fully operational in November 2008.

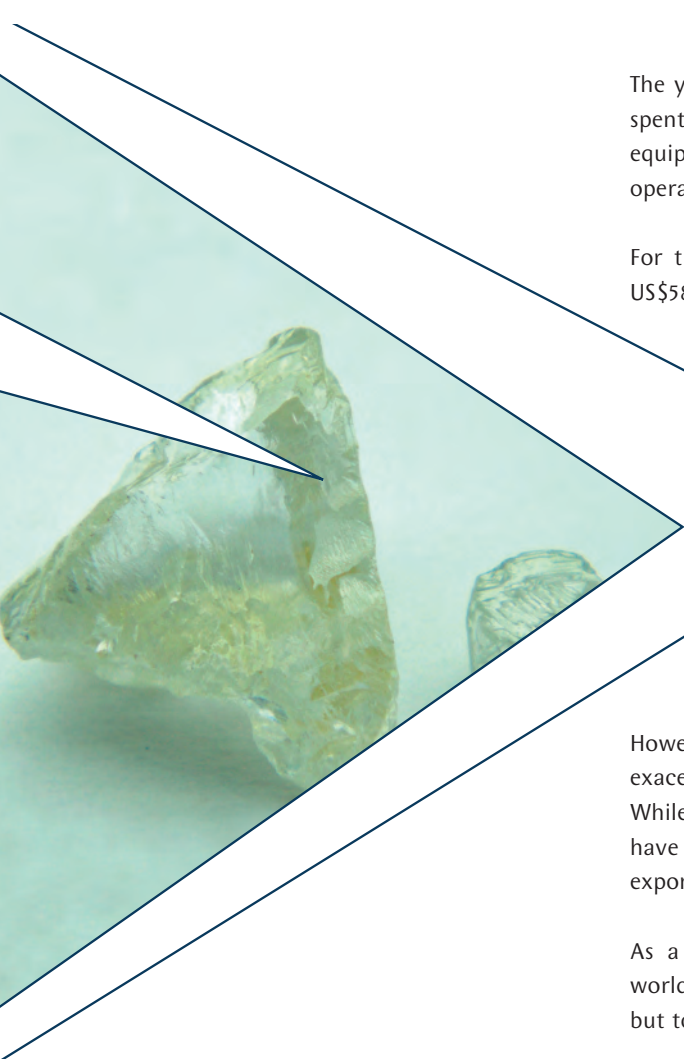
For the year ended 31 October 2008, the Group generated turnover of US\$582,574 (2007 – US\$819,265) which resulted in a loss before tax of US\$19,978,000 (2007 – US\$10,786,000). The loss per share is 16.5 cents (2007 – 12.00 cents). The Group had cash balances at the year end of US\$452,000 (2007 – US\$12,518,000).

From November 2008, we were able to ramp up production and substantially achieved our targets for earthmoving. In the 5 months following the financial year end date we recovered about 3,700 carats of high quality stones. Average stone size was nearly one carat, with several over 10 carats and one of 33 carats.

However, the overall grade was lower than we had hoped for, and this was exacerbated by a severe fall in rough diamond prices during this period. While in mid-2008 stones of the quality we have been recovering would have brought average prices near US\$800 per carat, the last parcel we exported achieved under US\$400 per carat.

As a result, in common with many other diamond mining companies worldwide, we were unable to operate profitably and had no alternative but to suspend our diamond mining operations in Kono in March 2009.

At the date of this report we are prospecting a number of sites for alluvial gold, with the intention of starting a mechanical gold recovery operation in the event that sampling demonstrates real prospectivity. All the equipment necessary for such an operation is already in our possession.





We have reduced our operational budget to an absolute minimum and are exploring possible sources of income in Sierra Leone outside mining, to help the Group through the present difficult period. We believe that the Company's current cash resources are sufficient to cover its anticipated costs and liabilities until the end of June 2009, at which time certain periodic payments fall due, the most significant being an interest payment to its principal lender. In the absence of any significant increase in income, the Company will therefore need to secure further funding within this timeframe.

We are more than grateful for the financial support which we have received from the Tiffany & Co. Group during the year under review, and since.

In the medium term, we believe that diamond fundamentals are sound, and that the recent curtailment of supply is likely to cause rough diamond prices to rise during 2010.

Freddy Hager
Chairman

28 April 2009

In the 5 months following the financial year end date we recovered about 3,700 carats of high quality stones

Diamond mining in Sierra Leone

Sierra Leone is a major producer of gem quality diamonds. It has been responsible for mining of some of world's most impressive diamonds, including the Star of Sierra Leone, a magnificent 969 carat diamond.



Target's licences are mainly located within the Kono district, which is recognised as the most prospective area for diamond mining in Sierra Leone.

Sierra Leone

Sierra Leone was a founder member in the Kimberley Process Certification Scheme (KPCS) which was established to discourage the marketing of blood diamonds. The scheme, which is being scrutinised and improved by the Government, ploughs back some of the revenues derived from diamond exports to the individuals and communities involved in the mining areas.

The KPCS scheme has continued to impact positively on the diamond mining sector in Sierra Leone.

Chiefdoms

In Sierra Leone each district contains a number of Chiefdoms. The Chiefs are the traditional rulers of Sierra Leone. Whilst mining licences are issued by the Ministry of Mineral Resources, mineral rights may not be exercised without the express permission of the landowner, typically the Chiefdoms. Target has forged strong alliances with the Chiefdoms upon which its Mining Leases lie, specifically the Sandoh, Nimikoro and Nimiya Chiefdoms. The Chiefdoms are partners in Target's operating subsidiaries.

The country has been peaceful for over 7 years and the democratically elected government under President Ernest Bai Koroma is anxious to encourage foreign investment to re-start the economy. The British Government has a long term commitment to the stability of the country. To this end the British Armed Forces continue to maintain a strong presence in the country training and working closely with the Sierra Leone Army.

Alluvial diamond mining

Current theory suggests that diamonds are formed under high pressure and high temperature conditions deep within the earth's crust. The diamonds are brought to the surface with other rock material in volcanic pipes which

The Kimberley Process Certification Scheme (KPCS) has continued to impact positively on the diamond mining sector in Sierra Leone.



solidify to form kimberlite or lamproite pipes. Alluvial diamond deposits are formed from the erosion, over millions of years, of the relatively soft primary diamond bearing kimberlite and lamproite source rocks.

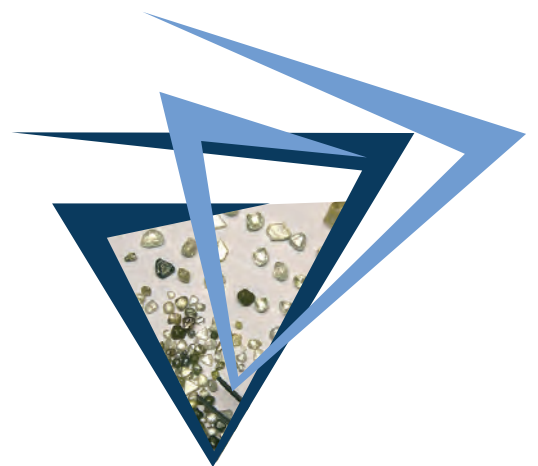
The eroded material is transported by river systems, with the diamonds being deposited in the gravel beds of the rivers or, ultimately, in the ocean. Due to their hardness, diamonds are relatively unaffected by the erosion process, and tend to accumulate and be naturally concentrated in favourable areas for their deposition, while the typically softer and lighter surrounding rock material is washed out to sea.

Sierra Leone's predominantly alluvial sourced diamond production contrasts with other major diamond producing countries (e.g. South Africa, Botswana, Russia and Australia) whose production is predominantly from kimberlite and lamproite pipes. Other countries that have significant alluvial diamond production include Namibia, Brazil, South Africa and Congo.

The directors believe that alluvial diamond projects have a number of important benefits, including

- alluvial diamond exploration can be conducted rapidly and at relatively low cost compared with kimberlite and lamproite exploration;
- alluvial diamond deposits typically have a higher proportion of gem quality diamonds than kimberlites (as the erosion and transportation process tends to destroy lower quality diamonds);
- development of reserves requires relatively low level of capital investment; and
- positive cash flow can often be achieved quickly from the commencement of production.

This area is known for coloured or so-called “fancy” diamonds, which gain high market value.



Corporate Social Responsibility

What is Corporate Social Responsibility?

It is broadly assumed that Corporate Social Responsibility (“CSR”) is beyond the scope of small mining companies. Target takes a different view.



Target aims to be a driver of local and national sustainable development and has policies for operating responsibly.

The Company operates in one of the poorest countries in the world, which only emerged from conflict 7 years ago, and regards its social and environmental responsibilities in that country as a necessary part of good business practice. For this reason, Target aims to be a driver of local and national sustainable development and has policies for operating responsibly.

Target’s Policies for Good Practice

Target’s policies broadly fit into 4 areas: labour rights, gender equality, environmental responsibility, and community development.

Labour rights: Target makes every effort to ensure that its workers are among the best-paid mineworkers in Sierra Leone, and currently they receive about twice the national average wage. Target employs and develops the skills of local people wherever possible, and operates according to South African standards of health and safety in its mines, which are superior to local regulations. Target also ensures that its workers are well looked after by endorsing the United Mineworkers Union of Sierra Leone, encouraging workers to join the Union, and routinely facilitating the dissemination of written materials to employees.

Gender equality: Target believes in equal opportunities and equal wages for women and implements this policy whenever possible, while remaining sensitive to respecting cultural norms.

Environmental responsibility: In Sierra Leone it is common practice among foreign companies to mine and leave. Target has a different policy. Mining pits are an environmental hazard and economically unproductive. Accidents and drowning happen frequently, and the water-filled pits provide breeding grounds for malaria and typhoid. Target backfills its pits and works with the local communities to reclaim the land for productive, agricultural uses.

Community development: Before Target begins mining, company representatives sit down with members of the local community and their leaders to discuss the terms of engagement. As a result, Target pays 11% of gross revenue to the local community in Sandoh Chiefdom and has built a school and a covered market, and rehabilitated roads. In addition, Target is committed to dedicating a proportion of its profits to long-term development projects, in partnership with NGOs and the local community.



Continual Improvement

Target Resources plc is expanding its operations, which means expanding social and environmental impacts. Target wants to be prepared for this so that it can plan for any eventuality, be it social, environmental, political, economic, or commercial. In 2007, Target conducted a baseline social and environmental survey in Sierra Leone in order to assess its impact to date and produce a CSR management plan. This plan outlined priorities for action in the areas of risk management, negative-impact prevention and mitigation, constructive community investment, and positive-impact optimization; indicators for ongoing assessment; and internal and external systems for ongoing monitoring, evaluation, and reporting, and thus improvement. Target has contracted Maplecroft Consultants, the sustainability consultants to help develop this plan. Target aims to be the model for responsible alluvial diamond mining.

Target has forged strong alliances with the Chiefdoms upon which its Mining Leases lie, specifically the Sandoh, Nimikoro and Nimiya Chiefdoms.

Good Business Sense

Target takes its CSR seriously not just because it is the right thing to do, but because it makes business sense. By ensuring that its operations meet the stringent requirements of any major investor's Performance Standards and the Equator Principles, by managing risk proactively, and by improving its social and environmental performance, Target makes itself more competitive in its bid for financing, acquiring productive concessions, and assuring buyers of the ethical status of its operations and, by association, its diamonds. Ultimately this should make Target more profitable, to the benefit of shareholders and stakeholders alike.

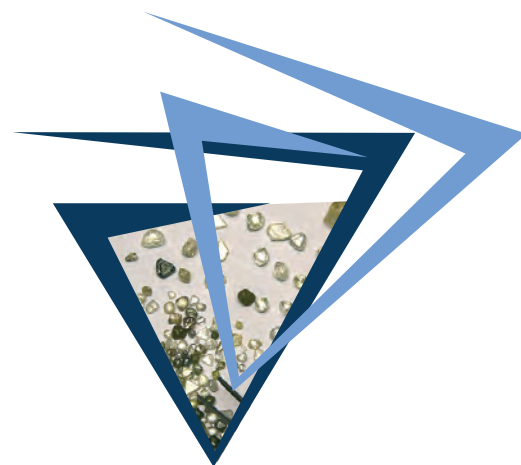
Corporate Social Responsibility (continued)

Target is committed to further enhancing the wellbeing of the region by agreeing and completing community-based projects.

Target is recognized as a fair and responsible employer in Sierra Leone. Since its inception, Target has also been a leader in changing the standard model for mining in Sierra Leone. The following environmental and working conditions are policies currently in force:

- Target pays an entry-level daily wage of US\$2.40 per day per worker.
- Target gives equal consideration to women for jobs and pays them salaries equal to those received by their male counterparts.
- Target is fully committed to exceeding its Government mandate concerning rehabilitating its open pits and seeks to minimize ecosystem damage in its river-dredging operation.
- Target is committed to further enhancing the wellbeing of the region by agreeing and completing community-based projects.
- The Group has formally completed the following community-based projects:
 - Built and handed over 3 primary school in the Kono district;
 - built a covered open market;
 - supplied several local villages with home and away sports uniforms; and
 - Target assists the St Georges Foundation Orphanage in Freetown with its annual budget of tuition fees, transportation, uniforms and school materials.
- A bridge over the Bagbe River is planned to help the Sandoh community.

Board of Directors and Company Secretary



Directors

MR. FREDDY HAGER (60),

Non-executive Chairman

Mr. Hager graduated from UCL in 1972 with a degree in Economics. He spent time in Israel learning the diamond business, working with a large diamond company which he represented in London until 1979. In 1974 he started trading independently as a diamond merchant in Hatton Garden, being elected in 1980 to the committee of the London Diamond Bourse. For many years Mr. Hager represented William Goldberg Diamond Corp. of New York, which handles “high end” diamonds including many individual major and historic stones. In 1991 he became President of the London Diamond Bourse and some 2 years later, oversaw its amalgamation with the London Diamond Club. He is on the executive committee of the World Federation of Diamond Bourses and also a founder and charter member of the World Diamond Council, which was established in 2000 to tackle the issue of conflict diamonds. Mr. Hager is an expert in fine diamonds, specialising in unusual fancy colours.

DR. NISSIM LEVY (61),

Managing Director

Dr. Levy obtained a PHD in Organic Chemistry in 1975 from the Israeli Institute of Technology (Technion). After a post-doctorate at Kansas University, he was a senior researcher in Life Sciences for N.A.S.A. in San Francisco until 1982. Thereafter he spent 22 years as a senior trader and (from 1985) managing director of various companies engaged in bulk commodity trading and industrial investment, with an emphasis on Central and Eastern Europe. He became Chief Executive Officer of Milestone in 2004.

MR. YAIR ZIV (52),

Finance Director

Mr. Ziv graduated from Tel Aviv University with a degree in Political Sciences in 1983, and after some further academic studies and a period in the Israeli Foreign Office became general manager of Meridian Commodities, a group trading in bulk grains and foodstuffs. As such he acquired expertise in international finance and banking, as well as company administration. In 1993, he became a director in a subsidiary of Topland Group plc, a major company in the UK commercial property market. Mr. Ziv has been Finance Director of Milestone since its incorporation.

Board of Directors and Company Secretary (continued)

MR. JOHN CARRICK SMITH (51),

Non-executive Director

Mr. Carrick Smith was appointed as a non-executive Director of Milestone on 8 August 2005. He is a former professional geologist and spent 20 years working in the City before founding Burvale Management Consultants in 2001, an investor relations company serving companies' pre and post public offering.

ANDREW GREENBLATT (41),

Non-executive Director

Mr. Greenblatt, a graduate of Harvard Law School, is co-founder and CEO of Pride Diamonds LLC, which was taken over by Target in March 2007. Andrew has been dedicating himself to socially responsible businesses in the past decade.

MR. PAUL N SAMSON (61), appointed 29 July 2008

Non-Executive Director

Mr Samson, a trained geologist, has over 35 years of experience in technical, commercial and managerial roles in the mining and petroleum industry. He joins the Target's board after 16 years at BHP Billiton where his last role before retiring in 2006 was of Vice President Business Development, Diamonds. He was instrumental in developing BHP Billiton's new ventures in Angola and Russia. Prior to this role he held senior level business development, exploration, marketing, planning and general management positions ranging from major international companies, consulting firms and national mining and oil companies in a variety of countries in Africa, Middle East, South and East Asia, FSU and Eastern Europe. He is currently a director of Solaris Energy PLC.

Company Secretary

MR. DAVID BRESSLOFF (56),

Mr. Bressloff has an MA in law from Gonville & Caius College, Cambridge. He qualified as a solicitor in 1978 and until 1987 practised as a commercial lawyer in Westminster and the City. Thereafter he joined Dr. Levy's team and has been working as an in-house legal adviser, specialising in contract drafting, trade finance and shipping matters.

Directors' Report

The directors present their annual report and audited financial statements of Target Resources plc ("the Company") and its subsidiaries (together "the Group") for the year ended 31 October 2008.

The Company was incorporated in England and Wales on 19 September 2005. On 7 November 2005 the Company was registered as a public company under the name Target Resources plc.

On 12 July 2006, the Company completed a public share placing and its shares were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange.

Changes in group structure and share capital

On 23 April 2008, an investment of US\$1 million by a Laurelton Diamonds affiliate resulted in the issuance of 3,350,084 new ordinary shares in Target at a price of 15p per share.

The following options were exercised during the year at a price of 1p:

By Peter O'Kane, a non-executive director:	654,320
By John Carrick-Smith, a non-executive director:	654,320
By the estate of a former adviser:	200,000

As a result of the above share issuances, and an exercise of 236,213 options subsequent to the year end, the outstanding share capital of the company as of the date of this report is 123,470,436 shares of 1p each.

On 12 July 2008, 15,895,262 outstanding warrants to subscribe at 62.5p each for one ordinary share of 1p in the Company lapsed and accordingly ceased to be exercisable or transferable.

On 29 July 2008, following his appointment as a non-executive director, Mr Paul N Samson was awarded 500,000 options to buy shares in Target at an exercise price of 21p per share, exercisable over 3 years.

On 29 July 2008, Andrew Greenblatt, a non-executive director, was awarded 500,000 options to buy shares in Target at an exercise price of 21p per share, exercisable over 3 years.

Events after the balance sheet date

Following receipt of a debt facility of US\$1.5million on 15 December 2008, and restructuring of existing debt, the Company granted 3,000,000 options to Laurelton Diamonds Inc, at an exercise price of 25p per share.

Following receipt of a further debt facility of US\$1million on 26 February 2009, the Company granted 3,000,000 options to Tiffany & Company, at an exercise price of 10p per share.

Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the subsidiary undertakings are as in the table below:

TARGET RESOURCES PLC

Milestone Trading Limited	<i>Intermediate holding company</i>
Haliburton Overseas Limited	<i>Asset holding</i>
Nimikoro Mining Company Limited	<i>Diamond mining</i>
Sandoh Development Corporation Limited	<i>Diamond mining</i>
Nimiyama Development Company Limited	<i>Diamond mining</i>
Pride Diamonds LLC	<i>Equipment operator</i>

DIRECTORS' REPORT (continued)

Results and dividends

The Group results for the year ended 31 October 2008 are shown on page 16. The Group's loss for the year was US\$19,978,323 (2007: US\$10,786,130). The directors do not recommend the payment of a dividend (2007 – Nil).

Review of business and future prospects

A review of the Group's operations during the year and of its future prospects is set out in the Chairman's Statement.

Performance

The Group's revenue from the mining of diamonds during the year was below expectations, as the period was a transition between fund raising and the commissioning of the new equipment bought following the fund raising. As a result, the Group's revenue, which was only US\$582,574 was very small in relation to its costs. It is therefore not very meaningful to consider a review of key performance indicators in respect of the year under review. Further details on the Group's performance and activities are in the Chairman's Statement.

Directors

The following directors held office during the year under review:

F S Hager

Dr N Levy

Y Ziv

J Carrick-Smith

A Greenblatt

P N Samson (appointed 29 July 2008)

P O'Kane (resigned 10 March 2009)

Position in the marketplace

The Group is well placed to compete with the relatively small number of other alluvial miners in Sierra Leone, having already proved it can efficiently mine large volumes and having the largest combined acreage of mining leases in Sierra Leone (4,263 acres) during the year under review.

The world market for rough diamonds remains depressed, following the global financial meltdown and the near collapse of the diamond market. The Company forecasts a return to diamond production during 2010, when the global economy revives the demand for valuable gem diamonds.

Principal risks and uncertainties facing the Group

Mineral exploration involves a high degree of risk, as the identification of potential mineral sources based on analysis of geological data is not an exact science.

Principal risks and uncertainties facing the Group include but are not limited to:

- no assurance that diamonds will be discovered;
- delays in expanding mining activities;
- market price of diamonds and foreign exchange rates which are affected by numerous factors beyond the Group's control;
- operations may be disrupted by a variety of risks and hazards which are beyond the control of the Group, including environmental hazards and inclement weather conditions;
- the political situation in Sierra Leone exposes the Group to political, economic and other uncertainties, including but not limited to terrorism, war, military repression, and changes in policies, regulations, taxation, or operations of foreign-based companies; and
- future exploration and development may be dependent upon the Group's ability to obtain suitable financing at reasonable terms.

Financial risk management

Target's financial risk management objectives are to minimise debt and to ensure sufficient working capital for the Group's overheads and capital expenditure commitments. This is achieved by prudent financial management and careful management of the Group's cash balances, both short and long term. Other than this, Target's use of financial instruments is not material for the assessment of the assets, liabilities, financial position and results of the Group.

Creditor payment policy

It is the Group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 31 October 2008, the Group had an average of 31 days (2007 – 31 days) purchases outstanding in trade creditors.

Political and charitable contributions

There were no political contributions made by the Group during the year. Charitable works to assist communities in Sierra Leone were carried out as discussed in "Corporate Social Responsibility" above.

Information to shareholders (website)

The Company has its own website (www.target-resources.co.uk) for the purpose of improving information flow to shareholders as well as potential investors.

Going concern

The details for adopting the going concern basis are set out in the note 2.1 to the financial statements under going concern.

Substantial shareholders

The Company had been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the following holdings of more than 3% in its issued shares as at 15 April 2009.

	Number of Ordinary Shares	% Holding
Dr Nissim Levy	13,698,233	11.09%
JP Morgan Asset Management (UK) Ltd	11,775,000	9.54%
Mr Menasseh Moualem	10,244,925	8.30%
International Investments House	9,523,809	7.71%
Greensea Nominees Ltd	7,200,000	5.83%
Mr Yair Ziv	6,205,000	5.03%
Blackrock Group	6,000,227	4.86%
Mr Moshe Levy	5,668,704	4.59%
RAB Special Situations (Master) Fund Ltd	4,400,000	3.56%
Mr Chaim Fried	4,392,000	3.56%
Milestone Holdings Nominees Ltd	4,200,000	3.40%

Statement of responsibilities of those charged with governance

Company law requires the directors to prepare financial statements for each financial period in accordance with applicable laws and International Financial reporting Standards adopted by the European Union and which give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standard ("IFRS") is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The directors confirm that the financial statements comply with the above requirements.

Directors' Report (continued)

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

Corporate governance

The directors acknowledge the importance of the Combined Code and intend to apply its principles so far as is practicable and appropriate to a company of the size and nature of Target.

The Group also intends to comply with the principles of the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance 2005.

The Company has appointed Mr. Hager as its non-executive Chairman and Mr. Carrick Smith, Mr Greenblatt and Mr Samson as non-executive directors. The Board has established audit and remuneration committees. Mr Carrick Smith chairs the audit committee and Mr. Hager chairs the remuneration committee.

The audit committee receives and reviews reports from management and the Group's external auditors, relating to the annual and interim accounts and the accounting and internal control systems of the Group. The audit committee has unrestricted access to the Group's external auditors.

The remuneration committee sets and reviews the scale and structure of the executive directors' and the senior management's remuneration and the terms of their service contracts with due regard to the interests of the shareholders. The remuneration as well as the terms and conditions of appointment of the non-executive directors is set by the remuneration committee. The remuneration committee makes recommendations to the directors concerning the allocation of share options to employees. No director or member of the senior management is permitted to participate in discussions or decisions concerning his own remuneration.

Target has adopted a model code for dealing with ordinary shares and warrants by directors and employees which is appropriate for an AIM quoted company.

Internal controls

The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate systems of internal controls to manage these risks. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. While they are aware that no system can provide absolute assurance against material misstatement or loss, in light of the increased activity and further development of the Group, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Statement of disclosure to auditors

So far as the Board of directors is aware:

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

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young LLP be re-appointed as auditors of the Company will be put to the Annual General Meeting.

By order of the Board

D I Bressloff

Secretary

28 April 2009

INDEPENDENT AUDITORS' REPORT

To the shareholders of Target Resources Plc

We have audited the Group and Company financial statements of Target Resources plc for the year ended 31 October 2008, which comprise the Consolidated income statement, the Consolidated and Company statements of changes in equity, the Consolidated and Company balance sheets, the Consolidated and Company cash flow statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditors

The directors' responsibilities for preparing the Annual Report and financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of responsibilities of those charged with governance in the directors' report.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read other information contained in the Annual Report, as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing

Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of Group's and the Company's affairs as at 31 October 2008 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2.1 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Group incurred a net loss attributable to equity holders of the Company of US\$19,943,375 during the year ended 31 October 2008 and, at that date, the Group's liabilities exceeded its total assets by US\$13,500,324. These conditions along with the other matters explained in note 2.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

UHY Hacker Young LLP

Chartered Accountants Registered Auditors

Quadrant House
17 Thomas More Street
Thomas More Square
London E1W 1YW

30 April 2009

Annual Financial Statements

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2008

		2008	2007
	Notes	US\$	US\$
Continuing operations			
Group turnover	6	582,574	819,265
Cost of sales:			
Depreciation & amortisation	12&13	(3,936,530)	(1,336,060)
Operating expenses		(5,443,558)	(3,856,067)
Total cost of sales		(9,380,088)	(5,192,127)
Gross loss		(8,797,514)	(4,372,862)
Administrative expenses		(5,417,476)	(4,253,285)
Impairments of intangible assets		(3,635,545)	–
Share based payments	21	(770,104)	(1,666,324)
Total other expenses		(9,823,125)	(5,919,609)
Group operating loss	7	(18,620,639)	(10,292,471)
Finance costs – net	8	(1,357,733)	(493,659)
Loss before tax		(19,978,372)	(10,786,130)
Taxation	10	49	–
Loss for the year		(19,978,323)	(10,786,130)
Attributable to:			
Equity holders of the Company		(19,943,375)	(10,779,790)
Minority interests		(34,948)	(6,340)
		(19,978,323)	(10,786,130)
Loss per share (cents)			
	4		
Basic		(16.56)	(12.00)
Diluted		(16.56)	(12.00)

CONSOLIDATED BALANCE SHEET

as at 31 October 2008

		2008	2007
	Notes	US\$	US\$
ASSETS			
Non-current assets			
Goodwill	11	–	2,070,703
Other intangible assets	12	–	1,321,073
Plant and equipment	13	5,839,438	1,809,960
		5,839,438	5,201,736
Current assets			
Trade and other receivables	16	204,790	311,683
Inventories		278,865	–
Cash and cash equivalents		452,783	12,518,296
		936,438	12,829,979
Total Assets		6,775,876	18,031,715
LIABILITIES			
Non-current liabilities			
Borrowings	19	5,660,000	5,000,000
Provision for liabilities and charges	17	1,966,960	2,243,145
Licence fees payable	12	189,458	339,943
		7,816,418	7,583,088
Current liabilities			
Trade and other payables	18	2,634,834	2,950,410
Borrowings	19	9,824,948	2,700,000
		12,459,782	5,650,410
Total Liabilities		20,276,200	13,233,498
Net (Liabilities)/Assets		(13,500,324)	4,798,217
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	20	2,305,251	2,210,394
Share premium		27,101,693	26,539,768
Other reserves		4,973,307	4,550,236
Retained losses		(47,586,560)	(28,243,114)
Minority interest		(294,015)	(259,067)
Total Equity		(13,500,324)	4,798,217

The financial statements were approved by the Board on 28 April 2009.

N Levy
Director

Y. Ziv
Director

Annual Financial Statements (continued)

COMPANY BALANCE SHEET

as at 31 October 2008

		2008	2007
	Notes	US\$	US\$
ASSETS			
Non-current assets			
Investments in subsidiaries	14	–	32,178,904
Current assets			
Trade and other receivables	16	–	23,201,962
Cash and cash equivalents		7,654	11,863,504
		7,654	35,065,466
Total Assets		7,654	67,244,370
LIABILITIES			
Non-current liabilities			
Provision for liabilities and charges	17	1,966,960	2,243,145
Borrowings	19	5,000,000	5,000,000
		6,966,960	7,243,145
Current liabilities			
Borrowings	19	3,500,000	–
Trade and other payables	18	135,696	66,624
		3,635,696	66,624
Total Liabilities		10,602,656	7,309,769
Net Assets		(10,595,002)	59,934,601
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	20	2,305,251	2,210,394
Share premium	20	27,101,693	26,539,768
Other reserves		36,166,958	35,743,887
Retained losses		(76,168,904)	(4,559,448)
Total Equity		(10,595,002)	59,934,601

The financial statements were approved by the Board on 28 April 2009

N Levy
Director

Y Ziv
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2008

	Share capital	Share premium	Other reserves	Retained losses	Minority interest	Total equity
	US\$	US\$	US\$	US\$	US\$	US\$
Year ended 31 October 2007						
At 1 November 2006	1,568,942	16,540,128	1,873,378	(18,091,608)	(252,728)	1,638,113
Issue of share capital	641,452	10,798,670	1,638,818	–	–	13,078,940
Share issue costs	–	(799,030)	–	–	–	(799,030)
Share based payments	–	–	1,666,324	–	–	1,666,324
Transfer on exercise of share options	–	–	(628,284)	628,284	–	–
Loss for 2007	–	–	–	(10,779,790)	(6,339)	(10,786,130)
Balance at 31 October 2007	2,210,394	26,539,768	4,550,236	(28,243,114)	(259,067)	4,798,217
Year ended 31 October 2008						
At 1 November 2007	2,210,394	26,539,768	4,550,236	(28,243,114)	(259,067)	4,798,217
Issue of share capital	94,857	931,786	–	–	–	1,026,643
Share issue costs	–	(369,861)	–	–	–	(369,861)
Share based payments	–	–	1,023,000	–	–	1,023,000
Transfer on exercise of share options	–	–	(599,929)	599,929	–	–
Loss for 2008	–	–	–	(19,943,375)	(34,948)	(19,978,323)
Balance at 31 October 2008	2,305,251	27,101,693	4,973,307	(47,586,560)	(294,015)	(13,500,324)

The Group's other reserves comprise the following:

	2008	2007
	US\$	US\$
Merger reserve	400,843	400,843
Share-based payments reserve	4,779,691	4,356,396
Currency translation reserve	(207,227)	(207,003)
	4,973,307	4,550,236

Annual Financial Statements (continued)

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2008

	Share capital	Share premium	Other reserves	Retained losses	Total equity
	US\$	US\$	US\$	US\$	US\$
Year ended 31 October 2007					
At 1 November 2006	1,568,942	16,540,128	33,067,029	(3,187,561)	47,988,538
Issue of share capital	641,452	10,798,670	1,638,818	–	13,078,940
Share issue costs	–	(799,030)	–	–	(799,030)
Share based payments	–	–	1,666,324	–	1,666,324
Transfer on exercise of share options	–	–	(628,284)	628,284	–
Loss for 2007	–	–	–	(2,000,171)	(2,000,171)
Balance at 31 October 2007	2,210,394	26,539,768	35,743,887	(4,559,448)	59,934,601
Year ended 31 October 2008					
At 1 November 2007	2,210,394	26,539,768	35,743,887	(4,559,448)	59,934,601
Issue of share capital	94,857	931,786	–	–	1,026,643
Share issue costs	–	(369,861)	–	–	(369,861)
Share-based payments	–	–	1,023,000	–	1,023,000
Transfer on exercise of share options	–	–	(599,929)	599,929	–
Loss for 2008	–	–	–	(72,209,385)	(72,209,385)
Balance at 31 October 2008	2,305,251	27,101,693	36,166,958	(76,168,904)	(10,595,002)

The Group's other reserves comprise the following:

	2008	2007
	US\$	US\$
Merger reserve	31,387,267	31,387,267
Share-based payments reserve	4,779,691	4,356,620
	36,166,958	35,743,887

The merger reserve arose from the availability of merger relief and consists of the premium on the issue of shares as consideration for the acquisition of the Milestone Group in 2006 (US\$29,748,449) and Pride Diamonds LLC in 2007 (US\$1,638,818).

The share-based payments reserve comprises the fair value of share-based payments based on IFRS 2 (see note 21).

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2008

		2008	2007
	Notes	US\$	US\$
Cash used in operations	22	(11,192,573)	(6,704,945)
Interest paid		(248,726)	(392,560)
Net cash used in operating activities		(11,441,299)	(7,097,505)
Investing activities			
Purchase of plant and equipment		(7,966,008)	(28,783)
Purchase of intangible assets		(243,767)	(131,943)
Costs of acquisition of subsidiary	11	–	(63,536)
Cash acquired with subsidiary	11	–	1,054,566
Interest received		111,692	–
Net cash used in investing activities		(8,098,083)	830,304
Financing activities			
Proceeds from issue of shares		1,026,643	11,478,940
Share issue costs		(369,861)	(799,030)
Loans obtained		7,210,000	5,700,000
Net cash from financing activities		7,866,782	16,379,910
(Decrease)/increase in cash and cash equivalents		(11,672,600)	10,112,709
Cash and cash equivalents at beginning of the year		12,518,296	1,998,946
Exchange rate effects		(392,913)	406,641
Cash and cash equivalents at the end of the year		452,783	12,518,296

Annual Financial Statements (continued)

COMPANY CASH FLOW STATEMENT

for the year ended 31 October 2008

	2008	2007
	US\$	US\$
Cash used in operations	(696,323)	(325,968)
Investing activities		
Loans to subsidiaries	(15,316,309)	(5,308,982)
Costs of acquisition of subsidiary	–	(63,536)
Net cash used in investing activities	(15,316,309)	(5,372,518)
Financing activities		
Proceeds from issue of shares	1,026,643	11,478,940
Share issue costs	(369,861)	(799,030)
Loan obtained	3,500,000	5,000,000
Net cash from financing activities	4,156,782	15,679,910
(Decrease)/increase in cash and cash equivalents	(11,855,850)	9,981,424
Cash and cash equivalents at beginning of the year	11,863,504	1,882,080
Cash and cash equivalents at the end of the year	7,654	11,863,504

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2008

1 GENERAL INFORMATION

Target Resources plc (“the Company”) and its subsidiaries (together “the Group”) undertakes the exploration and mining of diamonds and gold. The Group undertakes its activities in Sierra Leone.

The Company is a public liability company incorporated and domiciled in the United Kingdom.

These consolidated financial statements were approved for issue by the Board of Directors on 28 April 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods for which the financial statements have been presented.

2.1 BASIS OF PREPARATION

International Financial Reporting Standards

The Group’s and Parent Company’s financial statements have been prepared using the historical cost convention and in accordance with the International Financial Reporting Standards (“IFRS”) including IFRS 6, Exploration for and Evaluation of Mineral Resources, as adopted by the European Union (“EU”) and in accordance with the provisions of the Companies Act 1985.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

New IFRS standards and interpretations not applied

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

Effective from:

IFRS 8	Operating Segments	1 January 2009
IAS 23	Borrowings Costs (Amendment)	1 January 2009
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRS 2	Share based payments (Amendment)	1 January 2009
IFRIC 16	Hedges of a net investment in foreign operations	1 October 2008

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 except for additional disclosures on Operating Segments when IFRS 8 comes into effect for its year commencing on 1 November 2009.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

2.1 BASIS OF PREPARATION (CONTINUED)

Going concern

During the year ended 31 October 2008, the Group made a loss of US\$19,978,323 and its liabilities exceeded its assets by US\$13,500,324 at that date. As explained in the Chairman's statement, the Group, in common with many other diamond companies worldwide, temporarily suspended its diamond mining operations due to the severe fall in rough diamond prices during the year and it is now considering starting a mechanical gold recovery operation. The Chairman's statement also states that the Group's current cash resources are only sufficient to cover its anticipated costs and liabilities until the end of June 2009, when certain periodic payments will fall due. These periodic payments are primarily interest on loans as set out in note 19 to these financial statements, London office rent and regulatory fees. The Company has not yet been able to make any refinancing arrangements with its lenders in order to meet these and other liabilities when they will fall due.

This situation indicates the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern and accordingly the directors have written off fully the Group's intangible assets including goodwill and also the Company's investments in its subsidiaries and the amounts receivable from the subsidiaries. No provision for impairment has however been made against the book values of plant and equipment as the directors believe that the market values of the plant and equipment are significantly higher than the book values. No adjustments have been made for any redundancy and closure costs, if the Group and Company were unable to continue as a going concern, however the amounts in respect of these costs are not considered to be material.

At the date of approving these financial statements, the Group's and Company's cash position is positive and it is trading as a going concern. The financial statements have, therefore, been prepared on a going concern basis.

2.2 BASIS OF CONSOLIDATION

a) Involving entities not under common control

The consolidated financial statements incorporate the financial statements of the Company and all those enterprises and companies that it controls by way of, directly or indirectly holding more than half of the votes of all shares, or in some other way has a controlling influence. Control is achieved where the Company has the power to direct the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

These entities' accounts have been consolidated by using the purchase method. This method requires the Group to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities of the subsidiary.

b) Involving entities under common control

The Company acquired the Milestone Trading Limited group in a prior year in exchange for its own shares; this, under IFRS 3, resulted in a business combination involving entities under common control, where no acquirer is identified.

When the Company acquires another company, by means of a share exchange, resulting in a business combination involving entities under common control and where no acquirer is identified, the difference between the purchase consideration and the carrying value of the net assets acquired is adjusted to equity and the comparative figures are stated on a combined basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

c) General

All the enterprises and companies over which the Company has control, apply, where appropriate, the same accounting policies as the Company. The effects of intra-group transactions are eliminated in preparing the Group financial statements.

2.3 GOODWILL

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets.

Goodwill arising on acquisitions is capitalised and subject to impairment testing, both annually and when there are indications that the carrying value may not be recoverable.

2.4 DEFERRED EXPLORATION COSTS

Exploration and evaluation costs following acquisition of licences are capitalised as exploration and evaluation assets and are accumulated separately for each "area of interest" (or "cost pool") on a project by project basis, as a cash generating unit, following determination of the technical feasibility and commercial viability of the project. The capitalised costs are included in intangible assets. The mining equipment used in connection with exploration is included in tangible assets. Pre-licencing costs are recognised in the income statement when incurred. If a mining development project is successful, the related costs, on commencement of commercial production, are amortised on a unit-of-production basis over the total estimated remaining life of the mine in the related "area of interest", using estimated economically recoverable proven and probable reserves. Costs used in the unit-of-production calculation comprise the net book value of capitalised costs plus the estimated future development costs for proved and probable reserves, where the estimated future costs can be reliably estimated. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off as impairment.

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

Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

2.5 MINING LICENCES

Costs of acquiring licences for the exploration of natural resources are capitalised as intangible assets and are accumulated separately for each "area of interest" on a project by project basis as a cash generating unit, pending determination of the technical feasibility and the commercial viability of the project. If a mining development project is successful, the related costs are amortised or impaired on the same basis as Deferred exploration costs (2.4 above).

Amounts recorded for these assets represent costs and are not intended to reflect present or future values.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

2.6 REHABILITATION COSTS

Sierra Leone local environmental legislation requires rehabilitation of land disturbed by mining.

The Group records, in the financial period when the related environmental disturbance occurs, the fair value of obligations associated with rehabilitation work planned for backfilling and surface profiling of the proportion of the land which is disturbed by mining, in the "area of interest" in which the mining commenced. These costs are capitalised as intangible assets and the related provisions are included in liabilities.

The costs are amortised or written off over the estimated life of the commercial reserves held in the proportion of the land in the "area of interest" commenced for mining, on a unit-of-production basis. As the timing difference between the commencement and completion of mining in a proportion of land in an "area of interest" is generally short, the provision for these costs is not discounted.

2.7 INVENTORIES

Inventories, consisting of uncut diamonds, are valued at estimated market values prevailing at the year end, reduced by the application of anticipated margins. The use of this method results in a carrying value of inventory which approximates to the lower of cost and net realisable value.

2.8 FOREIGN CURRENCIES

a) Functional and presentational 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"). With effect from 1 November 2007, the Directors consider the US Dollar to be the Company's and Group's functional currency. Comparative figures have been restated into US Dollars from Pounds Sterling. The effective exchange rate at 31 October 2008 was £1:US\$1.64. The consolidated financial statements are presented in US dollars, which is the Company's functional and presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non monetary items including those arising on consolidation of the net investments in subsidiaries, are taken directly to reserves.

c) Group companies

The results and financial position of all of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- ii) income and expenses for each income statement are translated at average rate; and
- iii) all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

2.9 PLANT AND EQUIPMENT

Plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on these assets is calculated using the straight-line method to allocate the cost less residual values over their estimated useful lives as follows:

Plant and equipment	33%
Cabin and associated set up costs	20%
Fixtures and fittings	20%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at the balance sheet date.

2.10 IMPAIRMENT OF ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.11 DEFERRED TAX

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents include bank overdrafts.

2.13 TRADE RECEIVABLES

Trade receivables are carried at their invoiced value, less any provision for impairment.

2.14 TRADE PAYABLES

Trade payables are recognised initially at fair values and subsequently at amortised cost using the effective interest method.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

2.15 PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

2.16 EQUITY INSTRUMENTS

Equity instruments are recorded at the proceeds received, net of direct issue costs.

2.17 REVENUE RECOGNITION

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Sales of goods are recognised when the goods are delivered and title has passed.

2.18 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument. For this purpose:

- Short term trade and other receivables and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and
- The Group does not hold or issue derivative financial instruments for speculative or trading purposes.

2.19 BORROWING COSTS

All borrowing costs are recognised in the income statement for the period in which they are incurred.

2.20 SHARE BASED PAYMENTS

The Company makes share based payments to certain employees, directors and advisers by way of issues of share options for services rendered. The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of the number of shares that will eventually vest.

2.21 PARENT COMPANY INVESTMENTS IN SUBSIDIARIES

The Parent Company's investments in subsidiary and associated undertakings are included in the Company balance sheet at cost less any provisions for impairments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

3. CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Estimated impairment of intangible assets

The Group tests annually whether its intangible assets, including goodwill, have suffered any impairment in accordance with the accounting policies stated above. The recoverable amounts are derived from future expected revenues based on independent valuation of the mining leases, discounted as appropriate.

(b) Income taxes

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the world wide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. LOSS PER SHARE

The basic loss per ordinary share has been calculated using the loss for the financial year attributable to the Company's equity shareholders of US\$19,943,375 (2007: US\$10,779,790) and the weighted average number of ordinary shares in issue of 120,404,299 (2007: 89,864,590).

The diluted loss per share has been calculated using a weighted average number of shares in issue and to be issued of 121,889,944 (2007: 92,610,619). The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basic loss per share, thus being anti-dilutive.

5. PARENT COMPANY INCOME STATEMENT

In accordance with the provisions of Section 230 of the Companies Act 1985 the Parent Company has not presented an income statement. A loss for the year ended 31 October 2008 of US\$72,209,385 (2007: US\$2,000,171) has been included in the consolidated income statement. This loss arose primarily as a result of impairment charges against the Company's investments in its subsidiaries and its loans due from subsidiaries.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

6. SEGMENT INFORMATION

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

6.1 PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

During the year the Group was organised into one business segment as follows:

Exploration and mining of alluvial diamonds and selling them in the related world markets.

6.2 SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

The segmental information on sales, total assets, total liabilities and capital expenditure is set out below:

	2008	2007
	US\$	US\$
Sales		
Europe excluding UK	582,574	819,265
	582,574	819,265

Sales are allocated based on the country in which the customer is located.

	2008	2007
	US\$	US\$
Total assets		
UK	601,160	12,283,083
Sierra Leone	6,174,716	5,748,632
	6,174,716	18,031,715

Total assets consist of plant and equipment, inventories, receivables and cash. Total assets are allocated based on where the assets are located.

	2008	2007
	US\$	US\$
Capital expenditure		
UK	–	–
Sierra Leone	8,209,775	788,367
	8,209,775	788,367

Capital expenditure comprises additions to plant and equipment and intangible assets. Capital expenditure is allocated based on where the assets are located. Depreciation and amortisation totalling US\$3,936,530 in 2008 (2007: US\$1,336,060) arose entirely in Sierra Leone.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

7. GROUP OPERATING LOSS

		2008	2007
	Notes	US\$	US\$
The Group's operating loss is stated after charging:			
Depreciation and amortisation charges	12 & 13	3,936,530	1,336,060
Employee benefit expenses excluding share based payments		3,486,622	3,135,377
Transportation and fuel charges		1,272,646	1,170,181
Rent and rates – London office		892,069	866,495
Audit fees		163,367	145,810
Other expenses		5,037,330	2,791,489
Total cost of sales and administrative expenses		14,788,564	9,445,412

Fees payable to the Company's auditors consist of fees of US\$80,000 (2007 – US\$100,000) and non-audit fees of US\$40,000 (2007 – US\$43,000) for the review of the half-yearly accounts (US\$30,000) and for tax compliance services (US\$10,000).

8. FINANCE COSTS

	2008	2007
	US\$	US\$
Interest expense:		
- other loans	1,153,332	381,072
- bank overdraft	49,970	30,194
- foreign exchange	266,123	82,393
Less: Interest receivable and exchange gains	(111,692)	–
	1,357,733	493,659

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

9. EMPLOYEE INFORMATION

	2008	2007
	Number	Number
Number of employees		
The average monthly numbers of employees (including the directors) during the year were:		
Employed in UK		
– Administration	6	8
– Operation	–	–
Employed in Sierra Leone		
– Administration	3	1
– Operation	270	174
	279	183
	2008	2007
	US\$	US\$
Employment costs		
Wages and salaries	2,912,903	2,706,458
Social security costs	276,183	261,609
Staff welfare	191,527	105,809
Share based payments	1,023,000	1,189,983
Staff accommodation costs	81,448	55,472
Staff medical costs	24,561	6,029
	4,509,622	4,325,360

9.1 DIRECTORS' EMOLUMENTS

	2008	2007
	US\$	US\$
Remuneration and other emoluments	837,715	1,296,408

The remuneration of directors was as follows:

	Fees/salaries	Benefits in kind	2008 Total	2007 Total
	US\$	US\$	US\$	US\$
F Hager	70,137	–	70,137	73,216
N Levy	320,612	–	320,612	562,672
Y Ziv	277,830	–	277,830	507,988
J Carrick Smith	48,717	–	48,717	50,844
A Greenblatt	49,250	–	49,250	50,844
P O'Kane	48,717	–	48,717	50,844
P Samson	11,226	–	11,226	–
	826,489	–	826,489	1,296,408

In addition to the above remuneration the Group's IFRS 2 share based payments charge includes US\$761,782 relating to Directors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

10. TAXATION

	2008	2007
	US\$	US\$
Current year		
UK Corporation tax	–	–
Double tax relief	–	–
Overseas tax	49	–
Prior years		
UK Corporation Tax	–	–
	49	–

UK corporation tax is calculated at 29% of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group's tax charge/(credit) can be reconciled to the income statements as follows:

	2008	2007
	US\$	US\$
Loss before tax	(19,978,372)	(10,786,130)
Tax at the weighted average tax rate	(5,793,728)	(3,235,839)
Tax effects of deferred tax assets not recognised	4,479,479	2,738,323
Tax effects of expenditure not deductible in determining taxable profit	1,314,220	497,516
Overseas withholding taxes not recoverable	49	–
	49	–

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. The carrying value of deferred tax assets recognized as at 31 October 2008 is US\$Nil (2007: US\$Nil) and the unrecognized tax losses as at 31 October 2008 is in excess of US\$30 million (2007: US\$19 million).

The weighted average applicable tax rate was 30% (2007 – 30%).

11. GOODWILL

The Group's goodwill of US\$2,070,703 arose from the acquisition of 100% of the issued share capital of Pride Diamonds LLC ("Pride") in March 2007. Pride is incorporated in Delaware, USA, operates in Sierra Leone and owns specialised river dredging equipment. The acquisition of Pride was accounted for using the purchase method ("acquisition method").

The initial consideration for the acquisition of Pride was US\$1,600,000, satisfied by the issue of 2,349,570 new ordinary shares of 1p each in Target at 34.8p per share. A deferred consideration is payable in cash to the vendors of Pride based on 3 per cent of the Group's future diamond sales, capped at US\$1,900,000.

As discussed in note 2.1 above, the Group's mining operations have been halted for the time being. The Directors have therefore carried out an impairment of the goodwill amount with the resulting charge of US\$2,070,703 being written off to the consolidated income statement.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

12. OTHER INTANGIBLE ASSETS

Group	Deferred exploration	Mining licences	Rehabilitation costs	Total
	US\$	US\$	US\$	US\$
Cost				
At 1 November 2006	266,442	965,620	389,750	1,621,812
Additions in 2007	131,943	–	–	131,943
At 1 November 2007	398,385	965,620	389,750	1,753,755
Additions in 2008	–	243,767	–	243,767
At 31 October 2008	398,385	1,209,387	389,750	1,997,522
Amortisation and impairment				
At 1 November 2006	34,550	8,382	57,580	100,512
Charge for 2007	–	–	332,170	332,170
At 1 November 2007	34,550	8,382	389,750	432,682
Amortisation charge for 2008	–	–	–	–
Impairment in 2008	363,835	1,201,005	–	1,564,840
At 31 October 2008	398,385	1,209,387	389,750	1,997,522
Net book values				
At 31 October 2008	–	–	–	–
At 31 October 2007	363,835	957,238	–	1,321,073

The costs for mining licences includes a sum of US\$750,000 for the acquisition of mining licences during 2006, payable over a period of five years. Of this amount US\$450,000 has been paid to date by 31 October 2008, US\$111,000 is included in other payables, payable in the next financial year and US\$189,000 is payable after more than one year.

There have been no amortisation charges on deferred exploration and mining licences this year as the accumulated amortisation brought forward exceeded the total amortisation as at 31 October 2008 in respect of these assets based on the Group's accounting policy.

As discussed in note 2.1 above, the Group's mining operations have been halted. The Directors have therefore carried out an impairment of the intangible assets with the resulting charge of US\$1,564,840 being written off to the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

13. PLANT AND EQUIPMENT

Group	Mining equipment plant and machinery	Cabin and associated setup costs	Motor vehicles	Fixtures and fittings	Total
	US\$	US\$	US\$	US\$	US\$
Cost					
At 1 November 2006	2,265,080	121,564	113,469	87,015	2,587,128
Additions in 2007	483,080	6,177	42,137	97,282	628,674
At 1 November 2007	2,748,160	127,741	155,606	184,297	3,215,802
Additions in 2008	7,660,351	151,010	154,646	–	7,966,008
At 31 October 2008	10,408,511	278,751	310,252	184,297	11,181,810
Depreciation and impairment					
At November 2006	367,309	20,435	10,178	4,028	401,950
Charge for 2007	908,357	24,540	30,792	40,202	1,003,890
At 1 November 2007	1,275,665	44,975	40,970	44,230	1,405,840
Charge for 2008	3,747,446	53,280	67,482	68,322	3,936,530
At 31 October 2008	5,023,111	98,255	108,452	112,552	5,342,370
Net book values					
At 31 October 2008	5,385,400	180,496	201,800	71,745	5,839,438
At 31 October 2007	1,472,491	82,766	114,636	140,067	1,809,960

The above assets are held in Sierra Leone.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

14. INVESTMENTS IN SUBSIDIARIES

Company	Investment in subsidiary undertakings
	US\$
Cost	
At 1 November 2007	32,178,904
Additions	–
At 31 October 2008	32,178,904
Impairment	
At 1 November 2007	–
Provision for impairment	32,178,904
At 31 October 2008	32,178,904
Net book value	
At 31 October 2008	–
At 31 October 2007	32,178,904

At 31 October 2008 the Company held 20% or more of the nominal value of the share capital of the following companies:

Subsidiary undertakings	Nature of business	Country of incorporation	Share capital held	Share of votes
Direct Subsidiaries				
Milestone Trading Limited	Holding company	England	100%	100%
Pride Diamonds LLC	Hire of plant	USA	100%	100%
Indirect Subsidiaries				
Haliburton Overseas Limited	Hire of plant	Sierra Leone	100%	100%
Sandoh Development Corporation Ltd ⁽¹⁾	Mining	Sierra Leone	70%	70%
Nimikoro Mining Company Ltd.	Mining	Sierra Leone	70%	70%
Nimiyama Development Company Ltd	Mining	Sierra Leone	70%	70%
Milestone Group (SL) Ltd	Dormant	Sierra Leone	100%	100%
Pride Diamonds (SL) Ltd	Dormant	Sierra Leone	75%	75%

⁽¹⁾ On 18 February 2006, the agreement with the Sandoh Chiefdom was amended in respect of its interest in Sandoh. By way of this amendment it was agreed that from 18 February 2006 the Chiefdom would receive 11% of the official export value of all Sandoh diamonds after deduction of export tax. Also it was agreed that the Chiefdom of Sandoh would not have a 30% share in dividends payable by Sandoh and that it would not share in the loss of Sandoh from its date of incorporation to 17 February 2006 or the net liabilities of Sandoh as at that date. Accordingly, in substance Sandoh has been treated as a wholly owned subsidiary of the Company from inception for accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

15. INVENTORIES

As at 31 October 2008, the Group had US\$278,865 of uncut diamonds in stock that were sold in November 2008.

16. TRADE AND OTHER RECEIVABLES

	Group 2008	Company 2008	Group 2007	Company 2007
	US\$	US\$	US\$	US\$
Receivables from subsidiaries	–	–	–	23,139,859
VAT refundable	15,751	–	97,968	62,103
Prepayments	128,397	–	72,887	–
Other receivables	60,642	–	140,828	–
	204,790	–	311,683	23,201,962

The directors consider that the carrying amount of trade and other receivables approximates their fair values. The Company's receivables from subsidiaries of US\$38,456,168 at 31 October 2008 has been fully impaired.

17. PROVISION FOR LIABILITIES AND CHARGES

	Group 2008	Company 2008	Group 2007	Company 2007
	US\$	US\$	US\$	US\$
Provisions for:				
Deferred consideration	1,879,000	1,879,000	1,960,249	1,960,249
Employer's national insurance	87,960	87,960	252,896	252,896
	1,966,960	1,966,960	2,243,145	2,243,145

The provision for deferred consideration arose on the acquisition of Pride Diamonds LLC in March 2007, less payments made to date. The deferred consideration is payable in cash to the vendors of Pride based on 3 per cent of the Group's future diamond sales, capped at US\$1,900,000.

The employer's national insurance provision has been calculated using the difference between the market value of the underlying shares at the balance sheet date and the exercise price of the options.

18. TRADE AND OTHER PAYABLES

	Group 2008	Company 2008	Group 2007	Company 2007
	US\$	US\$	US\$	US\$
Social security and other taxes	167,314	–	519,274	–
Accruals and deferred income	733,322	135,696	332,000	66,624
Corporate tax payable	149,611	–	149,611	–
Other payables	1,584,287	–	1,949,525	–
	2,634,834	135,696	2,950,410	66,624

Other payables include a sum of US\$111,000 (2007: US\$150,000) in respect of licence fees payable in the next financial year.

The directors consider that the carrying amount of payables approximates their fair values.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

19. BORROWINGS

	Group 2008	Company 2008	Group 2007	Company 2007
	US\$	US\$	US\$	US\$
Non-current				
Loans (note a)	5,660,000	5,000,000	5,000,000	5,000,000
Current				
Other loans (note b)	9,824,948	3,500,000	2,700,000	—
Total borrowings	15,484,948	8,500,000	7,700,000	5,000,000

a) This comprises of 2 loans:

1. US\$5,000,000 loan received from Laurelton Diamonds Inc (“Laurelton”) in October 2007. The loan is repayable in a single instalment five years after drawdown, and contains representations, warranties and events of default which are usual for a facility of this type. The loan is unsecured and incurs interest at 1% above LIBOR. Laurelton has agreed a ten year exclusive marketing agreement for the Company’s diamonds output.
2. US\$660,000 prepayment for diamonds output received in October 2008, as part of a US\$2,500,000 total prepayment amount (the balance of which was drawn during November & December 2008). The loan is repayable in a single instalment by 31 December 2010, is unsecured and incurs interest at 4% above LIBOR.

b) This comprises of 4 loans:

1. US\$2,700,000 is subject to a fixed interest rate of 12.5%, repayable on demand and is unsecured.
2. US\$1,800,000 is subject to a fixed interest rate of 10%, repayable on demand and is unsecured.
3. US\$3,500,000 is a temporary facility given in April 2008 (US\$2,000,000) and July 2008 (US\$1,500,000) for a 6 months period. The loan is unsecured and incurs interest at 4% above LIBOR. The facility given in April 2008 (US\$2,000,000) was repaid in November–December 2008.
4. US\$1,250,000 is a loan received in July 2008 from the Managing Director Dr N Levy and is identical in terms to the loan for US\$3,500,000 from Laurelton with the added condition that it will not be repaid before the Laurelton’s US\$3,500,000 loan is fully repaid.

20. SHARE CAPITAL, WARRANTS AND OPTIONS

	2008	2007
Authorised		
1,000,000,000 ordinary shares of 1p each	£10,000,000	£10,000,000
Allotted, called up and fully paid		
123,234,220 (2007: 118,375,496) ordinary shares of 1p each	£1,232,342	£1,183,755
	US\$2,305,251	US\$2,210,394

During the year, 1,508,640 share options were exercised at the price of 1p. The average weighted share price in June 2007 was 25.82p. In April 2008, 3,350,084 ordinary shares of 1p each were issued fully paid for cash at a price of 15p per share raising US\$1 million.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

20. SHARE CAPITAL, WARRANTS AND OPTIONS (CONTINUED)

The movements of the issued share capital of the Company for the year ended 31 October 2008 and the share premium account are as follows:

	Number of shares of 1p each	Share capital at nominal value US\$	Share premium US\$
At 1 November 2007	118,375,496	2,210,394	26,539,768
Issue of shares for acquisition of Pride	1,508,640	28,301	–
Issue of shares on the exercise of options	3,350,084	66,556	931,786
Share issue costs	–	–	(369,861)
At 31 October 2008	123,234,220	2,305,251	27,101,693

The details of share warrants and share options outstanding at 31 October 2008 are as follows:

	Number of warrants	Number of options
At 1 November 2007	15,895,262	11,904,163
Issued during the year	–	1,000,000
Lapsed during the year	(15,895,262)	–
Exercised during the year	–	(1,508,640)
Balance at 31 October 2008	–	11,395,523

In conjunction with the Company's admission to trading on AIM in July 2006, 15,895,262 warrants to subscribe for equal number of ordinary shares were issued. The warrants entitled holders to subscribe in cash for ordinary shares at an exercise price of 62.5p each on the terms and conditions of the warrant instruments. The warrants were exercisable at any time from admission of the warrants up to and including the second anniversary of admission of the warrants to AIM, or earlier in certain circumstances. The warrants lapsed on 12 July 2008.

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

20. SHARE CAPITAL, WARRANTS AND OPTIONS (CONTINUED)

Further details of the share options at 31 October 2008 are set out below:

Date of Grant	Exercisable from	Exercisable to	No of options	Exercise price
23-Nov-04	23-Nov-04	22-Nov-09	2,778	1p
20-Oct-05	12-Jul-06	11-Dec-07	350,000	50p
30-Nov-05	30-Nov-05	30-Nov-08	236,213	1p
12-Jul-06	12-Jul-06	11-Jul-09	513,273	50p
12-Jul-06	12-Jul-06	11-Jul-09	650,694	50p
12-Jul-06	12-Jul-06	11-Jul-09	1,368,728	1p
06-Jul-06 (note a)	06-Jul-09	06-Jul-16	4,106,181	50p
06-Jul-06 (note b)	06-Jul-09	06-Jul-16	1,026,545	50p
06-Jul-06	06-Jul-09	06-Jul-16	30,000	50p
21-Sep-06	21-Sep-06	21-Sep-16	500,000	50p
02-Aug-07	24-Oct-07	24-Oct-10	1,111,111	22.5p
21-Aug-07	21-Aug-08	21-Aug-11	500,000	22.5p
29-July-08	29-July-08	29-July-11	1,000,000	21p
			11,395,523	

- These are subject to the performance condition of the Group achieving production of 150,000 carats over three years following the grant of options.
- These are subject to the performance condition of the Group achieving a diamond sale price of a minimum US\$365/carats over three years following the grant of options.

The Company's share price ranged between 23p and 2.50p during the year. The closing share price as at 31 October 2008 was 2.50p per share.

During November 2008 and the date of this report 236,213 options were exercised at 1p each, 3,000,000 options were granted at an exercise price of 25p per share and 3,000,000 options were granted at 10p per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

21. SHARE BASED PAYMENTS

	2008	2007
	US\$	US\$
The Group recognised the following charge in the income statement in respect of its share based payment plans:		
IFRS 2	1,023,000	1,666,324
Employer's national insurance	(252,896)	–
	770,104	1,666,324

The above charges are based on the requirements of IFRS 2 on share based payments. For this purpose, the weighted average estimated fair value for the share options granted was calculated using a Black-Scholes option pricing model in respect of options. The volatility measured at the standard deviation of expected share price return is based on statistical analysis of the share price since the Company's admission to Alternative Investment Market ("AIM") and this has been calculated at 125%. The risk free rate has been taken at 5%. The estimated fair values and other details which have been processed into the model are as follows:

Number of options	Grant date	Option price	Fair value	Expected exercise date
5,162,726 ⁽¹⁾	6 July 2006	50p	31p	6 July 2016
500,000 ⁽¹⁾	21 September 2006	50p	31p	21 September 2016
1,000,000	29 July 2008	21p	4.4p	29 July 2011

⁽¹⁾ Except for these options which have a vesting period of three years, no other options have any vesting period. The credit charge for national insurance on share based payments has been calculated by reference to the difference between the market value of the underlying shares at the balance sheet date and the exercise price of options. The accumulated reserves under IFRS 2 as at 31 October 2008 was US\$4,779,467.

22. RECONCILIATION OF CASH GENERATED FROM OPERATIONS

	2008	2007
	US\$	US\$
Group		
Operating loss	(18,620,639)	(10,292,471)
Adjustments for:		
Depreciation and amortisation	3,936,530	1,337,453
Impairment charges	3,635,545	–
Share based payment charge	770,104	1,666,262
Changes in working capital	(10,278,460)	(7,288,756)
Increase in receivables	(171,972)	(256,466)
Decrease in payables	(742,141)	840,277
Net cash outflow generated from operations	(11,192,573)	(6,704,945)

Annual Financial Statements (continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 October 2008

23. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group has no credit risk in respect of its trade receivables as the diamonds produced by the mines are initially taken to Freetown for Kimberley Process formalities, where they are also provisionally valued, and then sent to Antwerp Diamond Exchange, where these are again valued for a second time and sold for cash proceeds.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Interest and maturity profile of the Group's financial liabilities are shown in note 19 to the financial statements.

24. CONTROL

The Group is not under the control of any one party.

25. RELATED PARTY TRANSACTIONS

During the year ended 31 October 2008 the following transactions were entered into with related parties:

Rent and expenses of London office paid to First Leader (UK) Ltd (a company connected with a director) – US\$342,113 (2007 – US\$304,108)

In addition, as set out in note 19(b), a director lent the Group US\$1,250,000.

26. EVENTS AFTER THE BALANCE SHEET DATE

On 15 December 2008, Laurelton Diamonds Inc, (“Laurelton”) provided an additional debt facility of US\$1.5 million for the use of repaying capital and interest on part of the US\$3,500,000 then existing short term facilities with Laurelton announced in April and July 2008, and for ongoing working capital purposes. The additional debt facility is repayable after one year. On the same date, the remaining US\$1,500,000 plus interest owed to Laurelton from the existing short term facilities was extended and is now repayable in equal instalments in August, September and October 2009. The company then granted 3 million share options to Laurelton at an exercise price of 25p per share.

On 26 February 2009, the Company raised US\$1 million from Tiffany & Company, in the form of a 3 year loan bearing interest at 10% per annum, to be used for gold exploration and working capital. The Company then granted 3 million share options to Tiffany & Company at an exercise price of 10p per share.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Target Resources PLC (the “Company”) will be held at the offices of Arbuthnot Securities Limited, Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on 9 June 2009 at 11am for the following purposes:

1. To receive the accounts and the reports of the directors and the auditors for the financial year ended 31 October 2008.
2. To re-appoint Dr. Nissim Levy as a director who is retiring in accordance with the Company's articles of association.
3. To re-appoint Mr. Freddy Hager as a director who is retiring in accordance with the Company's articles of association.
4. To re-appoint Mr. Yair Ziv as a director who is retiring in accordance with the Company's articles of association.
5. To re-appoint Mr. John Carrick Smith as a director who is retiring in accordance with the Company's articles of association.
6. To re-appoint Mr. Andrew Greenblatt as a director who is retiring in accordance with the Company's articles of association.
7. To re-appoint UHY Hacker Young LLP as auditors of the Company from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders in accordance with the provisions of the Companies Act 1985 and to authorise the directors to fix the auditors' remuneration.

By Order of the Board

Secretary

28 April 2009

Registered office:

Target Resources Plc

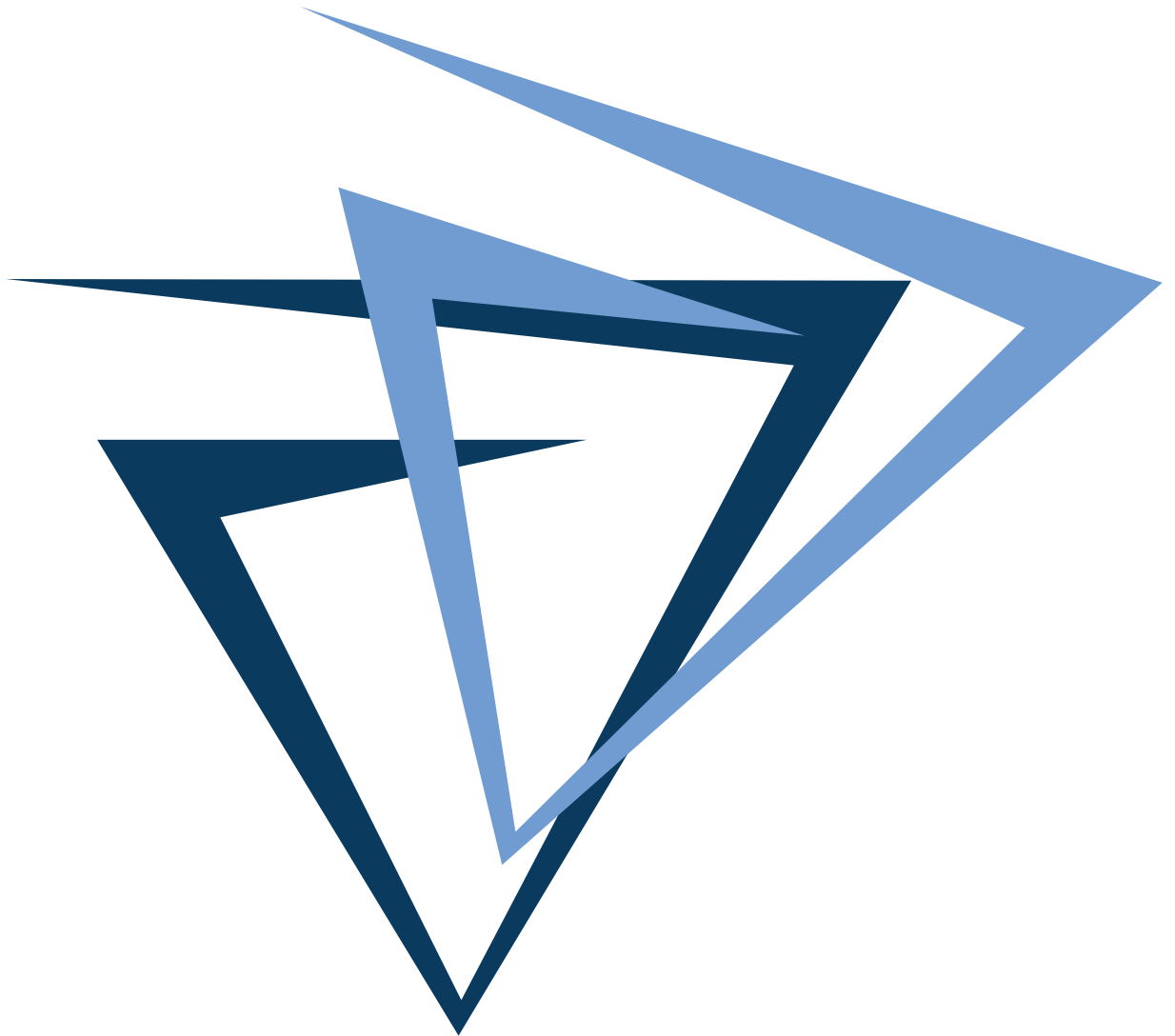
16th Floor Marble Arch Tower
55 Bryanston Street London W1H 7AA

NOTES

1. A member entitled to attend and vote at the Meeting is also entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting in person at the Meeting.
2. To be effective, the instrument appointing a proxy and any power of attorney or other authority under which it is executed (or a notarially certified copy of such authority) must be deposited via first class post at the registrars' office, Computershare Investor Services plc, PO Box 1075, Bristol, BS99 3FA not less than 48 hours before the time for holding the Meeting. A form of proxy is enclosed with this notice.
3. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names of the holders stand in the register of members in respect of the joint holding.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 11 am on 7 June 2009 (being not more than 48 hours prior to the time fixed for the Meeting) or, if the Meeting is adjourned, such time being not more than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Meeting.

DIRECTORS, SECRETARY AND ADVISERS

Directors	<p>Freddy Shalteel Hager, Chairman Dr. Nissim Levy, Managing Director Yair Ziv, Finance Director Peter Mark Patrick O’Kane, Non-executive Director (resigned 10 March 2009) John Alan Carrick Smith, Non-executive Director Andrew Greenblatt, Non-executive Director Paul N Samson, Non-executive director (appointed 29 July 2008)</p>
Company Secretary	David Ian Bressloff
Registered Office	<p>Target Resources Plc 16th Floor Marble Arch Tower 55 Bryanston Street London W1H 7AA</p>
Company Number	5566717
Website	www.target-resources.co.uk
Nominated Adviser and Broker	<p>Arbuthnot Securities Limited Arbuthnot House, 20 Ropemaker St., London EC2Y 9AR</p>
Group Auditors	<p>UHY Hacker Young LLP Quadrant House 17 Thomas More Street Thomas More Square London E1W 1YW</p>
Legal advisers to the Company as to English law	<p>Olswang 90 High Holborn London WC1V 6XX</p>
Legal advisers to the Company as to Sierra Leonean law	<p>Basma & Macaulay 19 Siaka Stevens Street Freetown Sierra Leone</p>
Registrars	<p>Computershare Investor Services Limited PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH</p>
Principal Bankers	<p>Bank Leumi 20 Stratford Place London W1C 1BG</p> <p>EFG Private Bank Leconfield House, Curzon St., London W1J 5JB</p>



Producing Quality Diamonds



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Second fold

Affix
postage
stamp
here

Computershare Investor Services plc

PO Box 1075

Bristol

BS99 3FA

First fold

Third fold (tuck in)

FORM OF PROXY

(for use by ordinary shareholders for the Annual General Meeting to be held on 9 June 2009 at 11:00am)

I/We (block capitals) _____ of _____

being (a) holder(s) of ordinary shares in the Company, hereby appoint the Chairman of the meeting or (Note 1)

_____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 9 June 2009 and at any adjournment thereof.

I/We direct my/our proxy to vote as indicated by an X in the appropriate column. (Note 2)

RESOLUTIONS	FOR	AGAINST
1. Ordinary Resolution. To receive the accounts and reports of the directors and auditors for the financial year ended 31 October 2008	<input type="checkbox"/>	<input type="checkbox"/>
2. Ordinary Resolution. To re appoint Dr. Nissim Levy as a director	<input type="checkbox"/>	<input type="checkbox"/>
3. Ordinary Resolution. To re appoint Mr. Freddy Hager as a director	<input type="checkbox"/>	<input type="checkbox"/>
4. Ordinary Resolution. To re appoint Mr. Yair Ziv as a director	<input type="checkbox"/>	<input type="checkbox"/>
5. Ordinary Resolution. To re appoint Mr. John Carrick Smith as a director	<input type="checkbox"/>	<input type="checkbox"/>
6. Ordinary Resolution. To re appoint Mr. Andrew Greenblatt as a director	<input type="checkbox"/>	<input type="checkbox"/>
7. Ordinary Resolution. To appoint UHY Hacker Young LLP as auditors of the Company and to authorise the directors to fix the auditors' remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signature _____ (Note 3)

Date _____ 2009

NOTES

1. If you wish to appoint a proxy other than the Chairman of the meeting, cross out the words "the Chairman of the meeting" and write the full name and address of your proxy on the dotted line. The change should be initialled. A proxy need not be a member of the Company.
2. In the absence of instructions, the person appointed proxy may vote or abstain from voting as he/she thinks fit on the specified resolutions and, unless otherwise instructed, may also vote or abstain from voting as he/she thinks fit on any other matter (including amendments to resolutions) which may properly come before the meeting.
3. This form must be signed and dated by the shareholder or his/her attorney duly authorised in writing. In the case of a corporation this form must be given under its common seal or signed on its behalf by a duly authorised officer or an attorney. In the case of joint holders the signature of any one holder will be sufficient but the names of all the joint holders should be stated. The vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of members in respect of the joint holding.
4. To be effective at the meeting this form must be lodged at the address of the Company's Registrars via first class mail, Computershare Investor Services plc, PO Box 1075, Bristol, BS99 3FA not later than 48 hours before the time of the meeting together, if appropriate, with the power of attorney or other authority under which it is signed or a duly certified copy of that power or authority.