

FIRESTONE DIAMONDS PLC
(Registered number 3589905)

ANNUAL REPORT
YEAR ENDED 30 JUNE 2005



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PKF (UK) LLP

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FIRESTONE DIAMONDS PLC
YEAR ENDED 30 JUNE 2005

DIRECTORS

James Flannan Kenny, B.A., LL.B., M.Sc., Executive Chairman
Hugh Clifford David Jenner-Clarke, B.Sc., F.G.S., Deputy Chairman and Director of Exploration
Philip Kenny, B.E., M.B.A., Chief Executive
James Kenny Jnr., B.Comm., M.B.S., Executive
Michael James Hampton, B.A., Non-executive
William Douglas Baxter, M.A., M.A.I., Non-executive

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NOMINATED BROKER

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REGISTERED NUMBER

3589905

COMPANY SECRETARY

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FIRESTONE DIAMONDS PLC CHAIRMAN'S STATEMENT

The past year has seen continued good progress in the growth and development of Firestone's exploration and mining project portfolio.

Exploration Summary

One of our key objectives for the year was to increase the scale of the Company's exploration activities and to work with joint venture partners in order to allow us to accelerate the development of our exploration project portfolio. We made significant progress in this regard during the year in both South Africa and Botswana

One of the highlights of the year was the substantial progress made at the Groen River Valley, which is the Company's most promising exploration project. During the year, the Company increased its license position in the Groen River Valley by 150%, to over 500 square kilometres, and in June 2005 the Company announced that it had entered into a joint venture with De Beers over the project. Substantial exploration work has been carried out since then.

In October 2005, the Company announced that 13 alluvial deposits had been identified in the area, with a potential resource of approximately nine million carats and gross value of \$2.7 billion to \$4.5 billion. These results confirm that the Groen River Valley project has the potential to become a major new alluvial diamond mining area, producing high quality diamonds, and support our view that it is one of the most attractive undeveloped alluvial diamond projects in the world.

An extensive programme of drilling and bulk sampling is being undertaken to further evaluate the economic potential of the area. The first phase of this programme includes bulk sampling of the HL, KK and KR deposits, to provide an indication of the diamond content and value of the deposits. The bulk sampling programme is now under way, with initial results expected in the first quarter of 2006.

Substantial progress was also made in Botswana. During the year, two new kimberlite exploration projects were secured close to the Orapa and Jwaneng Mines, increasing the area held by the Company by 150%, to approximately 9,000 square kilometres. Two new joint ventures were signed with De Beers over these projects during the year, in addition to the joint venture signed over the Mopipi project in 2004.

An intensive exploration programme has been carried out in the Orapa and Mopipi areas, resulting in the identification of 180 geophysical targets for further follow up. A total of 51 targets have been drilled to date, resulting in the discovery of four new kimberlites. Following the recovery of microdiamonds from three kimberlites, 100 tonne bulk samples were taken to test for the presence of macrodiamonds. Full results and analysis from bulk sampling of all three kimberlites are expected to be available in early 2006.

With many targets still to be followed up in the Orapa and Mopipi areas, the Company considers it likely that more kimberlites will be discovered as drilling continues in 2006. Given the fact that more than 10% of the 75 known kimberlites in the region are economic, we believe that the prospects for new economic discoveries in the area are very good.

During the year, the Company entered into an agreement to acquire an 81% interest in Daly City Ventures, which controls an area of approximately 380 square kilometres in the Orapa region. Exploration work in this area is currently under way.

Mining Operations Summary

Firestone's mining operations play an important role in contributing cash flow to finance the Company's exploration activities.

The Bonte Koe Mine on the Buffels River was the primary focus for the Company's mining operations during the year, and mine construction and commissioning were completed in the first quarter of 2005. Initial grades from gravel processed were below the expected average of 10 carats/100 tonnes, but grades have since improved and production is expected to continue to increase in 2006. Activities at Avontuur have been focused on preparations to take over the adjacent Hondeklip Bay Mine and Marine Concession 7a from Trans Hex, while production was limited at Oena, as we had not identified a suitable replacement mining contractor for the mine.

We strengthened our management team during the year with the appointment of Tim Wilkes as Director, Resource Development. Prior to joining Firestone, he was General Manager - Mineral Resource Management for De Beers and was the Competent Person responsible for the management of De Beers' mineral resources worldwide. Mr. Wilkes has led a strategic review of the Company's mining operations and new mining and development project opportunities. As a result of this review, which has recently been completed, the Company

intends to focus only on projects that have potential for significant scale, while smaller scale projects will be joint ventured or contracted out. A number of decisions have been made in respect of the Company's current projects, as follows:

Bonte Koe will continue to be the primary focus for the Company's mining operations. The Company is at an advanced stage in negotiations in respect of a significant production stage project in the Buffels River area, close to the Bonte Koe mine. This project is expected to result in a significant expansion to the scale of operations and production at the mine in the coming year.

The Company intends to make a significant expansion to operations at Avontuur to exploit the substantial resources at the Hondeklip Bay Mine and Marine Concession 7a. A detailed resource evaluation programme, comprising geophysics, drilling and bulk sampling, is currently being developed for both projects and is expected to result in a significant increase in the Company's diamond resources and production in Hondeklip Bay. This programme will be the focus of the Company's activities in the area in 2006.

At Oena, we intend to replace the Company's own mining operations with a significantly larger scale operation by appointing a mining contractor on a revenue sharing basis. After extensive discussions, a shortlist of two suitably qualified mining contractors has been selected. Both contractors have indicated that they are willing to make a significant capital commitment to operations at Oena, which should result in increased turnover at the mine. An appointment is expected to be made in the first quarter of 2006.

Corporate

With the growth in the Company's mining and exploration project portfolio over the past year and the further expansion now being planned, we recently decided to create the position of Chief Operating Officer, with responsibility for managing all operational aspects of the company's portfolio of mining and exploration projects. Tim Wilkes has been promoted to this position, and we expect him to play a central role in helping Firestone to achieve its objective of becoming a leading mid-tier diamond mining and exploration company.

In October 2005, the Company further expanded its interests in Botswana through the acquisition of a 7.28% interest in African Diamonds plc. African Diamonds has a joint venture with De Beers in the Orapa region, over ground which adjoins Firestone's Orapa and Mopipi projects.

Financial

Turnover from mining operations was broadly in line with last year, although it should be noted that Bonte Koe did not make a significant contribution during the financial year, as commissioning was only completed at the end of the third quarter.

Operations showed a small loss, primarily as a result of increased staff costs during the development and commissioning stage of the Bonte Koe project, which have since reduced, and interest payments, which rose significantly during the year as a result of project financing facilities used by the Company to finance part of the development costs at Bonte Koe.

We expect to see a substantial improvement in the Company's turnover and financial performance in the coming year, as the expansion and refocusing of the Company's mining operations take place.

Since the end of the year, the most significant development has been the completion of a £10 million equity financing in November 2005. These funds will be used to finance the planned expansion of the Company's mining and exploration activities in South Africa and Botswana.

The Diamond Market

Prices in the rough diamond market continued to increase, driven by the growing shortage in rough diamond supply across all segments of the market. Rough diamond prices increased by about 20% in 2004 and this trend continued into 2005, with De Beers raising rough diamond prices by 6% during the year. De Beers' sales for 2005 are expected to reach a record level of \$6.4 billion, a 12% increase from the previous record set in 2004. With De Beers' stocks now at minimum working levels, and the rough diamond supply deficit expected to continue for the next three to five years, the outlook for diamond prices continues to be very positive.

Outlook

We expect to see continued development of our exploration and mining project portfolio in the coming year.

In South Africa, there will be substantial activity at the Groen River Valley, with exploration drilling and bulk sampling expected to continue throughout the year.

On the basis of positive results from the Groen River Valley, the Company has decided to pursue new exploration projects further inland on the Groen River Valley palaeo river systems. A significant amount of work has been carried out and a number of prospective areas have been identified which the Company believes have the potential to host significant resources of large, high quality diamonds. We are pleased to announce that, based on this work, the Company has recently applied for three new prospecting permits covering approximately 1,500 square kilometres.

We consider Botswana to be one of the best countries in the world to explore for kimberlite. Firestone is already the largest holder of diamond exploration rights around the Orapa Mine, and is the only significant holder of diamond exploration rights, other than De Beers, around the Jwaneng Mine. The Company has submitted prospecting licence applications for a total area of 15,000 square kilometres in the Orapa and Jwaneng regions, which, if granted, would increase the area held by 170%, to 24,000 square kilometres, giving the Company a very significant, strategic land position.

Firestone also intends to undertake exploration in a new region in Botswana which is considered to be prospective for the discovery of diamondiferous kimberlites, and has recently submitted new prospecting licence applications covering a substantial area in that region. We expect to be able to announce developments in this regard in 2006.

In terms of mining operations, the Company is in the process of evaluating a number of significant new production stage and cash-flow generating projects, and expects to be able to update shareholders in this regard in the coming months.

With substantial funding now in place, the many opportunities that are available to Firestone, and the strength of the rough diamond market expected to continue in the medium term, we remain confident about the Company's long term prospects.

Finally, I would like to record the Board's appreciation of the continued dedication and commitment of our senior management and staff, who have contributed to the Company's continued growth and development over the past year.

Review of Operations

Groen River Valley, South Africa

The Groen River Valley project is the Company's most promising exploration project in South Africa due to the high quality and large size of diamonds that have been mined in the area, and the large area controlled by the Company. During the year a prospecting permit was granted for a substantial area, increasing Firestone's land position by 150%, to over 500 square kilometres. This gives the Company control of all of the prospective ground in the lower reaches of the Groen River.

The most significant development during the year was the signing of a joint venture agreement with De Beers. Under the terms of the joint venture agreement, De Beers can earn a 61% interest in the project by financing and carrying out all exploration and evaluation work up to completion of bankable feasibility studies on any deposits identified by exploration in the project area.

Since June, modeling carried out on data from exploration carried out by De Beers and Firestone has estimated the size of the 13 deposits identified to date in the project area at 360 million tonnes. Using grade estimates of between two and three cpht, this indicates a potential resource of approximately nine million carats. The average value of diamonds in the area varies from \$500 to \$1,000 per carat, but applying a conservative diamond value range of \$300 to \$500 per carat results in a potential gross value of \$2.7 billion to \$4.5 billion. These results confirm that the GRV project has the potential to become a major, new high quality diamond producing region.

A systematic multi-phase programme of drilling and bulk sampling is now being undertaken to further evaluate the area's economic potential. The first phase of this programme includes bulk sampling of the HL deposit. Since the end of the year, approximately 2,000 metres of probe drilling has been carried out on the deposit in preparation for bulk sampling using a large diameter bucket auger ("LDA") drill. The objective of the first phase of LDA drilling, which will comprise approximately 20 holes, is to provide an initial indication of the grade of the deposit.

During the year, approximately 8,400 metres of probe drilling was carried out over 234 holes on two new targets, known as the KK and KR targets, and confirmed the presence of alluvial gravels. It is also planned to drill a number of LDA holes on the KK and KR deposits in order to provide an initial indication of diamond content. Based on the results of this work, a decision will be made whether to proceed to bulk sampling.

Mopipi and Orapa, Botswana

The Mopipi project covers an area of approximately 3,600 square kilometers and is located in the Orapa area, which hosts the Orapa, Letlhakane and Damtshaa diamond mines. In 2004, the Company entered into a joint venture with De Beers over the Mopipi project, under which De Beers can earn a 61% interest in the project by taking it to completion of bankable feasibility.

During the year, the Company was granted prospecting licences for a new area covering approximately 1,300 square kilometers, known as the Orapa project. In December 2004, the Company entered into a new joint venture with De Beers over the Orapa project, on similar commercial terms to the Mopipi joint venture.

An intensive exploration programme was carried out in the Orapa and Mopipi project areas during the year. More than 51,000 line kilometres of high-resolution geophysical surveys, including airborne magnetics, ground gravity and ground magnetics, were conducted. Interpretation of the data from these surveys has identified 180 potential kimberlite drilling targets for further investigation. To date, a total of 51 geophysical targets have been drilled in the Orapa and Mopipi project areas, resulting in the discovery of four new kimberlites - AK21, AK22 and AK23, which are located approximately 15 kilometres south of the Orapa Mine, and BK53, which is located approximately 10 kilometres north of the Letlhakane Mine. As there are still a significant number of targets to be investigated in the Orapa and Mopipi project areas, exploration drilling will continue in 2006.

Detailed high-resolution ground geophysical surveys and drilling were carried out on AK21, AK22 and AK23, on the basis of which their sizes are estimated at 3, 3 and 3.5 hectares, respectively. AK22 and AK23 coalesce, giving a much larger area of kimberlite close to surface, of approximately nine hectares. Following the recovery of microdiamonds from all three kimberlites, 100 tonne bulk samples were taken from each kimberlite to test for the presence of macrodiamonds. Full results and analysis from bulk sampling of all three kimberlites are expected to be available in early 2006.

In March 2005, the Company announced that it had entered into an agreement to earn an 81% interest in Daly City Ventures, which holds a prospecting licence in the Orapa region over an area of approximately 380 square kilometres. A review of data from previous exploration in the area has been completed, and field exploration activities are expected to commence in early 2006.

Jwaneng, Botswana

During the year, the Company was granted new prospecting licences for an area of approximately 3,700 square kilometers, located close to the Jwaneng diamond mine. In December 2004, we announced that the Company had entered into a joint venture agreement with De Beers over the Jwaneng project, on similar commercial terms to the Mopipi and Orapa joint ventures.

During the year, data from exploration recently carried out by De Beers has been integrated with data from kimberlite indicator mineral sampling in order to identify target areas for follow-up work on the ground. High-resolution gravity and magnetic surveys will be conducted on selected target areas in the first half of 2006 to identify potential kimberlite drilling targets.

Bonte Koe Mine, South Africa

During the year, the Company's black empowerment joint venture company, African Star Minerals, completed the development of new mining operations at the Bonte Koe Mine. This included construction of a new 150 tonne per hour gravel treatment plant, a 10 km power line and a 35km water pipeline. Commissioning of the gravel treatment plant was completed in the first quarter of 2005.

Mining operations at Bonte Koe since then have been focused on processing material from a number of locations on the property with the objective of improving the geological interpretation of the deposits on the mine and allowing material from a number of areas to be blended. Grades from gravel processed to date range from one to nine carats/100 tonnes. This is below the expected average grade of 10 carats/100 tonnes for the mine, but grades have improved as new mining areas have been opened up. Production at Bonte Koe is expected to increase significantly in 2006.

A total of 1,461 carats was recovered during the year, at an average size of 0.5 carats per stone. The average price for diamonds sold increased from \$205 per carat to \$223 per carat by the end of the year, compared to the \$200 per carat that was originally expected. A total of 2,792 metres of drilling over 461 holes was carried out on selected exploration targets on the mine.

Avontuur Mine, South Africa

The Company's recent activities at the Avontuur Mine have been primarily focused on preparations for an expansion of operations to exploit the Hondeklip Bay Mine and Marine Concession 7a projects, which were announced earlier this year.

The Hondeklip Bay Mine, which adjoins Firestone's Avontuur Mine, hosts marine terraces and palaeo-channels related to those mined by De Beers both to the north and to the south of the mine. Firestone intends to exploit the substantial gravel resources remaining at the Hondeklip Bay mine by using the Company's plant and equipment at the Avontuur Mine. Substantial work has already been carried out on the evaluation of these resources.

Concession 7a covers a one kilometre wide strip in the sea, adjacent to and parallel to the coast, and extends approximately 33 kilometres along the coast. Under the terms of the joint venture agreement with the concession holder, Trans Hex. Firestone will be responsible for securing, supporting and managing contractors for Concession 7a, with revenue from mining operations to be shared between Firestone and Trans Hex.

Production for the year was lower at 4,375 carats due to the deployment of some mining equipment to Bonte Koe and to work done in preparation for taking over the Hondeklip Bay Mine and Concession 7a. Diamonds produced continued to be approximately 85% gem quality, with an average size of 0.22 carats per stone. The average price for diamonds sold during the period decreased from \$125 to \$118 per carat. A total of 1,487 metres of drilling was carried out over 124 holes on selected exploration targets on the mine.

Oena Mine, South Africa

Production at Oena was limited during the year. The Company's efforts were focused on securing a new mining contractor, with the objective of significantly increasing earthmoving and processing capacity at the mine. A shortlist of two suitably qualified mining contractors has been drawn up, and an appointment is expected to be made in the first quarter of 2006.

Production at Oena during the year was 677 carats. The average grade from mining areas was in line with last year, at 0.5 carats/100 tonnes, with diamonds produced averaging 1.36 carats per stone. The average price for diamonds sold increased 3% to \$1,198 per carat, primarily due to the sale of a number of large, high value stones. A number of special diamonds were recovered during the year, including stones of 62.24 and 32.57 carats that sold for approximately \$3,277 and \$3,684 per carat, respectively.

US Exploration Project

Exploration at the Company's kimberlite exploration project in the United States indicates that at least one previously unknown kimberlite field is located in the project area, and that some of these kimberlites may be diamondiferous. The Company's joint venture partner, American Diamonds, has completed the first phase of follow-up sampling in the high priority target areas identified by previous exploration. Sampling results are currently being compiled and are expected to be announced in early 2006.

James F. Kenny
Chairman

16 December 2005

FIRESTONE DIAMONDS PLC DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 30 June 2005.

RESULTS AND DIVIDENDS

The group loss for the year after taxation and minority interests amounted to £204,321 (2004: profit £161,498). The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY

The principal activity of the group was diamond exploration and mining. The principal activity of the company was that of a holding company.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A detailed review of the business and future developments is included in the Chairman's Statement on pages 2 to 6.

SHARE CAPITAL

On 23 July 2004, the company completed the placing of 2,187,500 new ordinary shares at a price of 64 pence per share, raising £1,400,000 before the deduction of related expenses. On 20 December 2004 share options were exercised resulting in the issuing of 200,000 new shares at an option price of 33 pence. On 20 December 2004 share options were exercised resulting in the issuing of 10,000 ordinary shares at an option price of 44.5 pence. On 17 March 2005, the company completed the placing of 2,475,000 new ordinary shares at a price of £1.50 per share, raising £3,712,500 before the deduction of related expenses.

On 14 November 2005, the company completed the placing of 7,692,308 new ordinary shares at a price of £1.30 per share, raising £10,000,000 before the deduction of related expenses.

At 15 December 2005, the company has been notified of the following interests in the issued ordinary share capital:

	<u>Shares</u>	<u>%</u>
Elfin Trust Company Limited	7,200,000	13.0
Aurora International Investments Limited	7,200,000	13.0
Gartmore Investment Limited, Gartmore Fund Managers Limited and Gartmore Global Partners	5,058,116	9.1

Elfin Trust Company Limited holds 7,200,000 ordinary shares as trustee for a discretionary trust, the beneficiaries of which include certain members of the Jenner-Clarke family. Elfin Trust Company Limited controls 7,200,000 ordinary shares on behalf of a discretionary trust, the beneficiaries of which include members of the Kenny family.

PAYMENT POLICY

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, provided that all trading terms and conditions have been complied with. At 30 June 2005, the group had an average of 47 days (2004: 28 days) purchases outstanding in trade creditors.

DIRECTORS

The directors who served during the period, their beneficial interests and those of their families in the ordinary share capital of the company, were as follows:

	<u>At 30 June 2005</u>		<u>At 30 June 2004</u>	
	<u>Ordinary Shares</u>	<u>Share Options</u>	<u>Ordinary Shares</u>	<u>Share Options</u>
J F Kenny	505,765	350,000	505,765	350,000
H C D Jenner-Clarke	586,057	350,000	586,057	350,000
P Kenny *	538,806	350,000	538,806	350,000
M J Hampton	106,875	110,000	106,875	110,000
J Kenny Jnr *	157,023	200,000	157,023	550,000
W D Baxter	10,000	-	10,000	-

* Potential beneficiaries of a discretionary trust, controlling 7,200,000 ordinary shares. Further details of share options are shown in note 19 to the financial statements.

FIRESTONE DIAMONDS PLC
DIRECTORS' REPORT (Continued)

GOING CONCERN

Following a review of the company's financial position, the directors have concluded that sufficient financial resources will be available to meet the company's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group 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 apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

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

The directors are responsible for ensuring that the Directors' Report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

CORPORATE GOVERNANCE

The directors believe that the company complies with the principles set out in The Combined Code on Corporate Governance published in July 2003 by the Financial Reporting Council so far as they consider is appropriate, having regard to the size and nature of activities of the group.

AUDITORS

On 23 May 2005, PKF transferred their business to PKF (UK) LLP, a limited liability partnership. Under section 26(5) of the Companies Act 1989, the company consented to extend the audit appointment to PKF (UK) LLP from that day. Accordingly, the audit report has been signed in the name of PKF (UK) LLP and a resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD



P Kenny
Director

16 December 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRESTONE DIAMONDS PLC

We have audited the financial statements of Firestone Diamonds plc for the year ended 30 June 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities contained in the Directors' Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. 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 audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group'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 of the state of the group's and the company's affairs as at 30 June 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PKF (UK) LLP

PKF (UK) LLP
Registered Auditors

London, UK

16 December 2005

FIRESTONE DIAMONDS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005

	<u>Notes</u>	<u>2005</u> £	<u>2004</u> £
Production		928,978	961,435
Turnover	2	940,706	978,298
Change in stocks of finished goods and in work in progress		(11,728)	(16,863)
Raw materials and consumables		(148,795)	(142,634)
Staff costs		(388,975)	(158,871)
Depreciation and amortisation		(236,359)	(124,925)
Other operating charges		(371,186)	(428,256)
Operating (loss)/profit		(216,337)	106,749
Profit on disposal of fixed assets	5	-	43,857
(Loss)/profit on ordinary activities before interest and taxation		(216,337)	150,606
Interest receivable and similar income	3	43,177	28,311
Interest payable and similar charges	4	(149,409)	(4,958)
(Loss)/profit on ordinary activities before taxation	5	(322,569)	173,959
Deferred tax on (loss)/profit on ordinary activities	8	96,899	(17,480)
(Loss)/profit on ordinary activities after taxation		(225,670)	156,479
Minority interests		21,349	5,019
Retained (loss)/profit for the year	20	(204,321)	161,498
(Loss)/earnings per share			
Basic (loss)/earnings per share	9	(0.5)p	0.4p
Diluted (loss)/earnings per share	9	(0.5)p	0.4p
Turnover is wholly derived from continuing activities.			

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2005

	£	£
(Loss)/profit for the financial year	(204,321)	161,498
Currency translation differences	(824,826)	113,782
Deferred tax on exchange differences	125,705	-
Total recognised gains and losses for the year	(903,442)	275,280

FIRESTONE DIAMONDS PLC
CONSOLIDATED BALANCE SHEET
30 JUNE 2005

		<u>2005</u>		<u>2004</u>	
	<u>Notes</u>	£	£	£	£
FIXED ASSETS					
Intangible assets	10		5,950,744		10,746,075
Tangible assets	11		11,625,753		3,307,431
Investments	12		230,439		609,351
			<hr/>		<hr/>
			17,806,936		14,662,857
CURRENT ASSETS					
Stocks	13	105,793		121,063	
Debtors	14	598,898		478,649	
Cash at bank and in hand		2,112,261		293,934	
		<hr/>		<hr/>	
		2,816,952		893,646	
CREDITORS					
Amounts falling due within one year	15	(1,940,437)		(684,894)	
		<hr/>		<hr/>	
NET CURRENT ASSETS			876,515		208,752
			<hr/>		<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			18,683,451		14,871,609
CREDITORS					
Amounts falling due after one year	15		(718,815)		(1,010,976)
PROVISIONS FOR LIABILITIES AND CHARGES					
Other provisions	16	(1,056,289)		(877,110)	
Deferred tax	17	(375,309)		(469,013)	
		<hr/>		<hr/>	
			(1,431,598)		(1,346,123)
NET ASSETS			<hr/>		<hr/>
			16,533,038		12,514,510
CAPITAL AND RESERVES					
Called up share capital	19		9,167,594		8,193,094
Share premium account	20		8,383,823		4,415,004
Merger reserve	20		(1,076,399)		(1,076,399)
Profit and loss account	20		80,723		984,165
			<hr/>		<hr/>
EQUITY SHAREHOLDERS' FUNDS	21		16,555,741		12,515,864
Minority equity interests			(22,703)		(1,354)
			<hr/>		<hr/>
			16,533,038		12,514,510
			<hr/>		<hr/>

Approved by the Board on *16 December* 2005

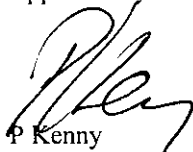
P Kenny
Director



FIRESTONE DIAMONDS PLC
COMPANY BALANCE SHEET
30 JUNE 2005

	<u>Notes</u>	<u>£</u>	<u>2005</u>	<u>£</u>	<u>2004</u>	<u>£</u>
FIXED ASSETS						
Investments	12		15,957,061		12,518,726	
			<hr/>		<hr/>	
			15,957,061		12,518,726	
CURRENT ASSETS						
Debtors	14	4,120		4,120		
Cash at bank		1,461,326		28,203		
		<hr/>		<hr/>		
		1,465,446		32,323		
CREDITORS						
Amounts falling due within one year	15	(82,006)		(73,040)		
		<hr/>		<hr/>		
NET CURRENT ASSETS/(LIABILITIES)			1,383,440		(40,717)	
			<hr/>		<hr/>	
TOTAL ASSETS			17,340,501		12,478,009	
			<hr/>		<hr/>	
CAPITAL AND RESERVES						
Called up share capital	19		9,167,594		8,193,094	
Share premium account	20		8,383,823		4,415,004	
Profit and loss account	20		(210,916)		(130,089)	
			<hr/>		<hr/>	
EQUITY SHAREHOLDERS' FUNDS			17,340,501		12,478,009	
			<hr/>		<hr/>	

Approved by the Board on 16 December 2005


P. Kenny
Director

FIRESTONE DIAMONDS PLC
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		£	£
Net cash inflow/(outflow) from operating activities	22	1,382,286	(149,154)
Returns on investments and servicing of finance			
Interest received		43,177	28,311
Interest element of finance lease payments		(46,790)	(4,958)
Interest paid on loans		(87,378)	-
Net cash (outflow)/inflow from returns on investments and servicing of finance		(90,991)	23,353
Capital expenditure and financial investment			
Payments to acquire intangible fixed assets		(2,411,052)	(1,501,683)
Payments to acquire tangible fixed assets		(1,804,860)	(1,019,076)
Receipts from sales of tangible fixed assets		-	110,885
Payments to acquire investments		-	(231,076)
Net cash outflow from capital expenditure and financial investment		(4,215,912)	(2,640,950)
Net cash outflow before use of liquid resources and financing		(2,924,617)	(2,766,751)
Financing			
Long term loans		-	877,948
Repayment of long term loans		(121,008)	-
Issue of ordinary share capital		4,943,319	2,119,881
Finance lease payments		(52,483)	(228,716)
		4,769,828	2,769,113
Increase in cash	23 & 24	1,845,211	2,362

**FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

(b) Basis of consolidation

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses that arise after the group has gained control of the subsidiary are taken to the profit and loss account.

The consolidated profit and loss account and consolidated balance sheet include the financial statements of the company and its subsidiary undertakings up to 30 June. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the company. The company's loss for the year is £80,827 (2004:£82,529).

(c) Turnover

Turnover represents the invoiced value of diamonds sold.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and will be amortised through the profit and loss account over its useful economic life on a depletion percentage basis related to the associated mining property.

Provision is made for any impairment in the carrying value of goodwill to the extent that the asset's recoverable amount is reduced below its carrying value.

(e) Intangible assets

Costs relating to the acquisition, exploration and development of mineral properties are capitalised until such time as an economic reserve is defined and mining commences or the mining property is abandoned.

Provision is made for impairment to the extent that the asset's carrying value exceeds its net recoverable amount.

Capitalised exploration and development costs have been reclassified as tangible fixed assets for those projects currently in production.

(f) Tangible assets

Expenditure on additions and improvements is capitalised as incurred. Fixed assets are included at historical cost.

Tangible fixed assets are depreciated over their estimated useful lives on a straight line basis, except mining property and exploration and development costs, which are depreciated on the depletion percentage basis. The following annual rates of depreciation have been used.

Mining equipment	- 10%
Plant and equipment	- 10%
Motor vehicles	- 20%

Provision is made for impairment to the extent that the asset's carrying value exceeds its net recoverable amount.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

1 ACCOUNTING POLICIES (Continued)

(g) Stocks

Stocks, consisting of cut and uncut diamonds, have been valued at estimated market values prevailing at 30 June 2005, with the amounts so determined reduced by the application of anticipated margins. The use of this method results in a carrying value of stock which approximates to the lower of cost and net realisable value.

(h) Foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Differences on exchange arising from the translation of the opening balance sheets of foreign subsidiaries at the period end are taken directly to reserves. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the transaction date.

Profits and losses arising from currency transactions and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

(i) Deferred tax

As required by FRS 19 – “Deferred tax”, full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computations, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised.

Deferred tax assets and liabilities are undiscounted and are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Recognition of deferred tax assets is limited to the extent that the Group anticipates to make sufficient taxable profits in the future to absorb the reversal of underlying timing differences.

(j) Liquid resources

In accordance with FRS 1 – “Cash Flow Statements”, for cash flow purposes, cash includes net cash in hand and bank deposits payable on demand within one working day, and liquid resources include all of the group’s other bank deposits.

(k) Pension costs

The group operates a money purchase pension scheme. Contributions are charged to the profit and loss account in the period to which they relate. Contributions to employees’ personal pension schemes are charged to the profit and loss account in the period in which they are incurred.

(l) Finance leases

Assets acquired under finance leases are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

(m) Capital instruments

Shares are included in shareholders’ funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not, they are included in shareholders’ funds.

2 SEGMENTAL INFORMATION

Turnover, operating results and net assets are substantially attributable to activities in southern Africa.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

3	INTEREST RECEIVABLE AND SIMILAR INCOME	<u>2005</u> £	<u>2004</u> £
	Bank interest receivable	43,177	28,311
		<hr/>	<hr/>
4	INTEREST PAYABLE AND SIMILAR CHARGES	<u>2005</u> £	<u>2004</u> £
	Interest on finance leases	46,790	4,958
	Interest payable on other loans	102,619	-
		<hr/>	<hr/>
		149,409	4,958
		<hr/>	<hr/>
5	(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<u>2005</u> £	<u>2004</u> £
	The (loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
	Depreciation of tangible fixed assets - owned	112,753	38,299
	- leased	40,984	13,669
	Amortisation of intangible fixed assets	82,622	72,957
	Profit on disposal of fixed assets	-	(43,857)
	Auditors' remuneration - for audit services payable to group auditors	14,850	13,500
	- for tax services payable to group auditors	10,340	6,580
		<hr/>	<hr/>

The Board reviews the nature and extent of non-audit services to ensure that independence is maintained.

Depreciation of £282,411 (2004: £201,079) has been capitalised as part of deferred development and exploration costs, of which £49,900 (2004: £43,434) relates to leased assets.

6	STAFF COSTS	<u>2005</u> £	<u>2004</u> £
	Staff costs, including directors, for the period amounted to:		
	Wages and salaries	1,014,781	791,742
	Social security costs	33,834	12,785
	Pension costs	54,438	40,852
		<hr/>	<hr/>
		1,103,053	845,379
		<hr/>	<hr/>

Included within staff costs is £361,777 (2004: £381,048) which has been capitalised as part of deferred development and exploration costs.

The average number of employees during the period was as follows:

	<u>2005</u> No.	<u>2004</u> No.
Operations	119	97
Administration	11	11
	<hr/>	<hr/>
	130	108
	<hr/>	<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

7 DIRECTORS' EMOLUMENTS	<u>2005</u> £	<u>2004</u> £
Emoluments in respect of qualifying services	352,301	305,460

The emoluments of the highest paid director were £142,500 (2004: £135,000). Directors' emoluments are comprised of both actual and deferred emoluments (see note 16). No directors (2004: nil) were accruing benefits under any pension schemes.

8 TAXATION	<u>2005</u> £	<u>2004</u> £
(a) Analysis of (credit)/charge in year		
Corporation tax	-	-
Deferred tax (overseas) – current year	(96,899)	17,480
	<u>(96,899)</u>	<u>17,480</u>

(b) Factors affecting tax (credit)/charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	<u>2005</u> £	<u>2004</u> £
(Loss)/profit on ordinary activities before tax	(322,569)	173,959
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK at 30% (2004: 30%)	(96,771)	52,188
Effects of:		
Expenses not deductible for tax purposes	66,345	189,988
Capitalised expenses deductible for tax purposes	(968,118)	(164,564)
Loss brought forward offset in current year	-	(251,678)
Depreciation in excess of capital allowances	23,122	26,681
Current year tax losses to carry forward	975,422	147,385
Current tax charge for the year	<u>-</u>	<u>-</u>

The tax charge in future years will be affected by the rate at which the group generates profits and by the utilisation of existing losses.

9 LOSS PER SHARE

Basic loss per share is based on a loss of £204,321 (2004: profit of £161,498) and a weighted average number of shares in issue of 43,837,579 (2004: 39,853,921).

In 2005 the diluted loss per share has been calculated on the same basis as basic loss per share because the effect of the potential ordinary shares (share options) reduces the net loss per share and is therefore anti-dilutive. In 2004 diluted earnings per share was based on a profit of £161,498. The weighted average number of shares used to calculate diluted earnings per share incorporated the weighted average number of shares in issue of 39,853,921 plus dilutive potential ordinary shares arising from share options of 2,375,709 totalling 42,229,630.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

10 INTANGIBLE FIXED ASSETS

	<u>Goodwill</u>	<u>Deferred exploration and development costs</u>	<u>Exploration data and prospecting rights</u>	<u>Provision for rehabilitation costs</u>	<u>Total</u>
	£	£	£	£	£
Group					
Cost					
At 1 July 2004	2,102,553	8,215,294	615,013	53,258	10,986,118
Additions	-	2,316,592	-	-	2,316,592
Transferred from investments	-	378,912	-	-	378,912
Exchange difference	-	(504,417)	-	(3,100)	(507,517)
Reclassified as tangible fixed assets	-	(7,172,961)	-	-	(7,172,961)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	2,102,553	3,233,420	615,013	50,158	6,001,144
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation					
At 1 July 2004	18,899	208,400	-	12,744	240,043
Reclassified as tangible fixed assets	-	(208,400)	-	-	(208,400)
Charge for the year	13,050	-	-	6,677	19,727
Exchange difference	-	-	-	(970)	(970)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	31,949	-	-	18,451	50,400
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 2005	2,070,604	3,233,420	615,013	31,707	5,950,744
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	2,083,654	8,006,894	615,013	40,514	10,746,075
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

11 TANGIBLE FIXED ASSETS – Group

	<u>Exploration and development costs</u>	<u>Mining property</u>	<u>Mining equipment</u>	<u>Plant and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	£	£	£	£	£	£
Group						
Cost						
At 1 July 2004	-	589,779	508,444	2,908,172	217,265	4,223,660
Additions	-	-	47,167	2,019,953	21,801	2,088,921
Exchange difference	-	(34,330)	(31,209)	(238,391)	(13,395)	(317,325)
Reclassified from intangible fixed assets	7,172,961	-	-	-	-	7,172,961
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	7,172,961	555,449	524,402	4,689,734	225,671	13,168,217
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation						
At 1 July 2004	-	71,841	190,697	531,145	122,546	916,229
Reclassified from intangible fixed assets	208,400	-	-	-	-	208,400
Charge for the year	62,895	14,490	47,944	334,545	39,169	499,043
Exchange difference	(12,953)	(4,678)	(12,741)	(42,363)	(8,473)	(81,208)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2005	258,342	81,653	225,900	823,327	153,242	1,542,464
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 30 June 2005	6,914,619	473,796	298,502	3,866,407	72,429	11,625,753
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	-	517,938	317,747	2,377,027	94,719	3,307,431
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of the group's tangible assets includes £650,512 (2004: £575,349) of plant and equipment and £39,889 (2004: £48,418) of motor vehicles, in respect of assets held under finance leases, on which depreciation of £90,884 (2004: £57,103) has been charged in the year.

Company

	<u>Motor vehicles</u>
	£
Cost	
At 1 July 2004	13,510
Disposals	(13,510)
	<hr/>
At 30 June 2005	-
	<hr/>
Depreciation	
At 1 July 2004	13,510
Disposal	(13,510)
	<hr/>
At 30 June 2005	-
	<hr/>
Net book value	
At 1 July 2004 and 30 June 2005	-
	<hr/>

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

12 INVESTMENTS

Group			2005
			£
Interest in prospecting licences			
At 1 July 2004			609,351
Transfer to Mopipi project			(378,912)
			<hr/>
At 30 June 2005			230,439
			<hr/>
Company			
Interest in subsidiary undertakings			
	<u>Value of shares</u>	<u>Value of shares</u>	<u>Total</u>
	<u>£</u>	<u>to be issued</u>	<u>£</u>
		<u>£</u>	
Cost			
At 1 July 2004	10,053,646	2,465,080	12,518,726
Additions	-	3,438,335	3,438,335
Transfer	2,465,080	(2,465,080)	-
	<hr/>	<hr/>	<hr/>
At 30 June 2005	12,518,726	3,438,335	15,957,061
	<hr/>	<hr/>	<hr/>

Advances from the company to Firestone Diamonds Limited are converted into equity in Firestone Diamonds Limited at regular intervals. On 12 November 2004, shares were issued in respect of the balance outstanding as of 30 June 2004. The balance outstanding as of 30 June 2005 was converted into shares on 9 December 2005.

At 30 June 2005, the company held 100% of the ordinary shares of Firestone Diamonds Limited, a company incorporated in the British Virgin Islands, whose principal activity was that of a holding company. Firestone Diamonds Limited had the following subsidiary undertakings:

<u>Name</u>	<u>Holding</u>	<u>Business Activities</u>	<u>Country of incorporation</u>
Fortuna Investment Holdings Limited	100%	Dormant	British Virgin Islands
Asam Resources SA (Proprietary) Limited	100%	Diamond exploration and mining	South Africa
Cornerstone (RSA) Limited	100%	Dormant	British Virgin Islands
Surf Zone Diamonds (Proprietary) Limited *	100%	Diamond exploration and mining	South Africa
Oena Mine (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
Kuboes Diamante (Proprietary) Limited	87.5%	Diamond exploration and mining	South Africa
African Star Minerals (Proprietary) Limited	75%	Diamond exploration and mining	South Africa
Bonte Koe Mynbou Ondernemings (Eiendoms) Beperk **	75%	Diamond exploration and mining	South Africa

* Held by Cornerstone (RSA) Limited

** Ownership of the company was transferred from Firestone Diamonds Limited to African Star Minerals (Proprietary) Limited in the year.

All material subsidiaries are included in the consolidated financial statements.

In the opinion of the directors, the aggregate value of shares in subsidiary undertakings is not less than the amount at which they are stated in these financial statements.

Distributions by the company's South African subsidiaries are subject to exchange control approval in that country.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

13	STOCKS	<u>Group</u> <u>2005</u> £	<u>Company</u> <u>2005</u> £	<u>Group</u> <u>2004</u> £	<u>Company</u> <u>2004</u> £
	Cut and uncut diamonds held for sale	105,793	-	121,063	-
14	DEBTORS	<u>Group</u> <u>2005</u> £	<u>Company</u> <u>2005</u> £	<u>Group</u> <u>2004</u> £	<u>Company</u> <u>2004</u> £
	Amounts falling due within one year:				
	Trade debtors	441,451	-	452,432	-
	Advances to directors	1,247	-	21,025	-
	Other debtors	-	4,120	5,192	4,120
	Deferred tax	156,200	-	-	-
		598,898	4,120	478,649	4,120
15	CREDITORS	<u>Group</u> <u>2005</u> £	<u>Company</u> <u>2005</u> £	<u>Group</u> <u>2004</u> £	<u>Company</u> <u>2004</u> £
	Amounts falling due within one year:				
	Bank loans and overdrafts	219,893	-	167,987	-
	Obligations under finance leases	228,247	-	174,530	-
	Trade creditors	672,004	-	246,302	-
	Other creditors	706,823	-	-	-
	Taxation and social security	19,431	-	15,636	-
	Accruals and deferred income	94,039	82,006	80,439	73,040
		1,940,437	82,006	684,894	73,040
	Amounts falling due after more than one year:				
	Bank loan	604,572	-	766,029	-
	Obligations under finance leases	114,243	-	244,947	-
		718,815	-	1,010,976	-

The bank loan is secured by a charge over certain plant and machinery of a subsidiary, African Star Minerals (Pty) Limited. The loan is subject to interest as explained in note 18(c).

Obligations under finance leases are payable as follows:

Within one year	228,247	-	174,530	-
Between one and two years	102,238	-	193,108	-
Between two and five years	12,005	-	51,839	-
	342,490	-	419,477	-

Finance leases are secured on the relevant underlying assets.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

15 CREDITORS (continued)	<u>Group</u> <u>2005</u> £	<u>Company</u> <u>2005</u> £	<u>Group</u> <u>2004</u> £	<u>Company</u> <u>2004</u> £
Bank loan maturity analysis:				
Repayable in one year or less	219,893	-	167,687	-
Repayable between one and two years	219,893	-	167,763	-
Repayable between two and five years	384,679	-	430,503	-
Repayable in five years or more	-	-	167,763	-
	<u>824,465</u>	<u>-</u>	<u>933,716</u>	<u>-</u>

16 OTHER PROVISIONS

Group	<u>Rehabilitation</u> <u>costs</u> £	<u>Directors'</u> <u>deferred</u> <u>emoluments</u> £	<u>Total</u> £
At 1 July 2004	53,258	823,852	877,110
Charge for the year	-	182,279	182,279
Exchange difference	(3,100)	-	(3,100)
At 30 June 2005	<u>50,158</u>	<u>1,006,131</u>	<u>1,056,289</u>

Rehabilitation Costs:

Surf Zone Diamonds and Kuboes Diamante have established environmental rehabilitation bonds of R100,000 (£8,360) and R500,000 (£41,798) respectively in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2002. These are currently the only required impositions to comply with environmental legislation in respect of the Avontuur Mine and the Oena Mine. Rehabilitation work is planned as an integral part of the mining operations as land disturbed by mining is backfilled, and will include surface profiling of the backfilled areas at a later date. The financial implications of these activities are considered by the directors to be of minimal consequence and inseparable from the normal running costs of the operation.

Accordingly, a total provision for rehabilitation work of R600,000 (£50,158) has been raised as a long term liability. The deferred assets which arise are being amortised over 10 years.

Directors' deferred emoluments:

The directors' entitlement to a portion of their emoluments is dependent upon certain conditions in respect of the company's cash position and profitability being met, and this portion is treated as deferred emoluments.

FIRESTONE DIAMONDS PLC
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2005

17 DEFERRED TAX

The deferred tax included in the balance sheet is as follows:

	<u>2005</u>	<u>2004</u>
Included in debtors	(156,200)	-
Included in provision for liabilities and charges	375,309	469,013
	<u>219,109</u>	<u>469,013</u>

	At 1 July <u>2004</u> £	Movement in year £	Currency translation movement £	At 30 June <u>2005</u> £
Group				
Accelerated capital allowances	35,945	(63,181)	(2,092)	(29,328)
Deferred exploration costs	1,692,542	941,704	(98,520)	2,535,726
Tax losses	(1,356,892)	(975,422)	78,983	(2,253,331)
	<u>371,505</u>	<u>(96,899)</u>	<u>(21,629)</u>	<u>253,067</u>
Exchange losses	97,418	(125,705)	(5,671)	(33,958)
	<u>469,013</u>	<u>(222,604)</u>	<u>(27,300)</u>	<u>219,109</u>

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2005 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances.

18 FOREIGN CURRENCY AND INTEREST RATE RISKS AND EXPOSURES

(a) Objectives, policies and strategies

Currency rate risk

Loans between companies which are members of the Firestone Diamonds group are made in the operating currency of the lending company. In all other respects, the policy for all group companies is that they only trade in their principal operating currency, except in exceptional circumstances from time to time.

The group's revenue derives from the sale of rough and polished diamonds by its South African operating subsidiaries. While proceeds of sales are received in Rand, diamonds are sold in US Dollars, with the Rand proceeds being calculated on the basis of the US Dollar sales price and the US Dollar/Rand exchange rate prevailing on the date of the sale. As the group reports in Sterling, reported revenue is affected by the combination of changes in the US Dollar/Rand and Sterling/Rand rates. The combination of the recent strength of the Rand and weakness of the US Dollar has had a negative impact on reported revenues, and further sustained strength of the Rand does represent a risk to the business.

The group's expenses in South Africa are incurred in Rand. Any weakening in the Rand would result in a reduction in expenses in Sterling terms, which would be to the group's advantage. There is an equivalent downside risk to the group of strengthening in the Rand, which would increase South African operating expenses in Sterling terms. The recent strength of the Rand against Sterling has an adverse impact on expenses in Sterling terms, and further sustained strength of the Rand does represent a risk to the business.

FIRESTONE DIAMONDS PLC
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18 FOREIGN CURRENCY AND INTEREST RISKS AND EXPOSURES (continued)

(b) Currency exposures

As at 30 June 2005 the group held no monetary assets or liabilities in currencies other than the functional currency of the operating units involved.

(c) Interest rate risk

Group borrowings are all subject to a floating rate of interest and taken out in Rand only. The group's policy for future borrowings will be to take floating rates unless fixed rate financing is available at particularly attractive rates.

The maturity profile of financial liabilities of the group (company: £Nil) is as follows:-

	<u>2005</u> £	<u>2004</u> £
Within one year	448,139	342,517
Between one and two years	322,131	360,871
Between two and five years	396,684	482,342
Greater than five years	-	167,763
	<hr/> 1,116,954 <hr/>	<hr/> 1,353,493 <hr/>

The fair value of all financial instruments is approximately equal to book value due to their short term nature and the fact that they bear interest at floating rates based on the local bank rate, which at the year end was 8.5% (2004: 11.5%).

The only financial asset held by the group at 30 June 2005 was cash and deposits totalling £2,112,261 (2004: £293,934).

As permitted under FRS13, short term debtors and creditors have not been included in the above analysis.

FIRESTONE DIAMONDS PLC
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19 SHARE CAPITAL

Group and Company	<u>2005</u> <u>Number</u>	£	<u>2004</u> <u>Number</u>	£
Authorised:				
Ordinary shares of 20p each	99,750,010	19,950,002	99,750,010	19,950,002
Redeemable preference shares of £1 each	49,998	49,998	49,998	49,998
	<u>99,800,008</u>	<u>20,000,000</u>	<u>99,800,008</u>	<u>20,000,000</u>
Allotted, called up and fully paid:			<u>Number</u>	£
At 1 July 2004			40,965,469	8,193,094
Shares issued in the year			<u>4,872,500</u>	<u>974,500</u>
At 30 June 2005			<u>45,837,969</u>	<u>9,167,594</u>

On 23 July 2004, the company completed the placing of 2,187,500 new ordinary shares at a price of 64 pence per share, raising £1,400,000 before the deduction of related expenses. On 20 December 2004, share options were exercised resulting in the issuing of 200,000 new shares at an option price of 33 pence. On 20 December 2004, share options were exercised resulting in the issuing of 10,000 ordinary shares at an option price of 44.5 pence. On 17 March 2005, the company completed the placing of 2,475,000 new ordinary shares at a price of £1.50 per share, raising £3,712,500 before the deduction of related expenses.

On 14 November 2005, the company completed the placing of 7,692,308 new ordinary shares at a price of £1.30 per share, raising £10,000,000 before the deduction of related expenses.

Share options

The company operates two unapproved share option schemes for employees and directors. As at 30 June 2005, options granted under the Basic Share Option scheme were outstanding over a total of 3,061,000 (2004: 2,571,000) ordinary shares as follows:

<u>Date of grant</u>	<u>Exercisable from</u>	<u>Exercisable to</u>	<u>Number of shares</u>	<u>Exercise price</u>
26 January 2000	26 January 2001	26 January 2010	46,000	44.5p
26 January 2000	26 January 2001	26 January 2010	30,000	51.5p
25 February 2000	25 February 2001	25 February 2010	1,360,000	76.5p
30 January 2001	30 January 2002	30 January 2011	25,000	69p
22 July 2002	22 July 2003	22 July 2012	100,000	66.5p
8 April 2004	8 April 2005	8 April 2014	1,000,000	37p
22 December 2004	22 December 2005	22 December 2014	500,000	110p

During the year options granted under the Basic Share Option Scheme were exercised as follows:

<u>Date of grant</u>	<u>Date Exercised</u>	<u>Number of shares</u>	<u>Exercise price</u>
26 January 2000	20 December 2004	10,000	44.5p

FIRESTONE DIAMONDS PLC
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19 SHARE CAPITAL (continued)

As at 30 June 2005, options granted under the Performance Related Share Option Scheme were outstanding over a total of 7,760,000 (2004: 7,060,000) ordinary shares as follows:

<u>Date of grant</u>	<u>Exercisable from</u>	<u>Exercisable to</u>	<u>Number of shares</u>	<u>Exercise price</u>
8 April 2003	8 April 2004	8 April 2013	1,100,000	33p
9 January 2004	9 January 2005	9 January 2014	2,400,000	36p
21 January 2004	21 January 2005	21 January 2014	1,360,000	41p
8 April 2004	8 April 2005	8 April 2014	2,000,000	37p
3 August 2004	3 August 2005	3 August 2014	250,000	70p
3 May 2005	3 May 2006	3 May 2015	650,000	130p

During the year options granted under the Performance Related Share Option Scheme were exercised as follows:

<u>Date of grant</u>	<u>Date Exercised</u>	<u>Number of shares</u>	<u>Exercise price</u>
8 April 2003	20 December 2004	200,000	33p

During the year, options granted under the Performance Related Share Option Scheme were relinquished as follows:

<u>Date of grant</u>	<u>Date Relinquished</u>	<u>Number of shares</u>	<u>Exercise price</u>
8 August 2001	17 February 2005	2,260,000	70p

The company's share price ranged between 56.5p and 192p during the year. The closing share price as at 30 June 2005 was 151p per share.

20 RESERVES

	<u>Share premium account</u> £	<u>Merger Reserve</u> £	<u>Profit and loss account</u> £
Group			
At 1 July 2004	4,415,004	(1,076,399)	984,165
Loss for the year	-	-	(204,321)
Currency translation differences	-	-	(824,826)
Deferred tax on exchange differences	-	-	125,705
Increase in share premium	3,968,819	-	-
At 30 June 2005	8,383,823	(1,076,399)	80,723
Company			
At 1 July 2004	4,415,004	-	(130,089)
Retained loss for the year	-	-	(80,827)
Increase in share premium	3,968,819	-	-
At 30 June 2005	8,383,823	-	(210,916)

FIRESTONE DIAMONDS PLC
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21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>Group</u> <u>2005</u> £	<u>Group</u> <u>2004</u> £
(Loss)/profit for the year	(204,321)	161,498
Other gains and losses in the year	(699,121)	113,782
	<hr/> (903,442) <hr/>	<hr/> 275,280 <hr/>
New share capital subscribed	4,943,319	2,119,881
	<hr/>	<hr/>
Net addition to shareholders' funds	4,039,877	2,395,161
Opening shareholders' funds	12,515,864	10,120,703
	<hr/>	<hr/>
Closing shareholders' funds	<u>16,555,741</u>	<u>12,515,864</u>

22 NET CASH FLOW FROM OPERATING ACTIVITIES

	<u>2005</u> £	<u>2004</u> £
Operating (loss)/profit	(216,337)	106,749
Depreciation of tangible fixed assets	153,737	90,204
Amortisation of intangible fixed assets	82,622	34,721
Decrease in stocks	11,278	16,863
Decrease/(increase) in debtors	5,396	(192,192)
Increase/(decrease) in creditors	1,360,190	(205,499)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>1,396,886</u>	<u>(149,154)</u>

23 ANALYSIS OF NET FUNDS

	At 1 July <u>2004</u> £	<u>Cash flow</u> £	Non-cash <u>changes</u> £	Movement on <u>exchange</u> £	At 30 June <u>2005</u>
Cash at bank and in hand	293,934	1,844,987	-	(26,660)	2,112,261
Bank overdrafts	(224)	224	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cash	293,710	1,845,211	-	(26,660)	2,112,261
Bank loans	(933,792)	121,008	-	(11,681)	(824,465)
Finance leases	(419,477)	52,483	-	24,504	(342,490)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>(1,059,559)</u>	<u>2,018,702</u>	<u>-</u>	<u>(13,837)</u>	<u>945,306</u>

FIRESTONE DIAMONDS PLC
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24 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<u>2005</u> £	<u>2004</u> £
Increase in cash in the year	1,845,211	2,362
Finance leases net movement	52,483	(113,346)
Cash outflow/(inflow) from decrease/(increase) in loans	121,008	(877,498)
Movement on exchange	(13,837)	(72,217)
	<hr/>	<hr/>
Movement in net funds in the year	2,004,865	(1,060,699)
Net (debt)/funds at 1 July 2004	(1,059,559)	1,140
	<hr/>	<hr/>
Net funds/(debt) at 30 June 2005	945,306	(1,059,559)
	<hr/>	<hr/>

25 CAPITAL COMMITMENTS

At 30 June 2005, the group had authorised and contracted for capital commitments of £Nil (2004: £Nil).

26 RELATED PARTY TRANSACTIONS

During the year ended 30 June 2005, Firestone Diamonds plc and its subsidiaries paid £12,177 (2004: £36,093) for consulting fees, staff costs, rent and other operating costs to Asam Minerals CC, Solarscreen Cape CC and Solarscreen Prospecting CC, companies in which Mr H Jenner-Clarke, who is a director of Firestone Diamonds plc, has an interest.

27 POST BALANCE SHEET EVENTS

On 7 October 2005, the company acquired a 7.28% holding in African Diamonds Plc.

On 14 November 2005, the company completed the placing of 7,692,308 new ordinary shares at a price of £1.30 per share, raising £10,000,000 before the deduction of related expenses.