

FIRESTONE DIAMONDS



2010

Firestone Diamonds plc
Annual Report & Accounts 2010

Firestone Diamonds plc is an emerging force in diamond mining in Africa with a diversified portfolio of production, development and exploration stage projects.

The combination of production from the BK11 Mine in Botswana, which will reach full production in 2011, and the world class Liphobong Mine in Lesotho is expected to move Firestone into the ranks of the leading mid-tier diamond producers.

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2010 Highlights

Key statistics

Total resource

111mt (2009: 11mt)

Contained value

\$2.85bn (2009: \$0.15bn)

Kimberlites in licence areas

110 (2009: 108)

Diamondiferous kimberlites
in licence areas

32 (2009: 30)

BK11 Mine, Botswana

Mine development

- > Development decision made in December 2009
- > 11.5 Mt of kimberlite to be mined at an average grade of 8.5 cpht
- > Mining licence granted and production commenced in July 2010

Production plant

- > Phase 1 fully operational
- > Phase 2 on schedule to reach full capacity by end 2010

Diamond recoveries and sales

- > Diamond recoveries of good quality; high quality 13.74 carat diamond recovered
- > Construction and commissioning of diamond sorting facility completed
- > First diamond sale to commence end November by open tender in Botswana

Liqhobong Mine, Lesotho

Acquisition of Kopane Diamond Developments plc

- > Acquisition completed at the end of September 2010
- > 91 Mt resource identified at an average grade of 34 cpht; contains 31 million carats with a gross value of \$2.7 billion

Initial mine planning studies completed

- > 60 Mt mineable by open pit to depth of 390 metres
- > No waste stripping for first 9 Mt

Mine development plan completed

- > Mining operations to recommence in 2011
- > Capacity of Plant 1 to be tripled to 1.3 Mtpa, with target annual production of \$36m
- > Plant 2 development plan completed, with target capacity of 4.2 Mtpa and annual production of \$116m

Financial

Financings

- > £7.2 million raised in July 2009 and £9.45 million in April 2010 from share placements
- > Terms agreed for a \$6 million credit facility in respect of the BK11 Mine

Secondary listing on Botswana Stock Exchange

- > Application delayed pending completion of Kopane acquisition
- > Listing expected to take place by end 2010

Outlook

- > Production from BK11 and Liqhobong in 2011
- > Continued strength in the rough diamond market
- > Target production level of 1 million carats per annum by 2014

Production target of
1 million carats per
annum by 2014





Our strategy is to build a diversified portfolio of diamond projects in low risk, proven diamond producing areas in Southern Africa that can be exploited using the company's proven capability in diamond evaluation, development and mining projects.

Mines

Liqhobong

- A world class resource, and one of the most attractive undeveloped kimberlite resources in the world. Production planned to resume in 2011.

BK11

- Production commenced in July 2010, and expected to reach full capacity in 2011.

Evaluation & development

BK16

- Located close to BK11; high quality diamonds and encouraging grades recovered from historical work.

Orapa satellite kimberlites

- Twenty kimberlites located in the Orapa field, of which 7 have been proven to be diamondiferous.

Tsabong

- One of the largest diamondiferous kimberlite fields in the world, with 84 kimberlites discovered to date, of which 20 have been proven to contain diamonds.

Exploration

Orapa & Jwaneng

- 10,000 square kilometres around the major Orapa and Jwaneng mines.

Focus on low risk, proven diamond producing regions

Botswana

- Botswana is the world's largest and lowest cost producer of diamonds, with annual production worth over \$3.2 billion, and is considered to be one of the most prospective countries in the world to explore for kimberlite – the primary source rock for diamonds. Botswana hosts Debswana's world class Orapa Mine and Jwaneng Mine.

Lesotho

- Lesotho is emerging as one of Africa's significant new diamond producers, and hosts Gem Diamonds' Letseng Mine, Firestone's Likhobong Mine as well as the Kao and Mothae development projects.



Proven operating capability

- BK11, Botswana** – Commenced production just over three years from being granted a prospecting licence, and less than nine months after the decision was made in December 2009 to proceed with mine development.
- South Africa** – Developed and operated three diamond mines in South Africa.
- Tsabong, Botswana** – Discovered and evaluated 18 kimberlites.



The acquisition of Liqhobong has been transformational for Firestone

Dear Shareholder

The past year has been a transformational one for Firestone and probably the most significant in the Company's history. The commencement of mining operations at the BK11 Mine in Botswana, which resulted in Firestone becoming one of only three junior listed kimberlite producers worldwide, was the first significant milestone. The second milestone was the acquisition of Kopane Diamond Developments plc ("Kopane"), as a result of which Firestone gained control of the Liqhobong Mine in Lesotho, which we consider to be a world class asset and one of the most attractive undeveloped kimberlites in the world.

BK11 Mine

In July 2009 the Company commenced work on the final phase of evaluation on BK11. Following completion of this work in December 2009, the Company announced that it intended to proceed to mine development.

Mine Development

Under the BK11 mine plan approximately 11.5 million tonnes of kimberlite is expected to be mined at an average grade of 8.5 carats per hundred tonnes ("cpht"), giving total production of approximately 1 million carats over a 10 year mine life at an average price of \$155/carat. In the KW area, where the current mining pit is located, approximately 5.4 million tonnes of kimberlite is expected to be mined at an average grade of 12.6 cpht, with an average diamond value of \$175/carat.

Development work commenced at BK11 at the beginning of 2010 and Phase 1 of the production plant, which has a capacity of approximately 650,000 tonnes per annum, was completed on schedule in Q2 2010. A mining licence application was submitted in Q1 2010 and in July 2010 the Company announced that a mining licence had been granted and that commercial production had commenced.

Earthmoving

Pre-stripping of overburden and near-surface low grade kimberlite commenced following granting of the mining licence and by the end of October over 840,000 tonnes of material had been removed. Completion of the pre-stripping work is currently four weeks behind schedule due to more difficult mining conditions being encountered in the calcretised overburden and a revised stripping plan that will allow an increased mining rate to be sustained in 2011 and 2012. It is expected that pre-stripping will be completed and the first kimberlite targeted for mining will be available for treatment at the end of November.

Production Plant

Commissioning of Phase 1 of the production plant was completed at the end of July. Material processed through the production plant to date has been sourced from low grade kimberlite stockpiles from the 2009 bulk sampling programme and from the current pre-stripping activities. Plant performance to date has been good, although plant availability was impacted by generator problems caused by the supply of poor quality diesel. These problems have now been resolved.

Diamonds recovered from the production plant have continued to be of high quality, similar to those recovered from bulk sampling operations, and include a high quality 13.74 carat diamond.

Phase 2 of the production plant is expected to reach full production capacity on schedule by the end of 2010. Based on plant performance to date, the Company expects that the target production level of 1.5 million tonnes per annum will be comfortably exceeded in 2011.

Diamond Sales

The Company has recently completed the commissioning of its diamond sorting facility at the Diamond Technology Park ("DTP") in Gaborone. The facility has been designed to accommodate diamond tenders. The first tender of approximately

3,000 carats from BK11 is scheduled to commence at the end of November 2010 and to be concluded in early December.

Liqhobong Mine

During the year, Firestone entered into negotiations that resulted in agreement being reached on the terms of a recommended all share offer by the Company for Kopane. Kopane's principal asset is a 75% interest in the Liqhobong Mine in Lesotho, where a resource of 91 million tonnes at an average grade of 34 cpht containing 31 million carats has been identified at the Main Pipe. With an average estimated diamond value of \$86/carat and a contained value of approximately \$2.7 billion, Liqhobong is considered by the Company to be one of the most attractive undeveloped kimberlites in the world. The Kopane acquisition was completed at the end of September 2010, and significant progress has been made since then.

Mine Development Plan

Initial mine planning and pit optimisation studies have been completed. The results of these studies indicate that open pit mining operations can be undertaken to a depth of 390 metres and would result in the mining of approximately 60 million tonnes of kimberlite and 19 million carats over a period of approximately 17 years. No waste stripping will be required for the first 9 million tonnes. It is expected that the depth to which open pit mining operations can be extended will be increased as further studies are undertaken.

Firestone's technical personnel have undertaken a detailed review of the current plant (Plant 1) and of the work carried out on the Definitive Feasibility Study ("DFS") for the construction of new, larger plant (Plant 2), with the objective of preparing a plan for the recommencement and expansion of production at Liqhobong in 2011. The most significant conclusion of the review is that the capacity of Plant 1 can be tripled relatively quickly and at low cost, which will allow significant revenues

to be generated well in advance of Plant 2 being put into operation. Highlights of the mine development plan, which has now been completed, are as follows:

Plant 1 Expansion

Capacity (mtpa)	Development time (Months)	Capex estimate (\$m)	Annual revenue (\$m)
0.4	1	1	11
0.65	3	3	18
1.3	9	5	36

Firestone intends to recommence production and undertake the expansion programme at Plant 1 in 2011 using cash flow from mining operations at BK11. Further details of these plans are being finalised and will be announced in due course.

Plant 2 Development

While some additional work is still required to complete the DFS, preliminary plans have been prepared for the development of Plant 2, as outlined below. It is expected that the decision to commence construction of Phase 1 will be made in 2012, which would result in Plant 2 commencing production in 2013.

Capacity (mtpa)	Development time (Months)	Capex estimate (\$m)	Annual revenue (\$m)
2.5 (Phase 1)	18	45	71
4.2 (Phase 2)	12	25	116

Resources and Reserves

An independent review has been undertaken by MPH Consulting Limited of the Lihobong resource and of the proposed mine development plan. This review has resulted in the declaration of a SAMREC-compliant probable reserve of 37 million tonnes at an average grade of 31 cpht containing 12 million carats. The MPH review has also identified the potential for a significant upgrade to the resource grade, which was based on the results from 1,700 tonnes of kimberlite sampled by 28 17" diameter drill holes. These samples are relatively small and the grade estimates on which they are based are likely to be conservative. This is borne out by the fact that subsequent surface bulk sampling of 34,000 tonnes produced an average grade of 38 cpht. Firestone intends to remodel the resource grades using the surface bulk sampling results, and expects the resource grade to increase as a result. This work will be undertaken in H1 2011.

Diamond Sale

Subject to the receipt of necessary approvals from the Lesotho regulatory authorities, Firestone intends to offer for sale a parcel of over 10,000 carats recovered from previous operations at

Lihobong at the Company's upcoming tender in Botswana.

Other Botswana Projects

In addition to BK11, Firestone controls 21 other kimberlites in the Orapa kimberlite field, of which 13 have been proven to be diamondiferous, and 86 kimberlites in the Tsabong kimberlite field, of which 16 have been proven to be diamondiferous. The Company believes that the likelihood of further economic discoveries being made in these kimberlites is very good. While Lihobong and BK11 will be the Company's primary focus in 2011, Firestone intends to use cash flow from its mining operations to evaluate these kimberlites with the objective of identifying additional resources that can be developed and brought into production. The Company also intends to continue to pursue toll treatment opportunities such as the Jwaneng tailings projects with Debswana, although implementation of this project was delayed by Debswana in September 2010.

Financial

No revenue was generated during the year, as the Company's activities were exclusively focused on development work at BK11 and on the Kopane acquisition. The Company raised £7.2 million in July 2009 and £9.45 million in April 2010 from share placements to finance the development of BK11 and the Company's other projects in Botswana, and to provide general working capital for the Company.

The acquisition of Kopane was the most significant event over the past year. This acquisition was implemented by way of the issuance of 0.4657 Firestone shares for every Kopane share. As a result of this acquisition, Kopane shareholders were issued with new Firestone shares equivalent to 52% of Firestone's enlarged share capital.

The Company has recently agreed terms for a credit facility of \$6 million in respect of the BK11 Mine. This facility will give the Company greater flexibility in planning and financing its activities elsewhere in Botswana and in Lesotho. The facility is expected to be finalised shortly, at which time further details will be made available.

In Q1 2010 the Company announced that it intended to apply for a secondary listing of shares in the Company on the Botswana Stock Exchange. Submission of the listing application was delayed pending completion of the Kopane acquisition, and listing is now expected to take place before the end of 2010.

Board

At the time that the Kopane offer was made in July 2010 the Company indicated that it intended to appoint Tim Wilkes, our Chief Operating Officer, to the Board and to recruit a new Finance Director with significant experience in the mining sector in Southern Africa. Tim Wilkes is expected to join the board shortly, and a number of candidates have been identified for the Finance Director position.

Considering the significant expansion in nature and scale of the Company's operations over the past year and the further expansion that is expected as production commences at Lihobong in 2011, we believe that additional changes will be required to strengthen the Board and to ensure that it has the right balance of skills and experience to guide the Company through the next stage of its development. Hugh Jenner-Clarke and I, who have both been directors since the Company listed on AIM in 1998, have therefore agreed to step down from the Board following the forthcoming annual general meeting in order to make way for new directors who will be able to assist the Board in meeting the challenges that lie ahead. A number of potential candidates have been identified and the Company expects to be able to announce new appointments in due course. I am pleased to report that Michael Hampton has agreed to act as Chairman on an interim basis until a replacement has been selected.

Outlook

With Firestone planning to be producing at both BK11 and Lihobong in 2011, an exciting portfolio of projects to evaluate in Botswana, and the continued positive outlook for the rough diamond market, we believe that the prospects for Firestone are brighter than at any time in the Company's history. We are confident that the target of producing 1 million carats per annum by 2014 is one that the Company is now well positioned to reach.

As this will be the last set of financial results that I report on as Chairman, I would like to put on record my thanks to those shareholders who have continued to support the Company as it has developed and to the management and staff whose commitment and skills have greatly contributed to the Company's progress. I look forward to following the Company's future successes.

James F Kenny
Chairman

23 November 2010

Project overview - Mines

Liqhobong Mine

- > 9 hectare kimberlite
- > Located in northern Lesotho
- > Resource of over 90 Mt at a grade of 34.3 cpht, containing 31 million carats
- > Diamonds valued at \$86 per carat, giving a gross in-situ value of \$2.7 billion
- > Expected revenue of \$29/t and operating costs of \$12/t
- > Production expected to recommence in 2011

The Liqhobong Mine in Lesotho is Firestone's principal asset, and was acquired as a result of the acquisition of Kopane Diamond Developments plc in September 2010. Liqhobong is located at the head of the Liqhobong Valley in the Maluti Mountains of northern Lesotho and is operated by Liqhobong Mining Development Company (Proprietary) Limited "LMDC", which is 75% owned by Firestone and 25% owned by the Government of Lesotho. Liqhobong is considered by Firestone to be one of the largest and most attractive undeveloped kimberlite resources in the world. The Letseng Mine, which is operated by Gem Diamonds Limited, and a number of other kimberlites that are currently undergoing evaluation by other companies, including the Kao and Mothae kimberlites, are located close to Liqhobong.

The Liqhobong Mine is comprised of the Main Pipe and the Satellite Pipe, which cover areas of 8.5 hectares and 0.8 hectares, respectively. LMDC has been granted a mining lease covering an area

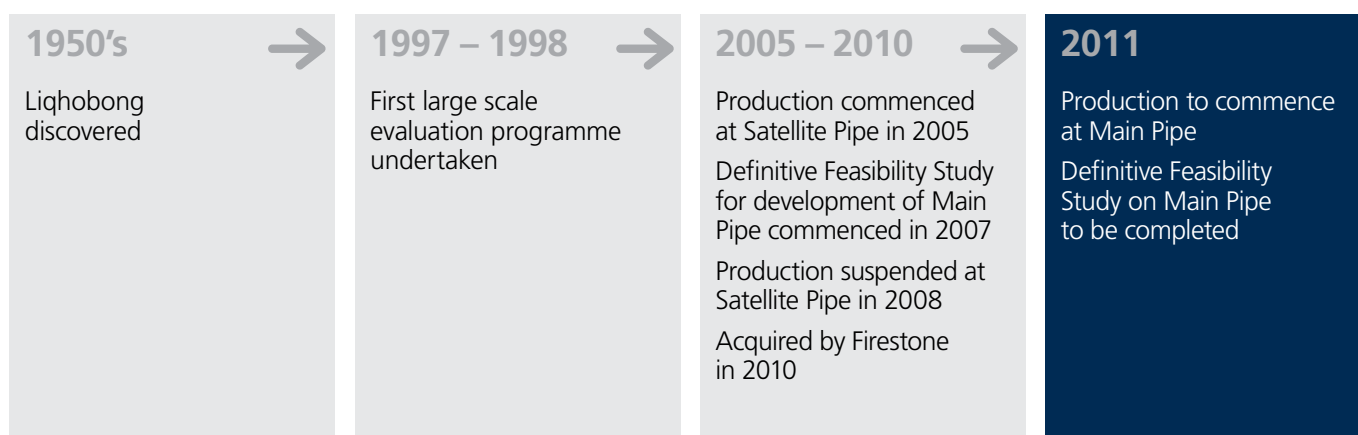
of 390 hectares in respect of both pipes which expires in August 2017, but is then renewable for a further ten years. This licence contains three further kimberlites which have yet to be extensively evaluated. Small scale production was carried out at the Satellite Pipe up to December 2008, when mining operations were suspended due to the sharp fall in diamond prices at that time.

A substantial resource of over 90 Mt at an average grade of 34.3 carats per hundred tonnes containing 31 million carats has been identified at the Main Pipe at Liqhobong by independent mining and geological consultants, ACA Howe Limited. With an independent run of mine valuation of US\$86 per carat (September 2008 valuation), this gives a gross in-situ value of \$2.7 billion. With expected revenues of \$29/t and estimated operating costs of \$12/t for kimberlite mining in Lesotho, this provides an indication of the significant economic potential at Liqhobong.

Firestone intends to recommence production at the Main Pipe in 2011 using the Number 1 Plant (formerly known as the Satellite Plant) and using diesel generated power until a connection to the electricity grid is available. Firestone also intends to complete the definitive feasibility study ("DFS") for the construction of a 4 mtpa plant at Liqhobong in 2011. Preliminary results from the DFS, which is now at an advanced stage, indicate that the Main Pipe is likely to support a substantial, long life mining operation.

The successful development of the Main Pipe will be aided by a connection to the electricity grid operated by the Lesotho Electricity Company. A Memorandum of Understanding between LMDC, the Lesotho Electricity Corporation, the Government of Lesotho and Standard Lesotho Bank in respect of funding of the construction of an electrical power line to the Main Pipe was signed in August 2009. It is expected that construction will start in H1 2011, which would allow grid electricity to be available at the mine site by mid 2012.

Liqhobong development history





Left: Aerial view of Liqhobong Mine.

Top: Wide Diameter drilling rig.

Bottom: Vivid Yellow 13.32ct diamond.



Project overview - Mines

BK11 Mine

- > 8 hectare kimberlite
- > Located in the centre of Orapa kimberlite field in northern Botswana
- > Resource of over 11 Mt at a grade of 8.5 cpht, containing 1 million carats
- > Diamonds valued at \$175 per carat, giving a gross in-situ value of \$150 million
- > Revenue ranging from \$13 – 22/t and estimated operating costs of \$6.50/t
- > Production commenced in July 2010

The BK11 Mine is located in the Orapa kimberlite field in northern Botswana, approximately 7 kilometres north-west and 20 kilometres south-east of De Beers' Letlhakane and Orapa mines, respectively, and is within 5 kilometres of a proposed new mine at AK6 being developed by Lucara Diamond Corporation. The surface area of BK11 is estimated to be eight hectares and overburden is shallow at less than 20 metres. Firestone owns a 90% interest in BK11.

In July 2009 Firestone commenced work on the final phase of evaluation on BK11. The primary objective of this work was to recover a sufficiently large parcel of diamonds in order for a high confidence diamond valuation to be obtained and to allow a mine development decision to be made. The quality of diamonds recovered from the bulk sampling trench was very good, comprising mostly clear white gemstones and very little board. Firestone announced in December 2009 that it intended to proceed to mine development

on BK11. Phase 1 construction was completed and commercial production commenced in July 2010.

A resource of over 11 Mt at an average grade of 8.5 carats per hundred tonnes containing 1 million carats has been identified at BK11 by independent mining and geological consultants, MPH Consulting Limited. With an independent run of mine valuation of US\$175 per carat, this gives a gross in-situ value of \$150 million. With expected revenues of \$13 – 22/t and estimated operating costs of \$6.50/t for kimberlite mining at BK11, this provides an indication of the economic potential at BK11.

Phase one of the BK11 production plant, which has a capacity of approximately 650,000 tonnes per annum, is currently in operation. Full production capacity of 1,500,000 tonnes per annum is expected to be reached by the end of 2010.

BK11 development history



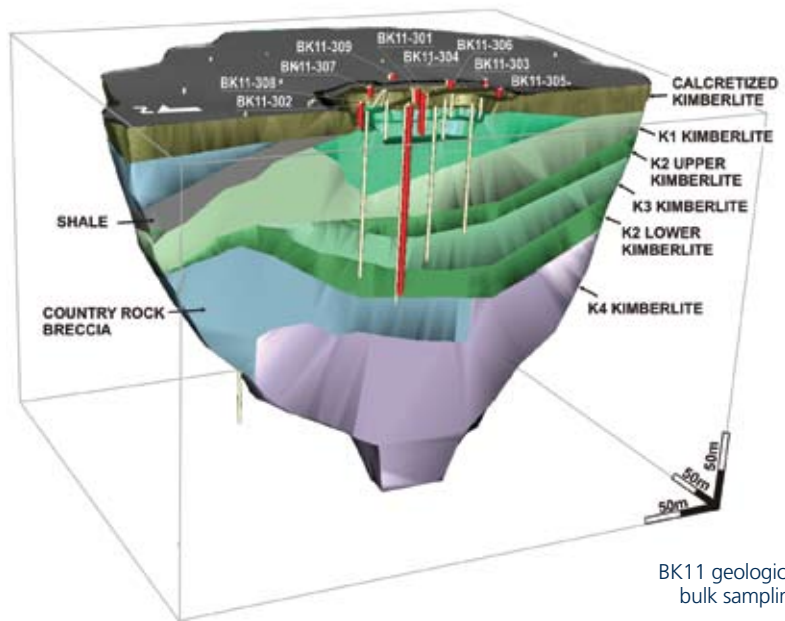


BK11 evaluation work

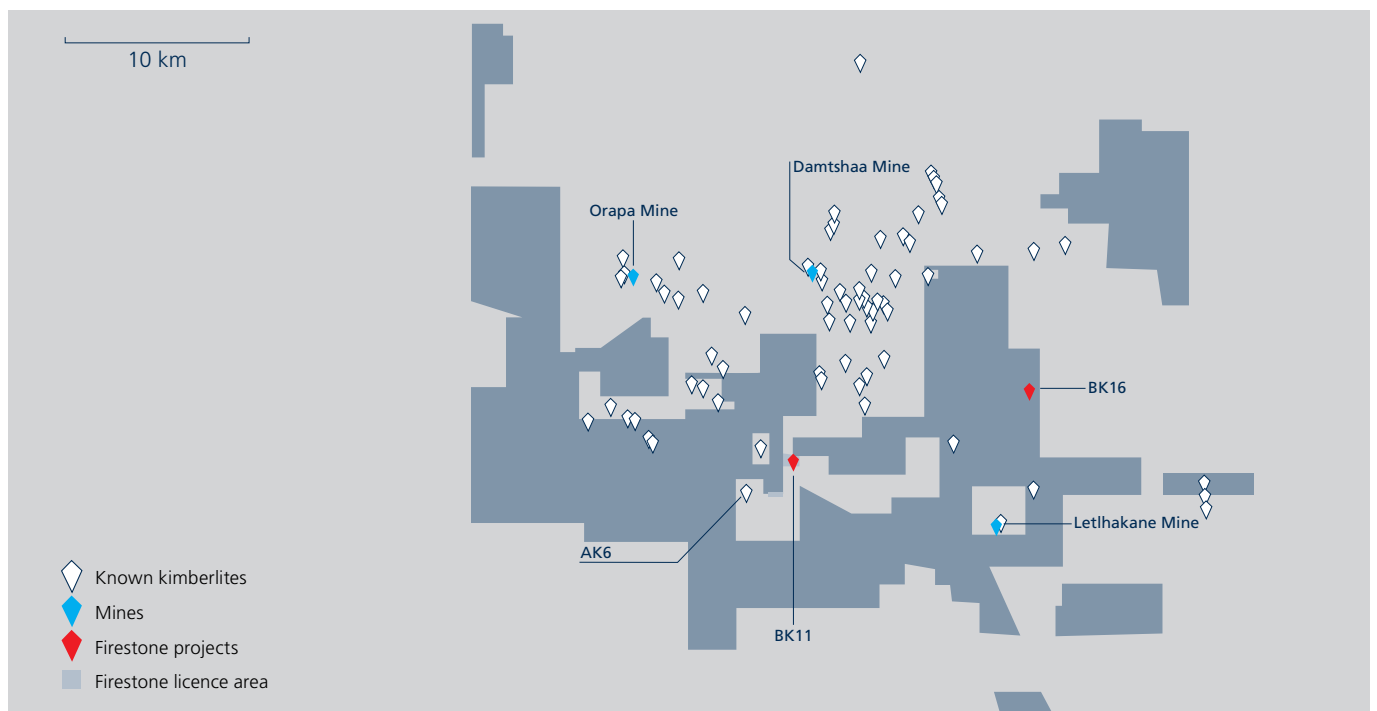
- > 6,300m of core drilling
- > 3 x 24" and 6 x 36" LDD holes
- > 900 tonnes of kimberlite sampled
- > High grades and diamond values in KW area (9 – 15 cpht and \$175/ct = \$16 – 26/t)

BK11 Geological Model

- > Target economic zone 0 – 120 metres
- > Internal geology and grade distribution well understood
- > Contains high grade grain flow deposits, similar to Orapa and Damtshaa Mines



BK11 geological model and bulk sampling excavation



Project overview - Evaluation and Development

BK16 and Orapa satellite kimberlites

- > BK16 – located close to BK11
 - high quality diamonds and encouraging grades recovered from historical work
- > Orapa satellite kimberlites
 - Twenty kimberlites located in the Orapa field, of which 7 have been proven to be diamondiferous



Orapa Mine (Debswana)

Firestone intends to use the infrastructure that has been established at BK11 to evaluate the economic potential of BK16 and the Orapa satellite kimberlites rapidly and at relatively low cost. The Company believes that there is potential to develop a sizeable satellite mining operation in the Orapa area based around these kimberlites.

BK16

Firestone has a joint venture agreement with SouthernEra under which it can acquire an 87.5% interest in the BK16 kimberlite in return for carrying all costs to completion of bankable feasibility. BK16 is situated approximately 22 kilometres north east of BK11 and 12 kilometres north of

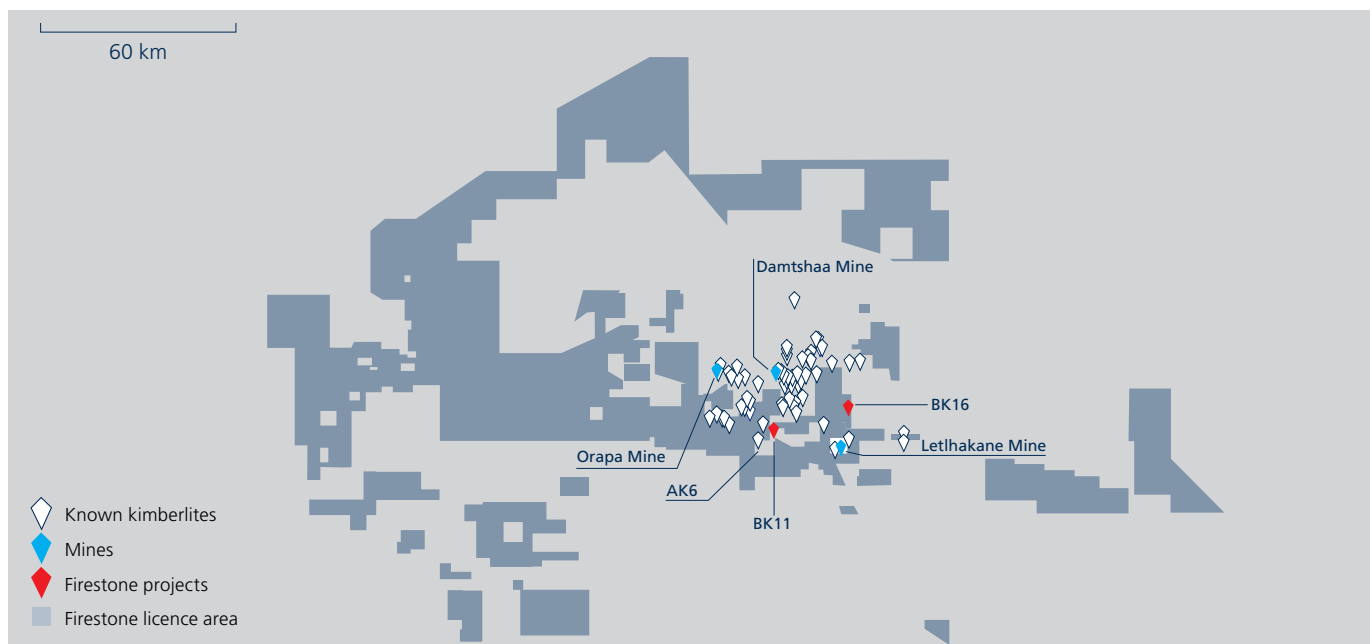
the Letlhakane Mine. It was discovered by De Beers in the 1970's and a grade of 15 cpts was reported from bulk sampling.

Limited work has been carried out on BK16 since then, until SouthernEra acquired control of the project in 2007. SouthernEra carried out high resolution ground geophysical surveys and drilled 19 core and percussion holes totalling approximately 2,300 metres. Based on this work, BK16 is estimated to be a minimum of 3.5 hectares in size and to contain approximately 17 million tonnes of kimberlite to a depth of 200 metres. Diamonds recovered by the limited sampling carried out by SouthernEra

and others has recovered predominantly high quality, white gemstones, with few industrial diamonds. This indicates that diamonds from BK16 are likely to have a high average value, possibly similar to BK11.

Orapa satellite kimberlites

Firestone controls 21 other kimberlites in the Orapa kimberlite field close to the BK11 Mine, of which 8 have been proven to be diamondiferous. Some of these kimberlites are 100% owned by Firestone and some are controlled through a joint venture with Tawana Resources NL, under the terms of which Firestone can earn an 85% interest.



Tsabong

- > Covers 4,000 square kilometres and the entire Tsabong field
- > Contains 84 kimberlites, 20 diamondiferous
- > 146 hectare MK1 is largest known diamondiferous kimberlite in the world
- > Expect number of kimberlites in the Tsabong field to reach more than 100



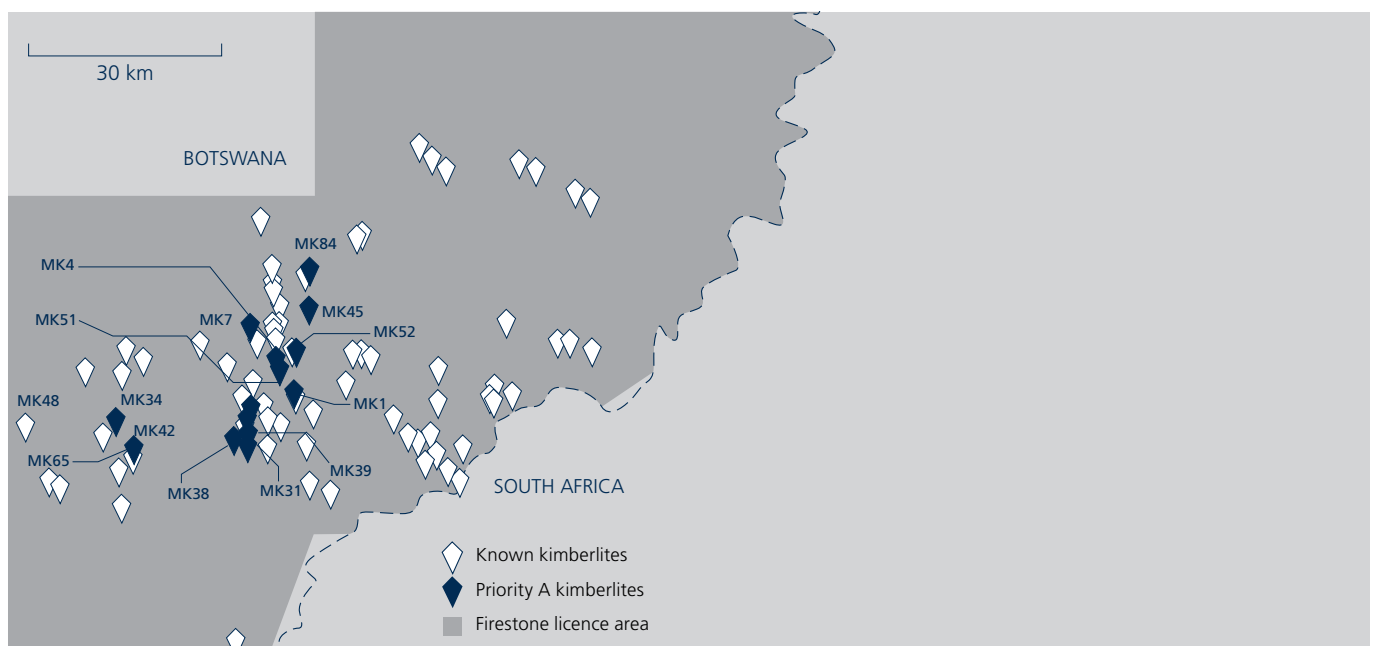
The Tsabong kimberlite field is located in south western Botswana, approximately 280 kilometres south west of the Jwaneng Mine, which is the world's most profitable diamond mine, producing over \$2 billion revenue and over \$1.8 billion operating profit per annum. The Tsabong project extends over an area of approximately 4,000 square kilometres, and covers the entire Tsabong kimberlite field. Firestone owns a 100% interest in the Tsabong project.

Tsabong is one of the largest diamondiferous kimberlite fields in the world, with 84 kimberlites discovered to date, of which 20 have been proven to

contain diamonds. Tsabong is noted for the exceptionally large size of many of its kimberlites, in particular the 146 hectare MK1 kimberlite, which is one of the largest known diamondiferous kimberlites. Substantial work has been carried out at Tsabong by Firestone, the results of which indicate that the Tsabong kimberlite field is located in a similar geological setting to the major Jwaneng Mine and that it has the potential to contain economic large sized diamondiferous kimberlite deposits.

The Tsabong field also contains 5 kimberlites larger than 50 hectares and 32 kimberlites between 20 and 50 hectares in size. Work at Tsabong has

been primarily focused on 14 high interest kimberlites that were selected on the basis of diamond content, kimberlite indicator mineral ("KIM") chemistry and size. A programme of 17,000 metres of core and percussion drilling has been undertaken on these kimberlites to obtain material for detailed microdiamond, KIM chemistry and petrographic analyses. Exploration at Tsabong is targeting approximately 80 well defined geophysical anomalies that have been identified by interpretation of aeromagnetic survey data over the area and the likelihood of new discoveries being made is very good.



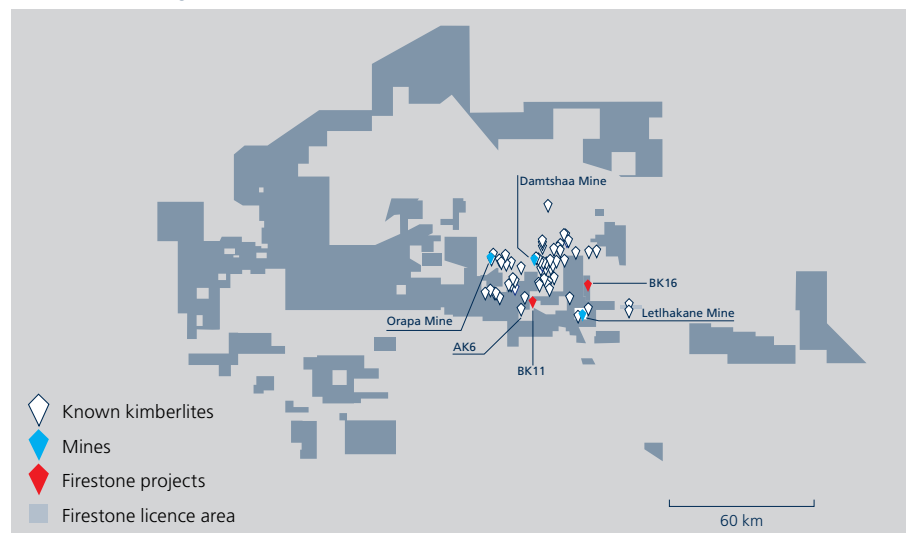
Project overview - Exploration

Orapa and Jwaneng Projects

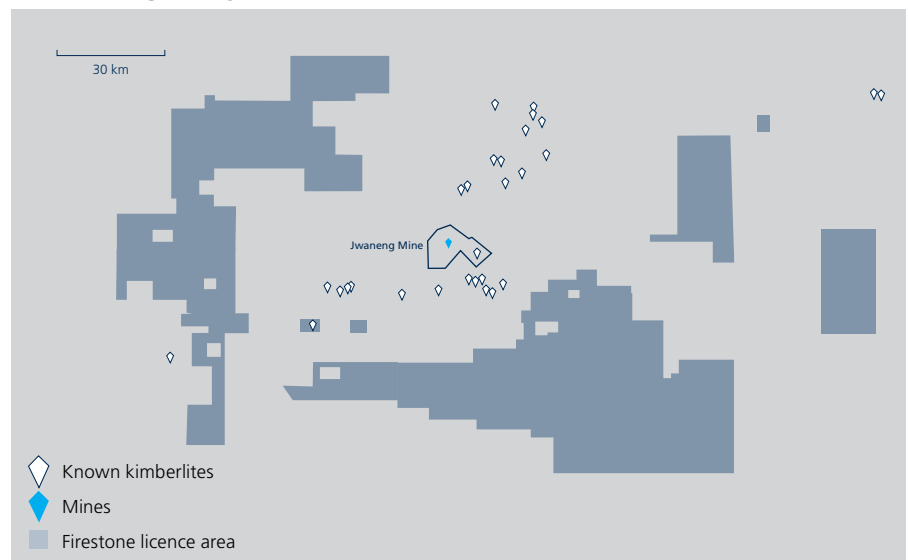
- > Prospecting licences over an area of approximately 6,700 square kilometres in the Orapa region
- > Prospecting licences over an area of approximately 3,800 square kilometres in the Jwaneng region

Firestone controls prospecting licences over an area of approximately 6,700 square kilometres in the Orapa region and approximately 3,800 square kilometres in the Jwaneng region. Most of these licences have been explored by Firestone and by De Beers in joint venture with Firestone. The results from exploration carried out by Firestone and by De Beers are being compiled and subjected to final assessment. With Firestone's activities in Botswana being primarily focused on the areas immediately surrounding the Orapa and Tsabong kimberlite fields, the Company only intends to retain areas identified by the final assessment as still being prospective for kimberlite discovery.

Orapa Project



Jwaneng Project



Directors and Senior Management



1. James F Kenny, B.A., LL.B., M.Sc.

Chairman (Outgoing)

Jim Kenny is a graduate in law and economics from University College, Dublin, and holds a Masters degree in Economics from Columbia University Graduate School of Business Administration, New York. He has over 30 years' experience as chairman and chief executive of several private and publicly quoted companies in natural resources exploration and production in the oil and gas, gold, diamonds, base-metals and industrial minerals sectors.

2. Philip Kenny, B.E., M.B.A.

Chief Executive Officer

Philip Kenny is a graduate in Mechanical Engineering from University College, Dublin, and holds postgraduate qualifications in Engineering from Trinity College, Dublin and a Master of Business Administration in Finance from Boston College, Massachusetts. He has 25 years' experience in the mining, and oil and gas sectors in Europe, Africa and the U.S., and has worked for more than 12 years in the diamond mining and exploration business.

3. Tim Wilkes, B.Sc.

Chief Operating Officer

Tim Wilkes is a graduate in geology from Kingston University, England and has over 26 years' experience on kimberlite and alluvial diamond exploration, evaluation and mining projects worldwide. He spent 18 years with De Beers, where he was the Competent Person and General Manager – Mineral Resource Management, with responsibilities for the management of De Beers' mineral resource portfolio worldwide. He is a member of the sub-committee for diamonds of the South African Mineral Resource Committee (SAMREC).

4. Jan Louw, B.E.

Director of Operations

Jan Louw is a graduate in Mechanical Engineering from Stellenbosch University, South Africa and has extensive experience in planning, developing and managing large scale open cast mining operations. He worked in senior management positions for Anglo American for 16 years in South Africa and Namibia, and was Mine Manager at Anglo American's Namakwa Sands mining operation in South Africa prior to joining Firestone Diamonds.

5. James Kenny, B.Comm., M.B.S.

Director

James Kenny holds a Bachelor of Commerce (Honours) and a Master's Degree in Finance from University College Dublin. He has over 18 years' investment banking experience in the natural resources and other sectors. He has worked for Natwest and was a director of ABN AMRO and ABN AMRO Rothschild. He was the founder and former Chief Executive of Evolution Capital Limited, now part of Evolution Securities plc and is currently a director of Metro Capital Management, Axion plc and Advantage Partners International.

6. Hugh Jenner-Clarke, B.Sc., F.G.S.

Director (Outgoing)

Hugh Jenner-Clarke is a graduate in geology (Honours) from Imperial College, London. He has over 40 years' experience in the diamond exploration industry as a geologist and exploration manager. He has worked on diamond exploration and mining projects in South Africa, Botswana, Australia, the USA and South America.

7. Michael Hampton, B.A.

Director

Mike Hampton holds a Bachelor of Arts degree from Harvard University. He has an extensive background in financing in the mining, commodities and shipping sectors. He spent 20 years at Chase Manhattan Bank and Swiss Bank in New York, Hong Kong, London and Chicago and has been involved in raising start-up and development capital for clients in the mining sector for over 15 years.

8. William Douglas Baxter, M.A., M.A.I.

Director

Doug Baxter holds a Masters degree in Engineering from Trinity College, Dublin, and is a Fellow of both the Institution of Civil Engineers of Ireland and of the Institution of Civil Engineers (U.K.). He has over 35 years' experience with Ove Arup & Partners and other companies in major engineering projects in Europe, Asia, the Middle East and Africa.

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2010.

Results and dividends

The Group made a loss after taxation of £2,406,000 (2009: a loss of £10,991,000). Further details are shown in the consolidated statement of comprehensive income on page 20.

The Directors do not recommend a dividend (2009: nil).

Principal activities

The principal activity of the Group was diamond exploration and mining in Southern Africa. The principal activity of the Company was that of a holding company.

Review of the business

A detailed review of the business, a review of the acquisition of Kopane Diamond Developments plc ('KDD' or Kopane) which was completed on 29 September 2010 and future developments of the business is included within the Chairman's Statement.

Capital structure

At 1 July 2009 the Company's issued share capital comprised 61,732,194 ordinary shares of £0.20. On 8 July 2009 the Company undertook a financing which resulted in the issuance of a further 35,873,480 ordinary shares of £0.20 at an issue price of 20p (£7,174,000). On 14 January 2010 the Company issued a further 285,963 ordinary shares of £0.20 at an issue price of £0.305 (£87,219) in relation to the exercise of shares to the employee benefit trust which in the process of being established. On 15 April 2010 the Company undertook a financing which resulted in the issuance of a further 30,000,000 ordinary shares of £0.20 at a price of £0.315 (£9,450,000). The share capital of the Company on 30 June 2010 comprised 127,891,637 ordinary shares of £0.20.

On 29 September 2010 the Company issued a further 140,413,477 ordinary shares of £0.20 at an issue price of £0.2875. The issue of shares was made pursuant to an offer for the whole of the issued share capital of Kopane.

Following the issue of the shares pursuant to the successful completion of the acquisition of Kopane the number of shares in issue comprised 268,305,114 ordinary shares of £0.20.

At 19 November the Company had been notified of the following interests in the issued ordinary share capital:

	2010 Shares	2010 %
JP Morgan Asset Management	26,587,826	9.77
Lanstead Partners	20,590,741	7.57
Gartmore Investment Limited	17,567,882	6.55
HSBC Global Asset Management	12,411,028	4.63
TD Waterhouse	11,005,629	4.04
Axa Framlington	8,383,600	3.08
Legal & General Investment Management	8,279,000	3.04
Blenheim Trust Company Limited	8,166,328	3.00

Directors

The directors who served during the year were as follows:

J F Kenny	Chairman
P Kenny	Chief Executive Officer
M J Hampton ^{1 2}	Director
J Kenny jnr ^{1 2}	Director
H C D Jenner-Clarke	Director
W D Baxter	Director

1 Member of the remuneration committee

2 Member of the audit committee

Directors' interests in the Company

Director	2010		2009	
	Interest in equity shares Number	Interest in options Number	Interest in equity shares Number	Interest in options Number
J F Kenny	505,765	350,000	505,765	700,000
P Kenny	538,806	350,000	538,806	700,000
M J Hampton	190,712	110,000	106,875	220,000
J Kenny jnr	157,023	200,000	157,023	400,000
H C D Jenner-Clarke	586,057	350,000	586,057	700,000
W D Baxter	22,000	–	10,000	–

Principal risks and uncertainties

Business risks

The business of diamond exploration and mining has a number of inherent risks. These include the Group failing to identify economically viable diamond deposits at its exploration and evaluation projects and the possible failure to produce the expected tonnage and grade or diamond quality at the Group's mining and processing operations. The Board is aware of these risks and regularly reviews technical progress at all of the Group's projects in order to identify and manage these risks in the most effective manner.

Environmental and other regulatory requirements

The Group endeavours to comply with the environmental regulations and policies of the areas in which it operates. Where necessary, the Group establishes rehabilitation provisions to reflect current legislation within the areas in which it operates.

Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditure, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. No assurance can be given that new rules and regulations will not be enacted or existing legislations will not be applied in a manner which could limit or curtail the Group's activities.

Financial risks

The Company is exposed to a number of different currency risks between the Rand, US Dollar, Sterling and Pula. The Group values and sells its diamonds in US Dollars, but proceeds of sale are received in Rand. 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 Group's expenses in Botswana and South Africa are incurred in Pula and Rand respectively, so any weakening in the Pula or 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 Pula or Rand.

On 29 September 2010 the Company completed the acquisition of Kopane. The principal area of operation of Kopane is Lesotho. Operational costs will be incurred in Maloti and Rand and diamond sales will be in US Dollars. Similar risks will apply in 2011 when the Group recommences production at the Liqhobong mine in Lesotho as currently apply to the Group's operations in Botswana.

The Company does not hedge its currency positions other than for short-term transfers of funds between currencies which are expected to be reversed within 12 months. The Board monitors and reviews its policies in this regard on a regular basis.

The Company takes out suitable insurance against operational risks that are anticipated as being material.

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

Further details of the Group's financial instruments and financial risk management objectives and policies are set out in note 29 of the financial statements.

Key Performance Indicators ('KPIs')

Given the nature of the business, the cessation of South African exploration and processing operations in 2009, that the Group's operations at BK11 in Botswana were not in production during the year to 30 June 2010 and also that the Group's other kimberlite exploration, evaluation and development projects in Botswana are at an early stage, the Directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of the business at this time. However, the Directors constantly review the planned exploration and evaluation expenditure and general operating costs to ensure that cash resources are available prior to commitment to this expenditure.

	2010 £000	2009 £000
Cash and cash equivalents at the year-end	5,645	1,019

As outlined in the Capital structure section above the Company raised approximately £16.7 million before expenses from the issue of new ordinary shares during the year. The funds received were used to fund the development of the Group's BK11 project, which commenced production in July 2010 and the Group's other activities in Botswana.

In addition to the above, the Board also considers non-financial factors such as the Group's compliance with Corporate Governance Standards and compliance with environmental, rehabilitation and other legislation within the Group's areas of operations.

Post-balance sheet events

On 29 September 2010 the Company completed the acquisition of Kopane in a share-for-share exchange. Further details of this acquisition are set out in the Chairman's statement, the Project overview and in note 31.

Policy and practice on the payment of creditors

The policy of the Group is to settle supplier invoices within the terms and conditions of trade agreed with individual suppliers. At the year-end the Group had an average of 47 days (2009: 9 days) purchases outstanding and the Company an average of 116 days (2009: 92 days).

Political and charitable donations

The Group made no charitable donations or political donations in the year (2009: Nil).

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.

Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware, there was no relevant available information of which the Company's auditors were unaware; and
- that director has taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

A resolution to reappoint PKF (UK) LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Corporate governance

Internal financial control

The Group operates a system of internal financial controls commensurate with its current size and activities, which is designed to ensure that the possibility of misstatement or loss is kept to a minimum. There is a system in place for financial reporting and the Board receives a number of reports to enable it to carry out these functions in the most efficient manner. These procedures include the preparation of management accounts, forecast variance analysis and other ad hoc reports. There are clearly defined authority limits throughout the Group, including those matters which are reserved specifically for the Board. The Board has responsibility for the effectiveness of the internal financial control framework. Such a system can only provide reasonable and not absolute assurance against material misstatement. Following the acquisition of Kopane on 29 September 2010 the Board has commissioned a review of its operational and financial control procedures. The Group does not currently have, nor considers there is currently a need for, an internal audit function.

Directors' report continued

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the group for that period. In preparing these 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;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Annual General Meeting

Notice of the Annual General Meeting of the Company for 2010 is on page 52.

On behalf of the Board

Philip Kenny

Director

23 November 2010

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 2010 which comprise the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent company statements of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

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

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2010 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jason Homewood (Senior statutory auditor)

for and on behalf of PKF (U.K.) LLP, Statutory auditors
London, U.K.

23 November 2010

Consolidated statement of comprehensive income

For the year ended 30 June 2010

	Note	2010 £000	2009 £000
Revenue	3	3	4,034
Raw materials and consumables used		(180)	(170)
Employee costs	7	(477)	(801)
Amortisation and depreciation		(369)	(640)
Impairment of mineral rights and mining properties	6	–	(8,773)
Impairment of goodwill	16	–	(2,473)
Impairment of property, plant and equipment	12	(200)	–
Release of rehabilitation provisions	13	528	–
Acquisition expenses	6	(1,234)	–
Other operating expenses		(490)	(1,728)
Operating loss	5	(2,419)	(10,551)
Financial income	10	24	117
Finance expense	11	(11)	(324)
Loss before tax		(2,406)	(10,758)
Taxation	14	–	(233)
Loss after tax for the year		(2,406)	(10,991)
Other comprehensive income:			
Exchange differences on translating foreign operations net of tax	14	1,135	4,318
Total comprehensive income and expense for the year		(1,271)	(6,673)
Loss after tax for the year attributable to:			
Equity holders of the parent		(2,478)	(10,991)
Non-controlling interest		72	–
		(2,406)	(10,991)
Total comprehensive income for the year attributable to:			
Equity holders of the parent		(1,346)	(6,673)
Non-controlling interest		75	–
		(1,271)	(6,673)
Basic loss per share	15	(2.3)p	(17.9)p
Diluted loss per share	15	(2.3)p	(17.9)p

All amounts relate to continuing operations.

The notes on pages 27 to 51 form part of these financial statements.

Consolidated statement of financial position

For the year ended 30 June 2010

	Note	2010 £000	2009 £000
Assets			
Non-current assets			
Intangible mining assets	17	20,129	15,485
Property, plant and equipment	18	14,568	8,771
		34,697	24,256
Current assets			
Inventories	20	29	29
Trade and other receivables	21	1,013	586
Cash and cash equivalents	22	5,645	1,019
		6,687	1,634
Total assets		41,384	25,890
Equity and liabilities			
Equity			
Share capital	23	25,578	12,346
Share premium		25,380	22,768
Merger reserve		(1,076)	(1,076)
Translation reserve		429	(703)
Accumulated losses		(15,106)	(12,905)
Total equity attributable to equity holders of the parent		35,205	20,430
Non-controlling interests		75	–
Total equity		35,280	20,430
Non-current liabilities			
Interest-bearing loans and borrowings	25	1,193	1,864
Deferred tax	26	–	–
Provisions	27	–	188
		1,193	2,052
Current liabilities			
Interest-bearing loans and borrowings	25	1,168	1,137
Trade and other payables	28	3,045	1,361
Current tax liabilities		229	–
Provisions	27	469	910
		4,911	3,408
Total liabilities		6,104	5,460
Total equity and liabilities		41,384	25,890

The financial statements were approved by the Board of Directors and authorised for issue on 23 November 2009.

Philip Kenny

Director

Company Registration Number 3589905

The notes on pages 27 to 51 form part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2010

	Share capital £000	Share premium £000	Merger reserve £000	Translation reserve £000	Accumulated losses £000	Total £000	Non-controlling interests £000	Total equity £000
At 1 July 2008	11,170	19,278	(1,076)	(5,021)	(2,257)	22,094	–	22,094
Comprehensive income								
Loss for the year	–	–	–	–	(10,991)	(10,991)	–	(10,991)
Other comprehensive income for the year								
Exchange differences on translating foreign operations	–	–	–	4,318	–	4,318	–	4,318
Total comprehensive income/(loss) for the year	–	–	–	4,318	(10,991)	(6,673)	–	(6,673)
Shares issued in the year	1,176	3,824	–	–	–	5,000	–	5,000
Share issue expenses	–	(334)	–	–	–	(334)	–	(334)
Share-based payment adjustment	–	–	–	–	343	343	–	343
At 30 June 2009	12,346	22,768	(1,076)	(703)	(12,905)	20,430	–	20,430
At 1 July 2009	12,346	22,768	(1,076)	(703)	(12,905)	20,430	–	20,430
Comprehensive income								
Loss for the year	–	–	–	–	(2,478)	(2,478)	72	(2,406)
Other comprehensive income for the year								
Exchange differences on translating foreign operations	–	–	–	1,132	–	1,132	3	1,135
Total comprehensive income/(loss) for the year	–	–	–	1,132	(2,478)	(1,346)	75	(1,271)
Shares issued in the year	13,232	3,480	–	–	–	16,712	–	16,712
Share issue expenses	–	(868)	–	–	–	(868)	–	(868)
Share-based payment adjustment	–	–	–	–	277	277	–	277
At 30 June 2010	25,578	25,380	(1,076)	429	(15,106)	35,205	75	35,280

The notes on pages 27 to 51 form part of these financial statements.

The following describes the nature and purpose of each reserve within owners' equity.

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Amounts arising from the merger of subsidiary investments.
Translation reserve	Gains/(losses) arising on retranslating the net assets and net income of overseas subsidiary companies denominated in foreign currencies into Sterling.
Accumulated losses	Cumulative profit/(loss) of the Group attributable to equity shareholders.

Consolidated statement of cash flows

For the year ended 30 June 2010

	Note	2010 £000	2009 £000
Cash flow from operating activities			
Loss before taxation		(2,406)	(10,758)
Adjustments for:			
Depreciation, amortisation and impairment		570	11,791
Effect of foreign exchange movements		157	894
Interest payable		11	323
Equity-settled share-based payments		277	343
Net cash flow from operating activities before changes in working capital		(1,391)	2,593
Decrease in inventories		–	26
(Increase)/decrease in trade and other receivables		(426)	737
Increase/(decrease) in trade and other payables		1,926	(322)
(Decrease)/increase in provisions		(739)	180
Net cash flow from operating activities		(630)	3,214
Investing activities			
Payments for property, plant and equipment		(5,472)	(1,268)
Payments for non-current intangible assets		(3,991)	(5,635)
Net cash flow from investing activities		(9,463)	(6,903)
Financing activities			
Issue of ordinary shares		16,712	5,000
Share issue expenses		(868)	(334)
Proceeds from long-term borrowings		–	900
Proceeds from lease finance arrangements		140	–
Repayment of long-term borrowings		(1,082)	(905)
Repayment of lease finance		(12)	(11)
Interest paid		(171)	(323)
Net cash flow from financing activities		14,719	4,327
Net increase in cash and cash equivalents in the year		4,626	638
Cash and cash equivalents at the beginning of the year		1,019	381
Cash and cash equivalents at the end of the year	22	5,645	1,019

The notes on pages 27 to 51 form part of these financial statements.

Company statement of financial position

For the year ended 30 June 2010

	Note	2010 £000	2009 £000
Non-current assets			
Investment in subsidiaries	19	45,957	34,097
Current assets			
Trade and other receivables	21	454	–
Cash and cash equivalents	22	4,021	250
		4,475	250
Total assets		50,432	34,347
Equity and liabilities			
Equity			
Share capital	23	25,578	12,346
Share premium		25,380	22,768
Accumulated losses		(2,313)	(948)
Total equity attributable to equity holders of the parent		48,645	34,166
Current liabilities			
Trade and other payables	28	1,787	181
Total liabilities		1,787	181
Total equity and liabilities		50,432	34,347

The financial statements were approved by the Board of Directors and authorised for issue on 23 November 2009.

Philip Kenny

Director

Company Registration Number 3589905

The notes on pages 27 to 51 form part of these financial statements.

Company statement of changes in equity

For the year ended 30 June 2010

Attributable to equity shareholders of the Company

	Share capital £000	Share premium £000	Accumulated losses £000	Total £000
At 1 July 2008	11,170	19,278	(968)	29,480
Comprehensive income				
Loss for the year	–	–	(323)	(323)
Total comprehensive income for the year	–	–	(323)	(323)
Shares issued in the year	1,176	3,824	–	5,000
Share issue expenses	–	(334)	–	(334)
Share-based payment adjustment	–	–	343	343
At 30 June 2009	12,346	22,768	(948)	34,166
At 1 July 2009	12,346	22,768	(948)	34,166
Comprehensive income				
Loss for the year	–	–	(1,642)	(1,642)
Total comprehensive income for the year	–	–	(1,642)	(1,642)
Shares issued in the year	13,232	3,480	–	16,712
Share issue expenses	–	(868)	–	(868)
Share-based payment adjustment	–	–	277	277
At 30 June 2010	25,578	25,380	(2,313)	48,645

The Company had no other comprehensive income in the year.

The notes on pages 27 to 51 form part of these financial statements.

Company statement of cash flows

For the year ended 30 June 2010

	Note	2010 £000	2009 £000
Cash flow from operating activities			
Loss before taxation		(1,642)	(323)
Adjustments for:			
Equity-settled share-based payments		–	343
Net cash flow from operating activities before changes in working capital		(1,642)	20
(Increase)/decrease in trade and other receivables		(177)	3
Increase in trade and other payables		1,606	47
Net cash flow (used in)/generated from operating activities		(213)	70
Investing activities			
Investment in subsidiary companies		(11,860)	(4,499)
Net cash flow used in investing activities		(11,860)	(4,499)
Financing activities			
Issue of ordinary shares		16,712	5,000
Share issue expenses		(868)	(334)
Net cash flow from financing activities		15,844	4,666
Net increase in cash and cash equivalents in the year		3,771	237
Cash and cash equivalents at the beginning of the year		250	13
Cash and cash equivalents at the end of the year	22	4,021	250

The notes on pages 27 to 51 form part of these financial statements.

Notes to the financial statements

For the year ended 30 June 2010

1 Basis of preparation and accounting policies

Firestone Diamonds plc (the "Company") is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in diamond exploration and production in Southern Africa. The Directors regularly review cash flow forecasts to determine whether the Group will have sufficient cash reserves to meet future working capital requirements, progress its exploration projects and take advantage of business opportunities that may arise.

The Group's mining operations at BK11 have commenced since the year end. Based on performance at BK11 to date and its forecast operating cash flows and the forecast cash flows in respect of the rest of the Group's activities, the Directors are satisfied that the Group will have sufficient cash resources to continue its operations and meet its commitments for the foreseeable future. In arriving at this conclusion they have also taken into consideration that the Group has agreed terms in respect of a \$6 million credit facility. This facility will give the Group significantly more flexibility in planning and managing its operations at BK11, Liqhobong and elsewhere, and draw down is subject to conditions precedent that the Company is confident will be satisfied. The Directors have therefore concluded that it is appropriate for the financial statements to be prepared on a going concern basis.

These consolidated financial statements of Firestone Diamonds plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively, 'IFRSs') as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Companies Act s408 exception

The Company has taken advantage of the exemptions allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of £1,642,000 (2009: a loss of £323,000) in respect of the Company which is dealt with in the financial statements of the Company. The Company had no other items of comprehensive income in the year.

The following standards have been applied by the Group from 1 July 2009

- IFRS 8 Operating segments.
- IAS 1 (Revised) Presentation of financial statements.
- IAS 23 (Amendment) Borrowing costs.
- IFRS 2 (Amendment) Share-based payments.
- IAS 27 (Amendment) Consolidated and separate financial statements.
- IFRS 7 (Amendment) Financial instruments: Disclosures.
- IAS 27: Consolidated and separate financial statements (revised).
- IFRS 3: Business Combinations (revised).

IFRS 8 Operating Segments – replaced IAS 14 and requires entities whose debt or equity instruments are traded on a public market to adopt the 'management approach' to reporting the financial performance and position of its operating segments. Information to be reported is what management (specifically the Chief operating decision maker ('CODM')) uses internally for evaluating performance and deciding how to allocate resources to operating segments. There is no longer a requirement to make disclosure based on primary and secondary reporting formats, nor is there a requirement to distinguish between business and geographical segments.

Despite these changes, application of the new standard has not significantly impacted the way management reports segmental information. The Group operated in the year in one segment, diamond mining, exploration and development, and in one principal geographic area – Southern Africa. Operations in South Africa and Botswana are considered to be linked operations. The Group does also conduct business within the UK including the ad hoc raising of funds, subsequently passed to subsidiary companies and incurring of expenditure in relation to the Company's activities as a holding company. None of this activity is considered to be significantly different to the principal activity of the Group within the Southern African region.

Financial reports received by the Board are compiled as relating to the single activity of a linked activity based in Southern Africa.

IAS 1 (Revised) – The revised standard has changed the way the Group's primary financial statements have been presented. The revision required information to be aggregated on the basis of shared characteristics and introduced a 'statement of comprehensive income' to enable readers to analyse changes in an entity's equity resulting from transactions with owners separately from 'non-owner' changes. The revisions included changes in the titles of the primary statements to reflect their function more clearly (for example, the balance sheet is renamed a 'statement of financial position'). The new titles are not mandatory but have been adopted by the Group. Comparative information has been re-presented so that it also conforms with the revised standard.

IAS 23 – The amendment changes the previous version of the standard by removing the option to expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Such borrowing costs are now required to be included in the cost of the fixed asset or inventory item to which they relate. The amendment has not materially affected the Group results as the Group's policy prior to the amendment was to capitalise borrowing costs to qualifying assets.

Notes to the financial statements continued

For the year ended 30 June 2010

1 Basis of preparation and accounting policies continued

IFRS 2 – The amendment clarified that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions. It also specified that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of this amendment has not had any material impact on the Group financial statements as the Group already applied these principles when accounting for share-based payments in the past.

IAS 27 – The amendment introduced a requirement to account for all post-acquisition dividends as income in the parent's own financial statements, irrespective of whether those dividends were received out of pre- or post-acquisition reserves. A related amendment to IFRS 1 permits first-time adopters to recognise in the separate financial statements, at the date of transition, the deemed cost of investments in subsidiaries, jointly-controlled entities and associates at either fair value or the carrying amount under UK GAAP. The amendment to IFRS 1 has not affected the Group or the parent separate financial statements as the Group and the parent have already transitioned to IFRS. The IAS 27 amendment has resulted in a change in accounting policy in the parent's individual financial statements. In accordance with the transitional provisions of the amendment this change will be prospectively applied to dividends received from subsidiaries in future years. There have been no dividends received from subsidiaries in the current financial year. There has therefore been no impact on the Group financial statements.

IFRS 7 – The amendment introduced a three-level hierarchy for fair value measurement disclosures and required entities to provide additional disclosures about the relative reliability of those fair value measurements. In addition, the amendment clarified and enhanced liquidity risk disclosure requirements to enable users to better evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity managed that risk. The Group has provided these additional disclosures in the notes to the financial statements.

IAS 27 (Revised) – The revised standard introduced guidance on accounting for changes in non-controlling interests (currently 'minority interests') where there is no effect on control. The amended IAS 27 states that such transactions should be accounted for as equity transactions, and that any difference between the amount which the non-controlling interests will be adjusted by and the consideration paid or received should be recognised directly in equity. The revised standard also mandates that all earnings and losses of the relevant subsidiaries should be attributed to the parent and the non-controlling interest, in the absence of any explicit agreements to the contrary. The Group has applied this standard prospectively from 1 July 2009. For 2009 such losses were included as part of shareholders' equity, there were no binding agreements whereby the minority was obliged to make good their share of the losses incurred. Had the revised policy been applied in 2009, losses amounting to £2,451,000 for the year and cumulative losses up to 30 June 2009 of £2,107,000 would have been allocated to the non-controlling interests.

IFRS3 (Revised) – There have been some significant changes to IFRS 3 that have impacted on the way that business combinations will be accounted for by the Group. These changes have been accounted for prospectively from 1 July 2009.

The main changes brought about by the revision are:

- The inclusion of an accounting policy option to account for non-controlling interests.
- Amendments to the calculation of goodwill.
- Accounting for acquisitions in stages.
- Requirement to immediately expense acquisition costs.
- Accounting for contingent consideration.
- Recognition and measurement of certain assets and liabilities.

The Group did not undertake any business combinations in the years ended 30 June 2009 and 30 June 2010. However, the changes have resulted in the immediate expensing of costs associated with the acquisition of Kopane totalling £1,234,000.

IFRS effective in 2009 but not relevant

The following standards and interpretations were mandatory for the current accounting period, but are not relevant to the operations of the Group:

- IFRS 1 (Amendment) First-time adoption of IFRS.
- IAS 1 and IAS 32 (Amendment) Presentation of financial statements and Financial Instruments: Presentation.
- IAS 39 and IFRS 7 (Amendment) Reclassification of financial instruments IAS 39 and IFRIC 9 (Amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives.
- IFRIC 13 Customer loyalty programmes.
- IFRIC 15 Agreements for the construction of real estate.
- IFRIC 16 Hedges of a net investment in a foreign operation.

Standards and interpretations issued but not yet applied

Any standards and interpretations that have been issued but are not yet effective have not been applied by the Group in these financial statements. Application of the majority of these Standards and Interpretations is not expected to have a material effect on the financial statements in future periods:

- Amendment to IFRS1 Additional exemptions for First-time adopters, effective 1 January 2010.
- Amendment to IFRS2 Group Cash-settled Share-based payment transactions, effective 1 January 2010.
- Amendment to IAS32: Classification of rights issues, effective 1 February 2010.
- Improvements to IFRSs, issued May 2010. Not yet endorsed by the EU.

- IFRIC19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010.
- Amendment to IFRIC14 Prepayment of a Minimum funding Requirement, effective 1 January 2011.
- IAS24 Related Party Transactions (revised) effective 1 November 2011.
- IFRS9 Financial Instruments, issued November 2009. Not yet endorsed by the EU.

Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiaries have been included from the date of acquisition using the purchase method of accounting.

The consolidated financial statements present the results of the Company and its subsidiaries ('the Group') as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. All subsidiaries have a co-terminous year-end.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group. Profits and losses attributable to the non-controlling interest are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Losses attributable to the non-controlling interest are allocated to the non-controlling interest prospectively from 1 July 2009.

Merger accounting

In accordance with the exemption in IFRS 1, where merger accounting has been used for the relevant acquisition in years prior to the transition date to IFRS of 1 July 2006, the accounting method used for the relevant acquisition has not been restated.

Business combinations and goodwill

The consolidated financial statements incorporate the results of business combinations using the purchase method. The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at the acquisition date fair-value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair-value or at the proportionate share of the acquiree's identifiable net assets. Subsequent changes in the proportion of the non-controlling interests, which do not result in derecognition of the subsidiary are accounted for in equity.

Acquisition costs are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the acquisition date fair-value of the Group's previously-held equity interest in the acquiree is re-measured to fair-value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Group is recognised at fair-value on the acquisition date. Subsequent changes to the fair-value of the contingent consideration, which is deemed to be an asset or a liability, will be recognised in accordance with IAS39 either in profit or loss or as change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled in equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair-value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any recognised impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to either the acquired business or to each of the Group's cash generating units that are expected to benefit from the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms a part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising from business combinations is assessed for impairment annually.

The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Notes to the financial statements continued

For the year ended 30 June 2010

1 Basis of preparation and accounting policies continued

Exploration, evaluation and development expenditure

Exploration and evaluation costs related to an area of interest are carried forward as an intangible asset in the balance sheet where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale. Where these conditions are not met, such costs are written off as incurred. This expenditure is carried at cost less accumulated amortisation and impairment.

Development expenditure incurred by or on behalf of the Group or acquired from a third party is also classified as an intangible asset and is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises acquisition cost and other incurred cost directly attributable to the construction of a mine and the related infrastructure. This expenditure is carried at cost less accumulated amortisation and impairment.

Exploration, evaluation and development expenditure is categorised under deferred exploration and development costs, exploration data and prospecting rights and mining licences in the balance sheet according to the nature of the expenditure. Exploration and development costs include all directly attributable expenditure together with the relevant depreciation on plant and equipment utilised within the project.

Once a development decision has been taken, the carrying amount of the exploration, evaluation and development expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non-current assets as 'exploration and development and mining property' within property, plant and equipment.

No amortisation is recognised in respect of exploration, evaluation and development expenditure until it is reclassified as a development property and production commences.

Exploration, evaluation and development expenditure and mining property is tested for impairment annually if facts and circumstances indicate that impairment may exist. Exploration, evaluation and development expenditure is also tested for impairment once commercial reserves are found, before the assets are transferred to mining property.

Identifiable exploration, evaluation and development assets acquired as part of a business combination are recognised as assets at their fair value, as determined by the requirements of IFRS3, Business Combinations. Exploration and evaluation expenditure incurred subsequent to the acquisition is accounted for in accordance with the policy outlined above.

Licences

Licence rights acquired are amortised over the period of the licence to exploit such rights, typically five to fifteen years. Provision is made for any impairment in value, and the provision is reviewed on an annual basis.

Decommissioning and site rehabilitation

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and local regulatory requirements. These provisions are subject to regular review.

Decommissioning and site rehabilitation costs arising from exploration, evaluation and development activity or from the installation of plant and other site preparation work are provided when the obligation to incur such costs arises and are capitalised as a separate category in the balance sheet. These costs are charged against profits through amortisation or impairment of the asset. Amortisation and impairment is included in operating costs.

Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. Mining, exploration and development expenditure in respect of mining properties in production is amortised on a 'units of production basis' reflecting the production activity in the period as a proportion of the total mining resource for the relevant mining property. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset was already of the age and in the condition expected at the end of its useful life. The applicable rates are:

Mining exploration, evaluation and development expenditure	– Unit of production
Mining equipment	– 3 to 10 years
Production plant and equipment	– units of production method
Office equipment	– 3 to 10 years
Motor vehicles	– 3 to 5 years
Other assets	– 3 to 10 years.

The carrying value of tangible fixed assets is assessed annually and any impairment is charged to the statement of comprehensive income. The expected useful economic life of tangible fixed assets is reviewed annually.

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition for years commencing 1 July 2009 excludes directly attributable professional fees and other expenses incurred in connection with the acquisition which is expensed as incurred. The cost of investments made prior to 1 July 2009 has not been restated.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials and consumables – purchase cost on a first in, first out basis.

Finished goods – the value of cut and uncut diamonds has been determined by reference to market values at 30 June 2010 and 30 June 2009 respectively less an anticipated margin.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Investment in financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Trade and other receivables

Trade and other receivables arise from normal commercial sales by the Group are classified as 'loans and receivables'. These are recognised at invoice value adjusted for any allowance for impairment. Impairment and any reversal is recognised in profit or loss.

Notes to the financial statements continued

For the year ended 30 June 2010

1 Basis of preparation and accounting policies continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group's loans and receivables include cash and cash equivalents. These include cash in hand, deposits held at call with banks, and bank overdrafts. Bank overdrafts are shown within current liabilities on the balance sheet.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as either fair-value through profit and loss or loans and receivables. After initial measurement, available-for-sale financial assets are measured at fair-value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Financial liabilities

The Group classifies its financial liabilities as:

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process. Amortised interest arising in respect of loans and borrowings specifically allocated to the development of mining assets and production plant is capitalised on a pro-rata basis into the cost of the related asset using a weighted-average interest rate applicable to the amount of the loans allocated.

Trade and other payables

These are initially recognised at invoiced value. These arise principally from the receipt of goods and services. There is no material difference between the invoiced value and the value calculated on an amortised cost basis.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

Share-based payment transactions

Certain employees (including directors and senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002 that had not vested by 1 July 2006, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 24.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease rentals are charged to income in equal annual amounts over the lease term.

Group as a lessor

The Group owns and has operated a processing plant in South Africa designed to process diamondiferous ore. In 2009 the plant was leased to a De Beers subsidiary which had exclusive rights to the plant. Revenues were 'toll based' dependent primarily on the tonnage of ore processed. Group revenues include the toll income received. Group operating costs include all costs of operating the plant. The plant is included in the Group's balance sheet as non-current property, plant and equipment. As explained in note 3 De Beers terminated the toll agreement in 2009. Subsequent to this termination the processing plant has been moved to Botswana for use in the Group's operations in that country.

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Pound Sterling which is the presentation currency for the Group and Company financial statements. The functional currency of the Company is Pound Sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Pound Sterling using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and where material are transferred to the Group's translation reserve.

Foreign currency movements arising from the Group's net investment, which comprises equity and long-term debt, in subsidiary companies whose functional currency is not Pounds Sterling are recognised in the translation reserve, included within equity until such time as the relevant subsidiary company is sold, whereupon the net difference relating to this disposal is transferred to profit and loss.

Pensions

The Group makes payments on behalf of employees to defined contribution pensions schemes. These are charged to the income statement or capitalised where appropriate on an accruals basis. The Group does not operate any defined benefit pension schemes or similar arrangements.

Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Notes to the financial statements continued

For the year ended 30 June 2010

1 Basis of preparation and accounting policies continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Operating profit and loss

Operating profit and loss comprises revenues less operating costs. Operating costs comprise adjustments for changes in inventories, raw materials and consumables used, employee costs, amortisation, depreciation and impairment and other operating expenses.

2 Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(i) Valuation of goodwill and exploration, evaluation and development expenditure, mining property and mining equipment.

The value of the Group's goodwill and exploration, evaluation and development expenditure, mining property and mining equipment is dependent upon the success of the Group in discovering economic and recoverable diamond resources. The estimation of future revenue flows relating to these assets is uncertain and will also be affected by competition, relative exchange rates between the US dollar, the Rand, the Pula and Sterling, and potential new legislation and related environmental requirements.

(ii) Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 24.

(iii) Rehabilitation provisions

The Group makes estimates of future site restoration costs (rehabilitation provisions) based upon current legislation in South Africa and Botswana, technical reports and estimates provided by the Group's senior employees and advisors. These estimates will be affected by actual legislation in place, actual mining activity to be performed and actual conditions of the relevant sites when the restoration activity is to be performed in future periods.

(iv) Impairment testing

The recoverable amounts of cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may impact our estimates and may then require a material adjustment to the carrying value of goodwill, tangible assets and intangible assets.

The Group reviews and tests the carrying value of tangible and intangible assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Expected future cash flows used to determine the value in use of goodwill, tangible and intangible assets are inherently uncertain and could materially change over time.

(v) Assets and liabilities acquired in business combinations

The Group makes estimates of the fair-values of assets and liabilities acquired in business combinations at the date of acquisition. The primary assets acquired relate to deferred exploration and development costs, mining equipment and other items of property, plant and equipment. The recoverable values of these acquired assets and the actual amount of the acquired liabilities may differ materially from the estimated values made at the date of acquisition.

3 Revenue

An analysis of the Group's revenue and income is as follows:

	2010 £000	2009 £000
Lease and contractual receipts for use of processing plant	–	1,680
Sale of other goods and services	3	10
Revenue arising from normal operations	3	1,690
Termination receipts arising from cessation of toll operating agreement	–	2,344
Total revenues	3	4,034

All revenues in 2009 were derived from South African operations. The processing plant owned by African Star Minerals (Proprietary) Limited was operated up to 2009 to the exclusive benefit of a De Beers subsidiary under the terms of a toll treatment agreement based upon the tonnage of material processed. In 2009 De Beers terminated the contractual arrangements and paid a termination payment to reflect future contractual lease revenues foregone by the Group. In the year, the processing plant was relocated to the Group's operations in Botswana. All lease and contractual receipts and termination receipts arose from the De Beers contract.

4 Segmental analysis

The Group operated in the year in one segment, diamond mining, exploration and development, and in one principal geographic area – Southern Africa. Operations in South Africa and Botswana are considered to be linked operations. The management information received by the Chief Executive Officer and the Board is prepared on this basis.

The Group does also conduct business within the UK including ad hoc raising of funds, subsequently passed to subsidiary companies, and incurring of expenditure in relation to the Company's activities as a holding company. None of this activity is considered to be significantly different to the principal activity of the Group within the Southern African region.

5 Operating loss

	2010 Group £000	2009 Group £000
Operating loss for the year is stated after charging:		
Amortisation of intangible assets	–	131
Depreciation of property, plant and equipment	359	509
Impairment of goodwill	–	2,473
Impairment of South African mineral rights	–	8,773
Employee costs (note 7)	477	801
Hire of property, plant and equipment	63	120
Acquisition expenses	1,234	–
Share-based payments (note 24)	277	60
Auditors' remuneration (note 9)	122	46

6 Acquisition expenses and impairment charges included within operating loss

In the year the Group and Company incurred fees and expenses amounting to £1,234,000 arising from the pending acquisition of Kopane Diamonds Developments plc. This acquisition was completed on 29 September 2010. See also note 31.

In 2009 the Group recognised full impairment of the value of deferred exploration and development expenditure and mining properties in respect of its South African operations where exploration, development and mining operations at these sites have been discontinued. This exercise resulted in an impairment charge in 2009 of £8,773,000. The Group also recognised the full impairment of its goodwill in 2009, all of which arises from investments in South Africa (see note 16).

7 Employee numbers and costs

The average number of persons employed in the Group, including executive directors, was:

	2010 Group Number	2009 Group Number
Operations	34	61
Administration	5	12
	39	73

Staff costs above include the directors. There are no Company employees other than the directors.

Notes to the financial statements continued

For the year ended 30 June 2010

7 Employee numbers and costs continued

	2010 Group £000	2009 Group £000
Wages and salaries	733	1,179
Social security costs	2	10
Pension costs	14	45
Other staff benefits	–	81
	749	1,315
Amounts capitalised in intangible assets	(272)	(514)
	477	801

8 Directors' emoluments:

Directors' emoluments for the period that each individual served as a director were as follows:

	2010 £000	2009 £000
Salaries and fees	452	425

The emoluments of the highest-paid director were £243,000 (2009: £243,000). The Group is currently in the process of establishing a defined contribution pension scheme in accordance with existing contractual arrangements.

Directors' remuneration by individual	2010 Salaries and fees £	2010 Pension £	2010 Other benefits £	2010 Total £	2009 Total £
J F Kenny	81,500	–	–	81,500	81,500
P Kenny	243,000	–	–	243,000	243,000
M J Hampton	20,000	–	–	20,000	20,000
J Kenny jnr	20,000	–	–	20,000	20,000
H C D Jenner-Clarke	64,165	291	7,879	72,335	45,265
W D Baxter	15,000	–	–	15,000	15,000
	443,665	291	7,879	451,835	424,765

The remuneration of key management personnel is shown in note 33.

9 Auditors' remuneration

	2010 Group £000	2009 Group £000
Fees payable for the audit of the Group's financial statements	31	25
Fees payable for taxation services	10	10
Fees payable for corporate finance services (note 31)	130	–
Fees payable for other services	6	6
	177	46

10 Financial income

	2010 Group £000	2009 Group £000
Interest receivable	24	117

11 Finance expense

	2010 Group £000	2009 Group £000
Interest payable on loans	166	434
Interest payable on finance leases	15	34
	181	468
Amounts capitalised into deferred development costs and plant and machinery	(170)	(144)
	11	324

12 Impairment of property, plant and equipment

	2010 Group £000	2009 Group £000
Infrastructure costs	200	–

In the year, the Group's processing plant in South Africa was dismantled and relocated to the Group's operations in Botswana. The remaining infrastructure costs relating to the site in South Africa have been expensed in full in the year.

13 Release of rehabilitation provision

	2010 Group £000	2009 Group £000
Rehabilitation provision	528	–

In the year, the Group appointed an independent contractor to assess the remaining rehabilitation costs at its South African sites. These sites are no longer in operation. The result of the review has led to a reduction in the expected costs in respect of these sites.

14 Taxation

	2010 Group £000	2009 Group £000
Current tax	–	–
Deferred tax	–	(233)
Total tax for the year	–	(233)

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

Factors affecting tax charge for the year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 28% (2009: 28%).

	2010 £000	2009 £000
Loss before tax	(2,406)	(10,758)
Tax on loss at standard rate of 28% (2009: 28%)	(673)	(3,012)
Income not taxable	(919)	(307)
Expenses not deductible for tax purposes	843	991
Adjustments to deferred tax not recognised	135	1,211
Other differences	614	1,350
Deferred tax debited/(credited) to reserves	–	–
	–	233
Total tax analysed as:		
Income statement charge	–	233
Credited to reserves	–	–
Total tax charge/(credit)	–	233

Notes to the financial statements continued

For the year ended 30 June 2010

14 Taxation continued

Factors that may affect the future tax charge

Deferred tax has not been provided in full in respect of temporary differences relating primarily to revenue losses, losses on derivative financial instruments and investment in property, plant and equipment as there is insufficient evidence that the benefit of the losses will be recovered. The potential deferred tax asset has been calculated based on a UK tax rate of 28%. The tax charge in the future will be affected by the rate at which the Group generates profits and by the utilisation of existing losses.

Other comprehensive income

There is no tax movement arising in respect of the Group's other comprehensive income.

15 Loss per share

The calculation of the basic loss per share is based upon the net loss after tax attributable to ordinary shareholders of £2,406,000 (2009: loss of £10,991,000) and a weighted average number of shares in issue for the year of 103,197,603 (2009: 61,329,293).

On 29 September 2010 the Group issued new equity totalling 140,413,477 ordinary shares of £0.20 each.

Diluted loss per share

The diluted loss per share in 2010 and 2009 is the same as the basic loss per share as the potential ordinary shares to be issued have an anti-dilutive effect.

16 Goodwill

	2010 Group £000	2009 Group £000
Cost		
At 1 July	2,473	2,058
Exchange difference	–	415
At 30 June	2,473	2,473
Impairment		
At 1 July	(2,473)	–
Recognised in the year	–	(2,473)
At 30 June	(2,473)	–
Net book value at 30 June	–	–

Goodwill in 2009 arose entirely from the Group's investments in South Africa. Goodwill was assessed for impairment in accordance with the Group's accounting policies (note 1) at 30 June 2009 using the Group's total operations in South Africa as these are managed as a single business operation and the individual operations are not separable. As explained in note 6 the Group ceased all mining operations in South Africa in 2009 and considers the goodwill to be fully impaired.

17 Intangible mining assets

	Deferred exploration and development Group £000	Exploration data and prospecting rights Group £000	Provision for rehabilitation costs Group £000	Mining licences Group £000	Total Group £000
Cost					
At 1 July 2008	12,396	467	139	230	13,232
Additions	5,731	–	–	–	5,731
Exchange difference	1,418	53	12	–	1,483
At 30 June 2009	19,545	520	151	230	20,446
Additions	4,212	–	–	–	4,212
Exchange difference	2,038	140	20	–	2,198
At 30 June 2010	25,795	660	171	230	26,856
Amortisation and impairment					
At 1 July 2008	2,352	–	48	–	2,400
Charge for the year	131	–	–	–	131
Exchange difference	410	–	11	–	421
Impairment charges	1,917	–	92	–	2,009
At 30 June 2009	4,810	–	151	–	4,961
Charge for the year	–	–	–	–	–
Exchange difference	1,606	140	20	–	1,766
Impairment charges	–	–	–	–	–
At 30 June 2010	6,416	140	171	–	6,727
Net book value at 30 June 2010	19,379	520	–	230	20,129
Net book value at 30 June 2009	14,735	520	–	230	15,485
Net book value at 1 July 2008	10,045	467	90	230	10,832

The Group's intangible mining assets include significant projects in Botswana. These projects, with the exception of the Group's BK11 project, are in the exploration and evaluation phase. Production together with the related amortisation of these assets has not yet commenced. The BK11 project commenced initial production in July 2010 and no amortisation was charged against this asset in the period to 30 June 2010.

Operations in South Africa were suspended in the previous year and were considered fully impaired. Net book value as at 30 June 2009 comprised only intangible assets held in Botswana. Additions in the year include allocated depreciation in respect of property, plant and equipment of £120,000 (2009: £96,000) and interest capitalised of £101,000 (2009: nil) all of which related to Botswana.

Notes to the financial statements continued

For the year ended 30 June 2010

18 Property, plant and equipment

	Exploration and development Group £000	Mining property Group £000	Mining equipment Group £000	Plant and equipment Group £000	Motor vehicles Group £000	Total Group £000
Cost						
At 1 July 2008	5,523	446	801	7,644	372	14,786
Additions	–	–	–	1,242	26	1,268
Transfer from inventory	–	–	–	257	–	257
Disposals	–	–	–	(10)	(48)	(58)
Transfer	(640)	–	–	303	337	–
Exchange difference	1,110	90	315	1,467	67	3,049
At 30 June 2009	5,993	536	1,116	10,903	754	19,302
Additions	–	–	–	5,275	268	5,543
Disposals	–	–	–	–	(1)	(1)
Transfer	–	–	–	–	–	–
Exchange difference	807	65	117	1,171	37	2,197
At 30 June 2010	6,800	601	1,233	17,349	1,058	27,041
Depreciation						
At 1 July 2008	322	64	266	1,912	214	2,778
Charge for the year	–	–	9	416	84	509
Disposals	–	–	–	(19)	(39)	(58)
Exchange difference	(223)	(7)	192	494	82	538
Impairment charges	5,894	456	414	–	–	6,764
At 30 June 2009	5,993	513	881	2,803	341	10,531
Charge for the year	–	–	45	301	143	489
Disposals	–	–	–	–	(1)	(1)
Exchange difference	807	62	90	299	(4)	1,254
Impairment charges	–	–	–	200	–	200
At 30 June 2010	6,800	575	1,016	3,603	479	12,473
Net book value at 30 June 2010	–	26	217	13,746	579	14,568
Net book value at 30 June 2009	–	23	235	8,100	413	8,771
Net book value at 1 July 2008	5,201	383	534	5,733	157	12,008

Additions of plant and equipment include capitalised interest of £71,000 (2009: nil). Motor vehicles include vehicles held under finance leases with a net book value of £449,000 (2009: £40,000). Moveable plant and equipment amounting to £1,815,000 (2009: £1,483,000) is secured against interest-bearing borrowings. Additionally a bond is secured by an additional charge of £434,000 against the Group's South African plant and equipment. Active mining properties in South Africa were fully impaired in 2009 following the cessation of exploration and development activities in that country (note 17). In 2009 certain items of plant and machinery and specialist motor vehicles were reallocated to plant and equipment and motor vehicles respectively.

19 Investment in subsidiary companies

	2010 Company £000
At 1 July 2008	29,598
Additions	4,499
At 30 June 2009	34,097
Additions	11,860
At 30 June 2010	45,957

At 30 June 2010, the Company held 100% (2009: 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:

Name	Holding	Business activities	Country of incorporation
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	74%	Diamond exploration and mining	South Africa
Bonte Koe Mynbou	74%	Diamond exploration and mining	South Africa
Ondernemings (Eiendoms) Beperk**			
Firestone Diamonds (Botswana) (Pty) Limited	100%	Diamond exploration and mining	Botswana
Daly City Ventures (Pty) Limited	51%	Diamond exploration and mining	Botswana
Monak Venture (Pty) Limited	90%	Diamond exploration and mining	Botswana
Kenrod Engineering (Pty) Limited ***	45%	Diamond exploration and mining	Botswana

* Held by Cornerstone (RSA) Limited.

** Held by African Star Minerals (Proprietary) Limited.

*** Management and operational control through Firestone Diamonds Limited.

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 Group's South African subsidiaries are subject to exchange control approval in that country.

20 Inventories

	2010 Group £000	2009 Group £000
Cut and uncut diamonds held for sale	29	29

21 Trade and other receivables

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Other receivables	548	586	–	–
Prepayments	465	–	454	–
	1,013	586	454	–

There were no receivables that were past due or considered to be impaired. The other receivables balances are categorised as loans and receivables. There is no significant difference between the fair value of the other receivables and the values stated above. The prepayment in the Company arises from share issue expenses in respect of the Kopane acquisition on 29 September 2010 which are deductible from the share premium relating to the issue of the acquisition shares (note 31).

22 Cash and cash equivalents

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Cash at bank and in hand net of bank overdrafts	5,645	1,019	4,021	250

Cash deposits of £226,000 (2009: £179,000) included above are linked to bonds in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2004 of South Africa (note 27). There is no material foreign exchange movement in respect of cash and cash equivalents. There is no significant difference between the fair value of the cash and cash equivalents and the values stated above.

Notes to the financial statements continued

For the year ended 30 June 2010

23 Share capital

	Group and Company Number	Group and Company £000
Authorised		
Ordinary shares of 20p each	149,950,002	29,990
Redeemable preference shares of £1 each	49,998	50
	150,000,000	30,040

On 3 September 2010 the authorised ordinary share capital of the Company was increased to 363,129,600 shares (£72,625,920) pursuant to a share issue to acquire Kopane on 29 September 2010 (note 31).

Allotted, called up and fully paid

Ordinary shares of 20p each		
At 1 July 2008	55,849,841	11,170
Issued in the year on exercise of options	5,882,353	1,176
At 1 July 2009	61,732,194	12,346
Issued on 8 July 2009	35,873,480	7,175
Issued on 14 January 2010	285,963	57
Issued on 15 April 2010	30,000,000	6,000
At 30 June 2010	127,891,637	25,578

On 29 September 2010 the Company issued 140,413,477 new ordinary shares of 20p each pursuant to a share issue to acquire Kopane on that date (note 31).

Firestone Diamonds Limited, a subsidiary company, has advanced funds to the Group's Employee Share Trust of £108,181. The Employee Share Trust holds 308,351 ordinary shares in Firestone Diamonds plc. These shares have not been allocated to any employees.

24 Equity-settled share option schemes

The Group and Company issue equity-settled share-based payments to employees and directors. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group and Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The inputs into the Black-Scholes model for the share option plans used for plans established prior to 30 June 2009 were:

	2010	2009
Weighted average share price	136p	136p
Weighted average option exercise prices	96p	96p
Expected volatility	43%	43%
Expected option life	5 years	5 years
Risk-free interest rate	4.9%	4.9%
Expected dividend yield	Nil	Nil

The calculation of the volatility of the share price was based on the Company's daily closing share price over the period from July 2003 to the date of grant.

The inputs into the Black-Scholes model for the share option plans for the share options issued in the year (2009: repriced in the year) are as follows:

	2010	2009
Weighted average share price	33p	14p
Weighted average option exercise prices	20p	20p
Expected volatility	43%	43%
Expected option life	5 years	2 years
Risk-free interest rate	4%	3%
Expected dividend yield	Nil	Nil
Fair-value of option granted in the year (2009: modified)	19p	2.1p to 4.4p

The calculation of the volatility of the share price was based on the Company's daily closing share price over the period from 13 February 2009 to 4 December 2009 but adjusted to reflect the historical norm as for the previous options issued as this is considered of greater effect at the Group's current stage of development. The vesting period for the re-priced options in 2009 was two years from the date of grant. No options are assumed to be exercised early.

Details of the total share options outstanding in respect of the Basic Share Option Scheme and the Performance-Related Share Option Scheme during the year are as follows:

	2010 Number of share options	2010 Weighted average exercise price (pence)	2009 Number of share options	2009 Weighted average exercise price (pence)
Outstanding at beginning of year	11,315,000	57	11,465,000	57
Granted during the year	90,000	20	–	–
Exercised during the year	–	–	–	–
Cancelled in the year	(1,395,000)	76	(150,000)	87
Outstanding at the end of the year	10,010,000	23	11,315,000	56
Exercisable at the end of the year	1,360,000	41	2,720,000	59

The options outstanding at 30 June 2010 have a weighted average contractual life of 0.90 years (2009: 2.36 years). These options have an exercise price in the range of 20p to 41p (2009: a range of 20p to 77p).

The options exercisable at 30 June 2010 have an exercise price of 41p. There were no options exercised in the year.

	Group 2010 £000	Group 2009 £000
Charge for the year in profit and loss	28	60
Charge for the year capitalised in Intangible Mining Assets	249	283
Total charge for the year	277	343

	Company 2010 £000	Company 2009 £000
Charge for the year in profit and loss	–	60
Charge for the year allocated to subsidiary companies	277	283
Total charge for the year	277	343

As at 30 June 2010, options granted under the Basic Share Option scheme were outstanding over a total of 3,075,000 (2009: 3,110,000 restated) ordinary shares as follows:

Date of grant	Exercise period	Share options held at 30/6/10	Share options held 30/6/09	Exercise price (pence)
18/12/2003	18/12/04 to 18/12/13	20,000	20,000	20.0
08/04/2004	8/4/05 to 8/4/14	1,000,000	1,000,000	20.0
03/08/2004	3/8/05 to 3/8/14	250,000	250,000	20.0
22/12/2004	22/12/05 to 22/12/14	500,000	500,000	20.0
03/05/2005	3/5/06 to 3/5/15	650,000	650,000	20.0
13/09/2006	13/9/07 to 13/9/16	95,000	95,000	20.0
30/04/2007	30/4/08 to 30/4/17	–	35,000	20.0
06/12/2007	06/12/08 to 06/12/17	60,000	60,000	20.0
19/12/2007	19/12/08 to 19/12/17	150,000	150,000	20.0
15/01/2008	15/01/09 to 15/01/11	200,000	200,000	20.0
22/01/2008	22/01/09 to 22/01/11	150,000	150,000	20.0
		3,075,000	3,110,000	

Notes to the financial statements continued

For the year ended 30 June 2010

24 Equity-settled share option schemes continued

As at 30 June 2010, options granted under the Performance-Related Share Option Scheme were outstanding over a total of 6,935,000 (2009: 8,205,000 restated) ordinary shares as follows:

Date of grant	Exercise period	Share options held at 30/6/10	Share options held 30/6/09	Exercise price (pence)
25/02/2000	25/2/01 to 25/2/10	-	1,360,000	76.5
08/04/2003	8/4/04 to 8/4/13	1,085,000	1,085,000	20.0
09/01/2004	9/1/05 to 9/1/14	2,400,000	2,400,000	20.0
21/01/2004	21/1/05 to 21/1/14	1,360,000	1,360,000	41.0
08/04/2004	8/4/05 to 8/4/14	2,000,000	2,000,000	20.0
04/12/2009	04/12/10 to 04/12/19	90,000	-	32.0
		6,935,000	8,205,000	

Share option settlement scheme

In order to minimise the share capital dilution that would arise on the exercise of options, the Company has implemented a share option settlement scheme. Under this scheme the Company will, at the time of exercise of any options, agree to issue shares to the option holder with a value equal to the difference between the market value of the shares and the option exercise price on the date of exercise. On the basis of this scheme, the effective dilution resulting from all outstanding basic and performance related options as at 30 June 2010 at the closing share price on 30 June 2010 of 33p per share was 3,568,856 shares (2009: closing share price of 30.5p per share, dilutive shares 8,595,000 respectively).

Long-term incentive plan

The Company has established a Long Term Incentive Plan (LTIP) for the benefit of senior management. The LTIP had 2,000,000 shares available to participants at the start of the year and a further 1,000,000 shares were made available under the LTIP during the year. None of these new LTIP shares have been allocated to individual employees yet. The Company intended to review the performance conditions relating to LTIP shares during the year, but the review was postponed until completion of the offer that the Company made to acquire Kopane Diamond Developments plc. The Company plans to set the performance conditions relating to the LTIP shares during the current financial year.

25 Interest-bearing loans and borrowings

	Non-current Group £000 2010	Non-current Group £000 2009
Bank loans	1,071	1,841
Obligations under finance leases	122	23
	1,193	1,864
	Current Group £000 2010	Current Group £000 2009
Bank loans	1,129	1,125
Obligations under finance leases	39	12
	1,168	1,137

Bank loans are secured by a first charge over plant and machinery comprising the Toll Treatment plant formerly at Buffels and a first bond of ZAR 5,000,000 (£434,000) over the assets of the Company's subsidiary company African Star Minerals (Proprietary) Limited. The Company and certain of its subsidiary companies have entered into subordination agreements in respect of intra-group indebtedness to a maximum of ZAR 25,000,000 (£2,075,000) in African Star Minerals (Proprietary) Limited and ZAR 40,000,000 (£3,092,000) in Surf Zone Diamonds (Proprietary) Limited.

The fair-value of interest-bearing borrowings is shown in note 29.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 30 June 2010 and the periods in which they mature or, if earlier, are repriced. Amounts shown for debt include both capital repayments and related interest calculated at year-end rates.

	Effective interest rate	Group Total £000 2010	Group Current £000 2010	Group 1–2 years £000 2010	Group 2–5 years £000 2010
Cash and cash equivalents	1.50%	5,645	5,645	–	–
First National Bank of Botswana	10.00%	(760)	(448)	(296)	(16)
WesBank Botswana	11.50%	(178)	(43)	(40)	(95)
WesBank South Africa	10.10%	(216)	(121)	(95)	–
ABSA	9.85%	(1,443)	(672)	(719)	(52)
		(2,597)	(1,284)	(1,150)	(163)

For 2009 the effective interest rates and repricing analysis was:

	Effective interest rate	Group Total £000 2009	Group Current £000 2009	Group 1–2 years £000 2009	Group 2–3 years £000 2009
Cash and cash equivalents	2.50%	1,019	1,019	–	–
First National Bank of Botswana	16.50%	(1,288)	(581)	(403)	(304)
WesBank Botswana	16.50%	(46)	(18)	(18)	(10)
WesBank South Africa	13.00%	(396)	(164)	(137)	(95)
ABSA	13.00%	(2,085)	(800)	(681)	(604)
		(3,815)	(1,563)	(1,239)	(1,013)

26 Deferred tax

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

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Included in non-current assets	–	–	–	–
Included in non-current liabilities	–	–	–	–
	–	–	–	–

	At 1 July 2009 Group £000	Movement in year Group £000	At 30 June 2010 Group £000
Accelerated capital allowances	–	293	293
Other temporary differences	–	(278)	(278)
Foreign exchange differences	–	(15)	(15)
	–	–	–

The directors do not anticipate that accumulated reserves of overseas subsidiaries at 30 June 2010 will be remitted to the UK in the foreseeable future. Accordingly, no provision has been made for deferred tax on these balances. The Group has unrecognised tax losses of approximately £4.9 million.

Notes to the financial statements continued

For the year ended 30 June 2010

27 Provisions

	Rehabilitation costs 2010 Group £000	Directors' emoluments 2010 Group £000	Total 2010 Group £000
At 1 July 2008	766	–	766
Released in the year	(27)	–	(27)
Raised in the year	246	188	434
Utilised in the year	(227)	–	(227)
Exchange difference	152	–	152
At 30 June 2009	910	188	1,098
Released in the year	(528)	–	(528)
Raised in the year	–	–	–
Utilised in the year	–	(188)	(188)
Exchange difference	87	–	87
At 30 June 2010	469	–	469
Disclosed as:			
Non-current	–	–	–
Current	469	–	469
	469	–	469

In 2009 a provision amounting to £188,000 for directors' remuneration, contingent upon the satisfying of certain performance obligations was raised. This was paid in the year.

The following cash deposits are linked to bonds held by subsidiaries in accordance with the requirements of the Mineral and Petroleum Resources Development Act 2004 of South Africa.

	Rand value	Sterling value
African Star Minerals (Proprietary) Limited	156,864	13,601
Asam Resources SA (Proprietary) Limited	962,778	83,477
Kuboes Diamante (Proprietary) Limited	1,150,000	99,710
Surf Zone Diamonds (Proprietary) Limited	334,290	28,985
	2,603,932	225,773

Rehabilitation work is planned as an integral part of 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. With the cessation of mining operations in South Africa the provision for rehabilitation is raised as a current liability. The amounts disclosed in respect of the rehabilitation provisions are not discounted. The deferred assets which arise have not been recognised. The cost of all other provisions has been expensed in the year or in prior years.

28 Trade and other payables

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Trade payables	711	106	–	–
Tax and social security	6	960	–	–
Other payables	432	69	–	–
Accruals	1,896	226	1,787	181
	3,045	1,361	1,787	181

Amounts due to related parties are set out in note 33. The directors consider that there is no material difference between the book values and fair values of trade and other payables.

29 Financial instruments

In common with other businesses, the Group and Company (collectively the 'Group') is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1 and the critical accounting estimates and judgements are set out in note 2.

Substantive changes to the Group's exposure to interest-bearing indebtedness are disclosed in note 25.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Group	2010 £000	2009 £000
Trade and other receivables	548	586
Cash and cash equivalents	5,645	1,019
Trade and other payables	(3,039)	(401)
Interest-bearing loans and borrowings	(2,361)	(3,001)
Company	2010 £000	2009 £000
Cash and cash equivalents	4,021	250
Trade and other payables	(1,787)	(181)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated part of the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board retained full control over the Group's past investments in quoted securities and associated derivative financial instruments. The Board receives reports from financial personnel through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The risks the Group is exposed to and the policies adopted by the Board have not changed significantly in the year.

The overall objective of the Board is to set policies that seek to reduce ongoing risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's and Company's trade and other receivables and cash and cash equivalents. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements as shown below.

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Trade and other receivables	548	586	–	–
Cash and cash equivalents	5,645	1,019	4,021	250
	6,193	1,605	4,021	250

The Group's principal trade and other receivables arose from the contracted operating plant contract in South Africa. This contract was with a subsidiary of the De Beers group. Following the termination of this agreement the Group's exposure to credit risk has been significantly reduced. The recoverability of all amounts shown is expected without material adjustment.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with acceptable credit ratings and government support where applicable.

Liquidity risk

Liquidity risk arises from the Group's and Company's management of working capital and the amount of funding committed to its diamond exploration, evaluation and mine development programmes. It is the risk that the Group will encounter difficulties in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group and Company arise in respect of the ongoing exploration, evaluation and development programmes, trade and other payables and the servicing of interest-bearing debt. Trade and other payables are all payable within six months.

Notes to the financial statements continued

For the year ended 30 June 2010

29 Financial instruments continued

As noted in the Directors' report and in note 31 the Group acquired Kopane on 29 September 2010. The acquisition was primarily funded through a share-for-share exchange. The expenses of the acquisition and the related share issue costs are included within trade and other payables in these financial statements.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

Interest rate risk

The Group and the Company are exposed to interest rate risk in respect of interest-bearing loans and borrowings which are variable rate instruments. The Group and Company are also exposed to interest rate risk in respect of surplus funds held on deposit. The Board does not currently undertake hedging arrangements in respect of its interest-bearing borrowings.

Interest rate table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit or loss before tax (through the impact on floating rate borrowings) and cash flows. There is no impact on the Group's equity.

	Change in rate	2010 £000	Change in rate	2009 £000
Sterling equivalent	-0.5%	12	-0.5%	15
	-1.0%	24	-1.0%	30
	-1.5%	35	-1.5%	45
Sterling equivalent	+0.5%	(12)	+0.5%	(15)
	+1.0%	(24)	+1.0%	(30)
	+1.5%	(35)	+1.5%	(45)

Fair value of financial liabilities

	2010 Group £000	2009 Group £000
Bank loans	(2,341)	(2,979)
Trade and other payables	(3,039)	(401)
	(5,380)	(3,380)

The fair value of the bank loans has been calculated at 30 June 2010 as the interest rate is variable bank base rate plus a margin which management consider reflects current interest rates and current spreads for the entity. There is no difference between the fair value and book value of trade and other payables. The same process was adopted for the 2009 analysis.

Currency risk

The Group does not currently enter into forward exchange contracts or otherwise hedge its potential foreign exchange exposure.

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. Long-term Group loans to South African and Botswana subsidiary companies are considered to be part of the net investment by the Group in those subsidiaries.

The Company is exposed to a number of different currency risks between the Rand, US Dollar, Sterling and Pula. The Group values and sells its diamonds in US Dollars, but proceeds of sales are received in Rand. In 2009 the Group also received its revenues from the Toll Treatment Plant, wholly utilised by De Beers until termination of the toll agreement (note 3), in Rand. 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 Group's expenses in Botswana and South Africa are incurred in Pula and Rand respectively, so any weakening in the Pula or 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 Pula or Rand. The Company does not hedge its currency positions other than for short-term transfers of funds between currencies which are expected to be reversed within 12 months. The Board monitors and reviews its policies in this regard on a regular basis.

On 29 September 2010 the Company completed the acquisition of Kopane. The principle area of operation of Kopane is Lesotho. Operational costs will be incurred in Maloti and Rand. Diamond sales are in US Dollars. Similar risks will apply in 2011 to the Group's new Lesotho operations.

As at 30 June 2010 the Group held no significant monetary assets or liabilities in currencies other than the functional currency of the operating units involved (2009: nil).

The Group holds substantial assets, comprising mining properties and property, plant and equipment in Botswana and South Africa. Accordingly the Group is exposed directly or will benefit from exchange rate fluctuations between pounds sterling and the Botswana Pula and the South African Rand in respect to these assets held by the Group. The effect on profit and loss is not significant as current ongoing expenditures are incurred in respect of the Group's exploration and evaluation activities and are capitalised as intangible assets. Similar risks will apply in 2011 to the Group's new Lesotho operations. At 30 June 2010 the effect of a significant movement in the above exchange rates would have the following effect on the net assets and net equity of the Group:

	Intangible mining assets £000	Property, plant and equipment £000
Botswana		
Base currency: Pula		
Current balance sheet value	19,888	2,169
Sterling depreciates by 5%	994	108
Sterling depreciates by 10%	1,989	217
Sterling appreciates by 5%	(994)	(108)
Sterling appreciates by 10%	(1,989)	(217)

South Africa

Base currency: Rand

Current balance sheet value	10	12,210
Sterling depreciates by 5%	–	610
Sterling depreciates by 10%	1	1,221
Sterling appreciates by 5%	–	(610)
Sterling appreciates by 10%	(1)	(1,221)

At 30 June 2009 the effect of a significant movement in the above exchange rates would have the following effect on the net assets and net equity of the Group:

	Intangible mining assets £000	Property, plant and equipment £000
Botswana		
Base currency: Pula		
Current balance sheet value	15,255	9
Sterling depreciates by 5%	763	47
Sterling depreciates by 10%	1,525	95
Sterling appreciates by 5%	(763)	(47)
Sterling appreciates by 10%	(1,525)	(95)

South Africa

Base currency: Rand

Current balance sheet value	–	7,561
Sterling depreciates by 5%	–	378
Sterling depreciates by 10%	–	756
Sterling appreciates by 5%	–	(378)
Sterling appreciates by 10%	–	(756)

Capital

The Group considers its capital and reserves attributable to equity shareholders to be the Group's capital. In managing its capital, the Group's primary long-term objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs. The Group's mining exploration and development activities are at an early stage with production at the Group's BK11 site having commenced in July 2010 and the newly-acquired Lesotho assets (29 September 2010) still to be examined in depth. Management considers that no useful target debt-to-equity gearing ratio can be identified at this time.

Details of the Group and Company capital are disclosed in the Group and Company statement of changes in equity and in note 23.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

Notes to the financial statements continued

For the year ended 30 June 2010

30 Operating lease commitments

	2010 Plant and machinery Group £000	2009 Plant and machinery Group £000
Within one year	247	143
Between one and two years	240	144
Between two and five years	321	14

The Company had no operating lease commitments at 30 June 2010 (2009: Nil). There is no material difference between the fair-value of these commitments shown and the values disclosed.

31 Post-balance sheet events

On 29 September 2010 the Company acquired the whole of the issued share capital of Kopane Diamond Developments PLC (Kopane). Kopane is a diamond producer, developer and explorer with core projects at Lesotho in Southern Africa. Kopane was quoted on AIM until the date of acquisition.

The Acquisition was implemented by means of a scheme of arrangement between Kopane and Scheme Shareholders under Part 26 of the Companies Act 2006 (the 'Act') which involved a reduction of capital under section 641 of the Act. The terms of the arrangements were that Kopane shareholders received 0.4657 of a new ordinary Company share for every 1 Kopane Share held.

Both the Company and Kopane are diamond exploration and development companies with a geographical focus on Southern Africa. The majority of Firestone's assets are located in Botswana and Kopane's principal asset is located in Lesotho. Liqhobong is considered by the Directors to be one of the most attractive undeveloped kimberlites in the world. The Company intends to resume production at Liqhobong and to complete a definitive feasibility study ("DFS") in respect of the construction of a significantly larger processing plant at Liqhobong.

The Kopane acquisition will be accounted for by the purchase method of accounting and the results of Kopane will be consolidated within the Group financial statements from 30 September 2010. The provisional book values and fair-values of the Kopane assets and liabilities acquired are set out below.

	Book value Unaudited £000	Provisional fair value Unaudited £000
Goodwill	925	–
Intangible mining assets	6,089	42,129
Property plant and equipment	3,520	3,502
Investment in joint venture	–	–
Other investments	–	–
Derivative financial instruments	891	891
Inventories	540	540
Trade and other receivables	2,793	2,793
Cash	1,043	1,043
Trade and other payables	(374)	(374)
Provisions	(64)	(64)
Deferred tax	–	(10,091)
	15,363	40,369
Fair-value of consideration		40,369
Goodwill		–

The fair-value of the purchase consideration arises from the issue of 140,413,477 ordinary shares of 20p at a price of 28.75p per share, being the market price at 29 September 2010.

The fair-value of the acquired assets is provisional due to the short time available to the Company to assess and investigate the available information. Final values will be determined after the assessment is completed and no later than 29 September 2011.

The cost of acquisition of Kopane, including expenses accrued in both the Company and in Kopane, were £1,689,000 of which £1,234,000 has been expensed in the year and £454,000 included in prepayments pending allocation against Company share premium arising from the issue of the consideration shares on 29 September 2010 (note 21).

The performance of Kopane for the year ended 30 June 2010 and for the period 1 July 2010 to 29 September 2010 is set out below.

	Year ended 30 June 2010 £000 Unaudited	Period to 29 September 2010 £000 Unaudited
Revenue	–	–
Operating costs	(1,705)	(399)
Loss on derivative financial instruments	(377)	–
Impairment of investments and deferred income	(4,309)	–
Share of loss of joint venture	(15)	(4)
Operating loss	(6,406)	(403)
Investment income	4	–
Loss before taxation	(6,402)	(403)
Taxation	–	–
Loss after taxation	(6,402)	(403)

32 Capital commitments

At 30 June 2010 the Group had contracted capital commitments of £2,116,000 (2009: nil) relating to the development of the BK11 mining project. There were no capital commitments outstanding at 30 June 2010 for the Company (2009: nil).

33 Related-party transactions

At 30 June 2010 the amount of undrawn fees specific to individual Directors was: M J Hampton £52,915 (2009: nil), W D Baxter £3,645 (2009: nil), H Jenner-Clark £22,918 (2009: £7,920), J F Kenny £7,042 (2009: £12,548), J Kenny jnr £30,000 (2009: £43,365) and P Kenny £347,592 (2009: £187,992). The Group has advanced funds to its Employee Share Trust of £108,181. Directors' emoluments are shown in the Directors' report.

Key management personnel, excluding Directors, received the following emoluments and provided goods and services to the Group through companies in which they have an interest in the year:

	2010 £000	2009 £000
Salary and fees	441	258
Share-based payments	277	343
Provision of goods and services to the Group	8	465
	726	1,066

In the year the Company increased its investment in Firestone Diamonds Limited by £11,860,000 (2009: £4,499,000) to provide funds for onward investment in the Group's operations in the Southern Africa region. Firestone Diamonds Limited increased its funding to Group companies within that region by £10,790,000 (2009: £2,802,000). Details of the Company's subsidiary undertakings are shown in note 19 above. As explained in note 4 above, the Group operated in the year in one segment, diamond mining, exploration and development and in one principal geographic area – Southern Africa. Operations in South Africa and Botswana are considered to be linked operations and intra-group indebtedness between the Group's subsidiaries is not meaningful to an understanding of the Group's operations in that region.

During the year, the following amounts were invoiced for goods and services between operations in Southern Africa. All amounts invoiced were on normal commercial terms. All goods and services provided are classified as operating expenses or are capitalised within intangible mining assets.

	2010 £000	2009 £000
Invoiced from:		
Surf Zone Diamonds (Proprietary) Limited	1,297	534
Oena Mine (Proprietary) Limited	44	254
Asam Resources SA (Proprietary) Limited	111	223
Firestone Diamonds (Botswana)(Pty) Limited	363	–
	1,815	1,011

The Company provided various subordinations in respect of inter-group debt to the secured loan providers as disclosed in note 25.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at MWB Business Exchange, 60 Cannon Street, London EC4N 6NP on 23 December, 2010 at 11 am for the following purposes:

Ordinary Business

1. To receive the Company's annual accounts for the financial year ended 30 June 2010, the directors' report and the auditors' report on those accounts.
2. To reappoint PKF (UK) LLP as auditors to hold office from the conclusion of this Meeting until the conclusion of the next general meeting of the Company at which accounts are laid, and to authorise the directors to fix their remuneration.
3. To reappoint Mr. M Hampton, retiring by rotation in accordance with the Company's articles of association, as a director of the Company.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolution 4 will be proposed as an ordinary resolution and resolution 5 will be proposed as a special resolution:

4. That, in substitution for all existing authorities, the directors be generally and unconditionally authorised to exercise all the powers of the company to allot shares pursuant to section 551 of the Companies Act 2006 (the "Act") up to an aggregate nominal amount of £17,886,000 for a period expiring (unless previously renewed, varied or revoked by the Company in a general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require shares to be allotted after expiry of this authority and the directors may allot shares in pursuance of that offer or agreement.
5. That, in substitution for all existing authorities and subject to the passing of resolution 4 above, the directors be generally authorised pursuant to section 570 of the Act to allot equity securities (within the meaning of section 560 of the Act), pursuant to the authority conferred by that resolution as if section 561(1) of the Act did not apply to the allotment. This authority will expire 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement and will be limited to:
 - (a) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the directors so determine, holders of other equity securities of any class made in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class shall be on the basis of their rights to receive such offer and, failing which, shall be on the basis that their holdings had been converted into or that they had subscribed for ordinary shares on the basis then applicable) but subject to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:
 - (i) to deal with equity securities representing fractional entitlements; and
 - (ii) to deal with legal problems under the laws of any territory, or the requirements of a regulatory body; and
 - (b) allotments of equity securities for cash otherwise than pursuant to sub-paragraph (a) up to an aggregate nominal amount of £10,730,000.

By Order of the Board
P Kenny
23 November 2010

Registered office:
1 Park Row
Leeds LS1 5AB

Notes:

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A Form of Proxy which may be used to make such an appointment and give proxy instructions accompanies this notice. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Capita Registrars on 0871 664 0300 (calls cost 10p per minute plus network charge) (Phone lines are open Monday—Friday, 8.30 a.m. to 5.30 p.m.) or you may photocopy the Form of Proxy.
2. A Form of Proxy is enclosed. To be effective, the Form of Proxy, together with any power of attorney or other written authority under which it is signed, or a notarially certified copy or a certified copy in accordance with the Powers of Attorney Act 1971 of such power or written authority must be completed signed and to be valid the proxy must be duly executed and deposited with the Company at the offices of the Company's registrars, Capita Registrars, by no later than 48 hours (excluding weekends and public holidays) before the time fixed for the Meeting.
3. To be valid any Form of Proxy or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU no later than 48 hours (excluding weekends and public holidays) before the time fixed for the Meeting.
4. The return of a completed Form of Proxy will not prevent a shareholder attending the Meeting and voting in person if he/she wishes to do so.
5. To be entitled to attend and vote at the Meeting (and for the purpose of determination by the company of the votes they may cast), shareholders must be registered in the register of members of the company at 6.00 p.m. on the date which is two days before the time of the Meeting (or, in the event of any adjournment, 6.00 p.m. on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
6. In the case of joint holders, 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 any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
7. In the case of a corporation, the Form of Proxy must be executed under its common seal or signed on its behalf by a duly authorized attorney or duly authorised officer of the corporation.
8. A vote withheld option is provided on the Form of Proxy to enable you to instruct your proxy not to vote on any particular resolution. However, it should be noted that a vote withheld in this way is not a "vote" in law and will not be counted in the calculation of the proportion of votes "For" and "Against" a resolution.
9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
10. In order to revoke a proxy instruction you will need to inform the Company using one of the following methods: By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. In either case, the revocation notice must be received by Capita Registrars no later than 48 hours before the time of the Meeting. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.
11. As at 5.00 p.m. on the date of this notice, the Company's issued share capital comprised 268,305,114 ordinary shares of 20p each ("Ordinary Shares"). Each ordinary share carries the right to one vote at a Meeting of the Company, so the total number of voting rights in the Company as at 5.00 p.m. on 23 November 2010 is 268,305,114.

Form of Proxy – Firestone Diamonds plc

For use at the Annual General Meeting to be convened for 11 am, 23 December, 2010.

I/We _____
(BLOCK CAPITALS)

of _____

being (a) member(s) of the above named Company hereby appoint the Chairman of the Meeting or _____ (see Note 2) as my/our proxy to attend, speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at MWB Business Exchange, 60 Cannon Street, London EC4N 6NP on 23 December, 2010 at 11 am and at every adjournment thereof and I/we direct my/our proxy to vote as indicated below.

		For	Against	Withheld
Resolution 1	To receive the Company's annual accounts for the financial year ended 30 June, 2010, the directors' report and the auditors' report on those accounts.			
Resolution 2	To reappoint PKF (UK) LLP as auditors and authorise the directors to fix their remuneration.			
Resolution 3	To reappoint M Hampton as a director.			
Resolution 4	To authorise the directors to allot shares.			
Resolution 5	To disapply statutory pre-emption rights.			

Please indicate with a cross in each appropriate box how you wish your votes to be cast on each resolution. Unless so instructed, your proxy will vote or abstain at his/her discretion, as he/she will on any other matter (including amendments to resolutions) which may properly come before the Meeting. This Form of Proxy will be used only in the event that a poll be directed or demanded.

Signed: _____ Date: _____
(See Notes 5 and 7)

Notes:

1. A member entitled to attend and vote at the Meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of him. The proxy need not be a member of the Company. A member may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.
2. If you wish to appoint some other person as your proxy, please delete the words 'the Chairman of the Meeting or' and insert the full name of your proxy in the space provided.
3. If you wish you may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. To appoint more than one proxy please photocopy this form indicating on each copy the name of the proxy and the number of shares in respect of which the proxy is appointed. All forms must be signed and should be returned in the same envelope.
4. To be valid, the completed Form of Proxy must be lodged with the Company not less than 48 hours (excluding weekends and public holidays) before the time fixed for holding the Meeting.
5. In the case of a corporation, the Form of Proxy should be signed under the common seal or under the hand of a duly authorised officer or attorney.
6. A proxy need not be a member of the Company.
7. Any one of two or more joint holders may sign, or vote in person or by proxy, but if more than one of the joint holders is present at the Meeting or represented by proxy, only the holder whose name stands first in the Register of Members shall be entitled to vote.
8. Completion of this Form of Proxy will not prevent a member from attending the Meeting and voting in person should he/she so wish.
9. Any alterations made to this Form of Proxy should be initialled.



Company information

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Evolution Securities Limited
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London EC2V 7AN

Nominated Adviser

Brewin Dolphin Limited
12 Smithfield Street
London EC1A 9BD

Registrars

Capita Registrars
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PR Consultants

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Company Secretary

Company Secretary

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