Report and Financial Statements

28 February 2006

GOLDSTONE
RESOURCES LTD.

CONTENTS

DIRECTORS

DIRECTORS

N P J van der Hoven
Dr W E L Minter
J H Wessels
Sir J M Y Oliver

REGISTERED OFFICE

11 Bath Street
St Helier
Jersey JE4 8UT
Channel Islands

CHIEF EXECUTIVE OFFICER'S REPORT

I am setting out below a review of GoldStone's activities during the year ended 28 February 2006, which incorporates an update on the current status of the Company's projects.

GOLD PROGRAMME IN GUYANA

The gold reconnaissance drilling programme was completed in June 2005. A total of 12,285 metres of core was recovered from 56 drill sites. Assay results indicated that 54 gold-bearing palaeoplacer layers were intersected.

The six most prospective palaeoplacer layers intersected were evaluated by means of three-dimensional stratigraphic analysis, projected to surface and subsequently investigated late in 2005 by means of surface mapping and soil geochemistry of the overburden.

The leached and heavily vegetated nature of the mountainous terrain in Lease Area 'A' did not respond to this approach and therefore the only recourse would be to drill numerous shallow boreholes along the periphery of these subcrops. However, in view of the low tenor of gold intersections made during the overall drilling programme in Lease Area 'A', the Board has concluded that the likelihood of finding economical grades is poor and consequently has decided to terminate any further exploration in that area.

The soil geochemistry procedure in the pediment surrounding the Roraima plateau in Lease Area 'B' was more successful, indicating a 2 km-wide anomalous zone southwest of a gold-bearing palaeoplacer previously intersected by a drill hole. Twelve shallow drill holes subsequently drilled during the 2nd quarter of 2006 across and down this interpreted trend did not intersect any gold, demonstrating the sporadic nature of the mineralization encountered in this distal Roraima location.

In view of these results, the Company has withdrawn its prospecting licence applications and has therefore ceased the gold exploration programme in Guyana.

BAUXITE

In September 2005, GoldStone entered into an option agreement with BHP Billiton over the Company's bauxite interests in Guyana. An initial programme was launched to explore the bauxite potential in the lease areas. This programme has confirmed the deposits previously identified by GoldStone and further, more detailed, sampling is planned.

FINANCING

The Company carried out a placing in October 2005 which raised £2,042,500. Cash resources are currently approximately US$2.9 million.

BOARD

We are saddened by the recent death of Mike Christie, a non-executive director of the Company. He played an important role in the development of GoldStone and will be greatly missed.

APPROVAL

Dr Lawrie Minter, who holds a PhD in Palaeoplacer Sedimentology, has reviewed and approved the content of this announcement.

SUMMARY

The results from the gold exploration programme have clearly been disappointing and the Board is convinced that it is in shareholders' best interests not to undertake any further exploration.

The bauxite exploration continues under the terms of the agreement with BHP Billiton, who is funding the programme.

The Company has sufficient cash resources to meet its expenditure plan and commitments over the next year and the Board is currently reviewing the potential acquisition of an alluvial diamond project. Further information will be announced as appropriate.

Nico van der Hoven
Chief Executive
18 August 2006

DIRECTORS' REPORT

The directors submit their report and financial statements for the period from 1 March 2005 to 28 February 2006.

INCORPORATION

The company was incorporated in Jersey as a private company under the Companies (Jersey) Law 1991 on 17 April 1998. The company was changed from a private company to a public company on 16 March 2004. The company was admitted to AIM on 23 March 2004.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The company's principal activity is exploration for sediment hosted mineral deposits, containing gold, diamonds and other minerals. A review of the company's performance and indications of likely future development is included in the Chief Executive Officer's report on page 2.

RESULTS AND DIVIDENDS

The loss for the financial year is set out in the profit and loss account on page 6.

The directors do not recommend a dividend for the year ended 28 February 2006 (Year ended 28 February 2005: Nil).

DIRECTORS

The present directors of the company are set out on page 1. The following directors served during the year:
N P J van der Hoven
Dr W E L Minter
J H Wessels
Sir J M Y Oliver
M C B Christie (deceased 28 July 2006)
W E Bührmann (resigned 28 February 2006)

CORPORATE GOVERNANCE

The company's share capital is listed on the Alternative Investment Market ("AIM") and as such the company can, if it chooses, comply with the terms of the Code of Best Practice on the Financial Aspects of Corporate Governance, although neither compliance nor a statement on the degree of compliance is a requirement of AIM.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office. Approved by the Board of Directors and signed on behalf of the Board

Jurie Wessels
Secretary
18 August 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law in Jersey requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the period then ended. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the company at that time; and to enable them to ensure that any financial statements prepared comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the board
Jurie Wessels
Secretary
18 August 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOLDSTONE RESOURCES LIMITED

We have audited the financial statements of Goldstone Resources Limited for the year ended 28 February 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 12. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. 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 described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the directors' report and chief executive officer's report for the year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 28 February 2006 and of its loss for the year then ended and the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Deloitte & Touche
Chartered Accountants
St. Helier
Jersey
18 August 2006

PROFIT AND LOSS ACCOUNT
For the year ended 28 February 2006

	Note	Year ended 28 February 2006 $	Year ended 28 February 2005 $
Turnover		-	-
Exploration expenses	3	(2,498,919)	(4,336,090)
Gross loss		(2,498,919)	(4,336,090)
Management fee income		55,556	-
Other operating expenses		(1,361,673)	(2,158,287)
Interest receivable		87,161	166,912
OPERATING LOSS FOR THE FINANCIAL YEAR	4	(3,717,875)	(6,327,465)
Balance brought forward – (deficit)		(9,259,562)	(2,932,097)
Balance carried forward – (deficit)		(12,977,437)	(9,259,562)
Loss per ordinary share			
Basic (cents per share)	11	(3.8)	(8.8)

All activities are derived from continuing operations.

There are no other recognised gains or losses for the current or preceding financial years other than as stated in the profit and loss account.

The notes on pages 9 to 13 form part of these financial statements.

BALANCE SHEET
For the year ended 28 February 2006

	Note	Year ended 28 February 2006 $	Year ended 28 February 2005 $
Fixed assets			
Tangible assets	5	135,826	461,468
Current assets			
Debtors and prepayments	6	394,563	2,529
Cash at bank		3,321,151	3,866,591
		3,715,714	3,869,120
CREDITORS: amounts falling due within one year			
Amounts due to group companies		-	(40,499)
Creditors and accruals		(69,831)	(485,005)
		(69,831)	(525,504)
Net current assets		3,645,883	3,343,616
TOTAL ASSETS LESS CURRENT LIABILITIES		3,781,709	3,805,084
CAPITAL AND RESERVES			
Share capital	7	2,354,482	1,122,982
Share premium	9	13,849,554	11,386,554
Capital contribution reserve	9	555,110	555,110
Profit and loss account – (deficit)	9	(12,977,437)	(9,259,562)
EQUITY SHAREHOLDERS' FUNDS	8	3,781,709	3,805,084

These financial statements were approved by the Board of Directors on 18 August 2006.

Signed on behalf of the board
N P J van der Hoven
Director
18 August 2006

The notes on pages 9 to 13 form part of these financial statements.

CASH FLOW STATEMENT
For the year ended 28 February 2006

	Year ended 28 February 2006 $	Year ended 28 February 2005 $
Net cash outflow from operating activities	(4,460,469)	(4,863,028)
Returns on investment and servicing of finance		
Interest received	87,154	166,912
Capital expenditure and financial investments		
Purchase of fixed assets	(5,362)	(690,656)
Sale of fixed assets	250,000	-
	(4,128,677)	(5,386,772)
Financing		
Issue of shares net of expenses and capital contribution	3,583,237	9,252,180
(Decrease)/increase in cash	(545,440)	3,865,408
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash in the period	(545,440)	3,866,591
Net funds brought forward	3,866,591	1,183
Net funds carried forward	3,321,151	3,866,591
Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(3,717,875)	(6,327,465)
Adjusted for:		
Depreciation & impairment loss	81,004	237,614
Finance raising costs	111,263	827,820
Interest received	(87,155)	(166,912)
(Increase)/decrease in debtors	(392,034)	316,409
(Decrease)/increase in creditors	(455,672)	249,506
Net cash outflow from operating activities	(4,460,469)	(4,863,028)

NOTES TO THE ACCOUNTS

For the year ended 28 February 2006

1. ACCOUNTING POLICIES

The financial statements are prepared in United States Dollars under the historical cost convention and in accordance with accounting standards applicable in the United Kingdom. The particular accounting policies adopted are described below.

Tangible fixed assets and depreciation

Tangible assets are stated at cost less accumulated depreciation.

Tangible fixed assets are depreciated on the straight line basis at the following annual rates calculated to write off their cost to their estimated residual value over their expected useful lives.

Office equipment	25%
Field/geological equipment	25%
Computer Equipment	33.3%

Gold samples are stated at cost and are not depreciated.

Exploration costs

Exploration costs are expensed until the commercial viability of a project has been proven.

Income and expenses

Income and expenses are included in the financial statements on the accruals basis.

Foreign exchange

These financial statements are prepared using United States dollars as the functional currency. Transactions denominated in other currencies are translated into United States dollars at the rates actually incurred when making the transaction. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated at the exchange rate ruling at that date. These translation differences are dealt with in the profit and loss account.

Taxation

The company is registered as an "exempt company" under Jersey tax legislation and currently pays a fee at a fixed rate of £600 per year. This is included as an expense in the profit and loss account as it is not dependent on the company's results.

The company is also registered for income tax purposes with the South African Revenue Service ('SARS'). Due to the loss making position of the company, there is no South African corporate tax charge this year (2005: $nil).

During the year, the Company granted an option to BHP Billiton to obtain ownership of prospecting licences that the Company may be able to obtain from the Guyana Geology and Mines Commission. In terms of this agreement and pending the fulfilment of certain conditions, the following payments may be made by BHP Billiton to the Company:

- A payment of US$100,000 as an option fee;
- A monthly management fee for logistical support provided by the Company totalling US$100,000, and;
- The following payments at predetermined time periods in consideration for the potential transfer of the prospecting licences (which may occur no later than 6 June 2007):
    - US$100,000 on transfer of the prospecting licences,
    - US$200,000 on the 1st anniversary of the transfer;
    - US$1 million on the 2nd anniversary of the transfer;
    - US$3 million on the 4th anniversary of the transfer, and;
    - US$8 million on the 7th anniversary of the transfer.

The aforesaid potential payments by BHP Billiton to the Company may, if all the conditions and terms of the agreement are fulfilled, amount to US$12,500,000. The directors believe that the loss of US$12,977,437 described above might reasonably be assessed by the relevant tax authority (Guyanese or South African) as a tax loss in future and may be available to be offset against possible future capital or income gains of the Company as described above or from other sources of income or capital that may originate outside of the Republic of South Africa.

2. SEGMENTAL ANALYSIS

The directors consider for segmental information purposes that the turnover and operating loss are incurred in the principal business activity of mineral exploration and that the net assets of the company are held in South Africa.

NOTES TO THE ACCOUNTS
For the year ended 28 February 2006

3. EXPLORATION EXPENSES

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
Exploration expenses	(1,677,767)	(3,513,527)
Geological consulting fees	(821,152)	(822,563)
	(2,498,919)	(4,336,090)

4. OPERATING LOSS FOR THE FINANCIAL YEAR
The operating loss is stated after charging:

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
Auditors' remuneration	8,950	14,294
Depreciation	81,004	65,636
Impairment loss	-	171,978
Finance raising costs	111,263	899,833
Foreign exchange difference	167,065	(153,761)
Directors' Remuneration – Executive Directors	425,529	539,523
Directors' Remuneration – Non Executive Directors	102,481	166,485

5. TANGIBLE FIXED ASSETS

	gold samples $	computer equip $	office equip $	field geological equip / $	total $
Cost					
At 1 March 2005	4,570	34,814	49,333	674,318	763,035
Additions / disposals	-	-	5,362	(380,032)	(374,670)
At 28 February 2006	4,570	34,814	54,695	294,286	388,365
Accumulated depreciation					
At 1 March 2005	-	10,555	16,694	274,31	301,567
Charge for the year	-	11,604	8,780	60,620	81,004
Disposals	-	-	-	(130,032)	(130,032)
At 28 February 2006	-	22,159	25,474	204,906	252,539
Net book value					
At 28 February 2006	4,570	12,655	29,221	89,380	135,826
At 28 February 2005	4,570	24,259	32,639	400,000	461,468

NOTES

NOTES TO THE ACCOUNTS
For the year ended 28 February 2006

6. DEBTORS

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
BHP Billiton	393,345	-
Sundry	1,218	2,529
	394,563	2,529

7. SHARE CAPITAL

	Year ended 28 February 2006 / £	Year ended 28 February 2005 / £
Authorised		
250,000,000 ordinary 1 pence shares	2,500,000	1,500,000
(2005-150,000,000 ordinary 1 pence share)		
	1,500,000	1,500,000
Called up, allotted and fully paid		
130,816,633 ordinary 1 pence shares	1,308,166	624,000
(2005 - 62,400,000 ordinary 1 pence share)		
Converted to US$ at date of issue	$2,354,482	$1,122,982

On 16 March 2004, each of the issued and unissued ordinary shares were subdivided into 100 ordinary shares of 1 pence each. In addition, the authorised share capital increased to £1,500,000 by the creation of 149,000,000 ordinary shares. On the same date, a balance of $515,092 in the capital contribution was converted into equity share capital by the issue of 66,900 ordinary shares of 1 pence at a premium of $7.68 per share. They were converted using an exchange rate of US$ 1.8 : £1. This share issue resulted in a share premium of $513,792. At the same time, a bonus issue was declared whereby each shareholder received 199 ordinary shares of 1 pence each for every 1 ordinary share held. As a result of the above share transactions and the placing on AIM, the authorised share capital is £1,500,000 (made up of 15,000,000 1 pence ordinary shares) and the called up and fully paid share capital is £624,000 (made up of 62,400,000 1 pence ordinary shares).

On 20 September 2005 a placing was carried out by the Company's broker of 68,083,330 ordinary shares of 1p each which was issued at a price of 3p per share. The placing was approved by the shareholders of the Company at an Extraordinary General Meeting held on 12 October 2005. In addition, the Chairman, Sir Michael Oliver, elected to receive his remuneration of £10,000 in the form of shares in the Company at an issue price of 3p per share. As a result the total issued shares of the Company amounts to 130,816,663.

Warrants

At the date of admission of the ordinary shares on AIM warrants in the company to subscribe for an aggregate at 11,200,000 ordinary shares were also issued. The warrants entitle the holders to subscribe in cash for ordinary shares at an exercise price of 35 pence each subject to the Memorandum and Articles of Association of the company and the terms and conditions set out in the warrant instrument.

These warrants expire on 30 September 2006.

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
Loss for the financial year	(3,717,875)	(6,327,465)
New share capital subscribed (note 7)	3,694,500	10,080,000
Capital contribution	-	52,549
Opening shareholders' funds	3,805,084	-
Closing shareholders' funds	3,781,709	3,805,084

9. RESERVES

	Share premium account $	Capital contribution reserve $	Profit and loss account $	Total $
At 1 March 2005	11,386,554	555,110	(9,259,562)	2,682,102
Share issue	2,463,000	-	-	2,463,000
Retained loss for year	-	-	(3,717,875)	(3,717,875)
At 28 February 2006	13,849,554	555,110	(12,977,437)	1,427,227

10. RELATED PARTY TRANSACTIONS

The directors believe that no shareholder has the ability to control the constitution of the board which would result in such shareholder becoming the controlling party of the Company.

The interests of the Directors in the share capital of the Company, whether beneficial or non-beneficial, are indirectly held through GeoQuest (a major shareholder in the Company) and are, at date hereof, as follows:

Name	No. of ordinary shares	Percentage of ordinary shares in issue	No. of ordinary shares under option
Nico van der Hoven	40,000,000	30.6	1,040,000
Dr Lawrie Minter	40,000,000	30.6	1,040,000
Jurie Wessels	40,000,000	30.6	1,040,000
Sir Michael Oliver	40,000,000	30.6	—

Options have been granted, conditional on Admission, over Ordinary Shares amounting to approximately 1.67 per cent of the issued share capital of the Company on Admission, to each of Nico van der Hoven, Dr Lawrie Minter and Jurie Wessels. These options are exercisable at the Placing Price at any time between the first and the fifth anniversaries of grant.

Nico van der Hoven is interested in the 40,000,000 Ordinary Shares owned by GeoQuest by virtue of his being a director of, and a shareholder in, GeoQuest. Mr van der Hoven is the registered holder of 0.3 per cent of the issued share capital of GeoQuest and is, potentially, beneficially interested in 18.0 per cent. of the issued share capital of GeoQuest under the terms of discretionary trusts. Whether or not Mr van der Hoven will, in fact, benefit from the shares held in GeoQuest by these trusts is entirely at the discretion of their trustees as there are no vested rights.

Dr Lawrie Minter is interested in the 40,000,000 Ordinary Shares owned by GeoQuest by virtue of his being a director of, and a shareholder in, GeoQuest. Dr Minter is the registered holder of 3.8 per cent. of the issued share capital of GeoQuest and is, potentially, beneficially interested in 4.7 per cent of the issued share capital of GeoQuest under the terms of a discretionary trust. Whether or not Dr Minter will, in fact, benefit from the shares held in GeoQuest by this trust is entirely at the discretion of its trustees as there are no vested rights.

Jurie Wessels is interested in the 40,000,000 Ordinary Shares owned by GeoQuest by virtue of his being, potentially, beneficially interested in 7.1 per cent of the issued share capital of GeoQuest under the terms of a discretionary trust. Whether or not Mr Wessels will, in fact, benefit from the shares held in GeoQuest by this trust is entirely at the discretion of its trustees as there are no vested rights.

NOTES TO THE ACCOUNTS
For the year ended 28 February 2006

10. RELATED PARTY TRANSACTIONS (continued)

Sir Michael Oliver is interested in the 40,000,000 Ordinary Shares owned by GeoQuest by virtue of his being, potentially, beneficially interested in 1.7 per cent of the issued share capital of GeoQuest under the terms of discretionary trusts. Whether or not Sir Michael will, in fact, benefit from the shares held in GeoQuest by these trusts is entirely at the discretion of their trustees as there are no vested rights.

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the losses attributable to ordinary shareholders by the weighted average number of ordinary shares in issue after the placing on the AIM. Diluted earnings per share is calculated using the weighted average number of ordinary shares in issue as adjusted to assume conversion of all dilutive potential ordinary shares.

FRS 14: Earnings Per Share ('EPS'), requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. For a loss making company with outstanding warrants, net loss per share would only be increased by the exercise of out-of the-money warrants. Since it seems inappropriate to assume that option holders would act irrationally, no adjustments has been made to diluted EPS for out-of-the-money warrants.

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
Earnings per share		
Loss attributable to share holders	(3,717,875)	(6,327,465)
Weighted average number of ordinary shares	96,608,315	62,400,000
Basic loss per share (cents)	(3.8)	(8.8)

12. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The directors consider that the company mainly faces currency risk on a day to day basis. During the period covered by these financial statements management reviewed the currency risk exposure faced by the company. The directors consider currency risk to be manifested in the expenditure made on a day to day basis in Sterling, South African Rand, Guyana Dollars and US Dollars. Therefore the directors have undertaken a policy of holding cash raised from the admission to AIM in each of these currencies.

As at 28 February 2006, the net monetary asset exposure in each of these currencies was:

	Year ended 28 February 2006 / $	Year ended 28 February 2005 / $
Sterling	1,451,633	2,381,794
US Dollar	2,170,782	1,097,271
South African Rand	43,813	(130,718)
Guyanan Dollar	(20,345)	(4,731)
Total	3,645,883	3,343,616

The Chief Executive Officer's report deals with how the company manages its operational risk.

GOLDSTONE
RESOURCES LTD.

www.goldstoneresources.com