Report and Financial Statements

28 February 2007

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

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St Clements
Jersey
JE2 6SF

CHIEF EXECUTIVE OFFICER'S REPORT

I am setting out below a review of GoldStone's activities during the year ended 28 February 2007 which incorporates an update on the current status of the Company's projects.

SWARTDORING DIAMOND PROJECT

In April 2007 GoldStone conditionally agreed to acquire a 70 per cent. interest in Xanadu Mining (Pty) Limited from GeoQuest Holdings Limited (the "Acquisition").

Xanadu Mining has, through its wholly-owned subsidiaries, GrindStone Mining (Pty) Limited and Multi-Direct Mining (Pty) Limited, filed applications for prospecting rights over the Swartdoring Diamond Project, all of which have been granted by the Department of Minerals and Energy in the Republic of South Africa and subsequently notarially executed.

Completion of the Acquisition is now conditional on:

- The successful listing of GoldStone on the Alternative Exchange of the JSE Securities Exchange; and
- The approval of the Acquisition by the South African Reserve Bank.

Completion of the Acquisition will not take place until satisfaction of all of the conditions, which must occur before 30 October 2007.

The Swartdoring diamond deposit is a preserved diamondiferous palaeochannel of the Swartdoring river in the Northern and Western Cape Provinces of South Africa. The subsurface channel, which is buried beneath surficial sand cover, ranges from 400 to 2,000 metres in width and occupies an area of 1,345 hectares. An inferred resource of 12 million tonnes of loose, uncemented, diamond-bearing gravel, interpreted from drill hole records, lies beneath loose to slightly cemented sandy overburden at an average stripping ratio of 12.4. There is a possibility to extend this resource to approximately 49 million tonnes of diamond-bearing gravel after analysis of results from further drilling work and bulk sampling operations possibly to be conducted in the future.

Statistical analysis of the gravel bulk sampling results from samples collected at either end of the palaeochannel indicates an average grade of 3.2 cpht for both ends of the palaeochannel. The last parcel of stones recovered at the eastern end of the channel was classified as very good gem quality and was valued at approximately US$475 per carat in current day terms.

In order to advance the project, the Directors estimate that an investment of approximately US$500,000 will be required to fund direct exploration expenses. The exploration will be conducted in order to complete a mining feasibility study on the inferred resource of the project.

GOLD

The low tenor of gold intersections made in the most prospective palaeoplacers during the drilling programme in Lease Areas "A" and "B" in Guyana, led the Board to conclude that the likelihood of finding economical grades was poor.

In view of these results, the Company withdrew its prospecting licence applications during the second quarter of 2006 and therefore ceased the gold exploration programme in Guyana.

BAUXITE

In September 2005, GoldStone entered into an option agreement with BHP Billiton over the bauxite interests in Guyana. An initial programme was launched to explore the bauxite potential in the lease areas. This programme confirmed the deposits previously identified by GoldStone. BHP Billiton accordingly made payment during September 2006 of the option fee of US$100,000 required to maintain the option until 7 June 2007.

Further, more detailed sampling was undertaken during the first quarter of 2007 and this programme has been completed. The Company is awaiting the final analytical results of a bulk sample collected during the programme.

In July 2007, BHP Billiton elected not to exercise the option, which had been extended, and no further payments are due.

BHP Billiton was obliged to make available and has delivered to GoldStone all information in its possession which relates to the exploration programme, as well as a summarising geological report. The Company intends, subject to a positive evaluation of the information and report, to continue to hold the Bauxite Reconnaissance Permission in good standing and to enter into discussions with other major players in the bauxite industry.

FINANCING

The Company's cash resources are currently approximately US$2.8 million.

BOARD

Mr Mike Christie, a non-executive director of the Company sadly passed away during July 2006.

APPROVAL

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

SUMMARY

The Board looks forward to completing the acquisition of the Swartdoring Diamond project, which has the potential to provide near-term production to the Company.

The listing of GoldStone on the Alternative Exchange of the JSE Securities Exchange is progressing as planned and the Board expects that this process will be concluded to enable completion of the Acquisition before 31 Ocotber 2007.

In addition, on an ongoing basis the Board is investigating and reviewing other potential exploration projects which may fall within the ambit of sediment hosted minerals.

Nico van der Hoven - Chief Executive Officer

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 28 February 2007.

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.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The company's principal activity is exploration and mining for sediment hosted minerals, which include precious stones and metals. 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 2007 (year ended 28 February 2006: Nil).

DIRECTORS

The present directors of the company are set out on page 1.

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.

The directors will, in the following financial year, consider the application and the company's compliance with these principles, taking account of the fact that as an AIM company they are not required to provide such disclosures.

AUDITORS

Following the transfer of their business to Deloitte & Touche LLP with effect from 1 October 2006, Deloitte & Touche resigned as auditors on 13 November 2006 and their successor, Deloitte & Touche LLP, was appointed.

Deloitte & Touche LLP have expressed their willingness to continue in office.

Approved by the Board of Directors
and signed on behalf of the Board

Jurie Wessels
Secretary
2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 applicable UK 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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
20 July 2007

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 2007 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (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 for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2007 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

PROFIT AND LOSS ACCOUNT
For the year ended 28 February 2007

	Note	Year ended 28 February 2007 $	Year ended 28 February 2006 $
Turnover		-	-
Exploration expenses - discontinued operations	3	(759,626)	(2,498,919)
Gross loss		(759,626)	(2,498,919)
Management fees - continuing operations		139,722	55,556
Other operating expenses - continuing operations		(490,857)	(1,361,673)
Interest receivable - continuing operations		141,583	87,161
OPERATING LOSS FOR THE FINANCIAL YEAR	4		
From continuing operations		(209,552)	(1,218,956)
From discontinued operations		(759,626)	(2,498,919)
		(969,178)	(3,717,875)
Profit on disposal of fixed asset - discontinued operations		290,929	-
LOSS FOR THE FINANCIAL YEAR		(678,249)	(3,717,875)
Loss per ordinary share	11		
Basic, from continuing operations (cents per share)		(0.2)	(1.3)
Basic, from discontinued operations (cents per share)		(0.3)	(2.5)

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 2007

	Note	Year ended 28 February 2007 $	Year ended 28 February 2006 $
Fixed assets			
Tangible assets	5	30,490	135,826
Current assets			
Debtors and prepayments	6	48,540	394,563
Cash at bank		3,103,109	3,321,151
		3,151,649	3,715,714
CREDITORS: amounts falling due within one year			
Creditors and accruals		(78,679)	(69,831)
Net current assets		3,072,970	3,645,883
TOTAL ASSETS LESS CURRENT LIABILITIES		3,103,460	3,781,709
CAPITAL AND RESERVES			
Share capital	7	2,354,482	2,354,482
Share premium	9	13,849,554	13,849,554
Capital contribution reserve	9	555,110	555,110
Profit and loss account – (deficit)	9	(13,655,686)	(12,977,437)
EQUITY SHAREHOLDERS' FUNDS	8	3,103,460	3,781,709

These financial statements were approved by the Board of Directors on 20 July 2007.

Signed on behalf of the board

N P J van der Hoven
Director

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

CASH FLOW STATEMENT
For the year ended 28 February 2007

	Year ended 28 February 2007 $	Year ended 28 February 2006 $
Net cash outflow from operating activities	(705,657)	(4,460,469)
Returns on investment and servicing of finance		
Interest received	141,583	87,155
Capital expenditure and financial investments		
Purchase of fixed assets	(3,968)	(5,362)
Sale of fixed assets	350,000	250,000
	(218,042)	(4,128,676)
Financing		
Issue of shares net of expenses and capital contribution	-	3,583,236
(Decrease)/increase in cash	(218,042)	(545,440)
(i) Reconciliation of net cash flow to movement in net debt		
Decrease in cash	(218,042)	(545,440)
Net funds brought forward	3,321,151	3,866,591
Net funds carried forward	3,103,109	3,321,151
(ii) Reconciliation of operating loss to net cash outflow from operating activities		
Operating loss	(969,178)	(3,717,875)
Adjusted for:		
Depreciation & impairment loss	50,233	81,004
Finance raising costs	-	111,263
Interest received	(141,583)	(87,155)
Decrease/(increase) in debtors	346,023	(392,034)
Increase/(decrease) in creditors	8,848	(455,672)
Net cash outflow from operating activities	(705,657)	(4,460,469)

N O T E S

NOTES TO THE ACCOUNTS

For the year ended 28 February 2007

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 has been granted exempt company status under article 123A of the Income Tax (Jersey) Law 1961. This status is renewable annually. The company plans to maintain this status for as long as it is available pending the introduction of the general zero rate of corporation tax which is expected to be introduced in 2009. In order to hold exempt status an annual fee of £600 is payable. The fee 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 (2006: $nil).

The directors believe that the loss of US$13,655,686 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 or from other sources of income or capital that may originate outside of the Republic of South Africa. No deferred tax asset has been recognised this year due to the uncertainty of future profits (2006: $nil).

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

NOTES TO THE ACCOUNTS
For the year ended 28 February 2007

3. EXPLORATION EXPENSES

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
Exploration expenses	(665,025)	(1,677,767)
Geological expenses	(94,601)	(821,152)
	(759,626)	(2,498,919)

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

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
Auditors' remuneration	18,666	8,950
Depreciation	50,233	81,004
Finance raising costs	-	111,263
Foreign exchange (gain) / loss	(147,519)	167,065
Directors' Remuneration – Executive Directors	330,298	425,529
Directors' Remuneration – Non Executive Directors	11,740	102,481

5. TANGIBLE FIXED ASSETS

	gold samples $	computer equip $	office equip $	field geological equip / $	Total $
Cost					
At 1 March 2006	4,570	34,814	54,695	294,286	388,365
Additions	-	3,968	-	-	3,968
Disposals	-	-	-	(242,477)	(242,477)
At 28 February 2007	4,570	38,782	54,695	51,809	149,856
Accumulated depreciation					
At 1 March 2006	-	22,159	25,474	204,906	252,539
Charge for the year	-	10,697	9,227	30,309	50,233
Disposals	-	-	-	(183,406)	(183,406)
At 28 February 2007	-	32,856	34,701	51,809	119,366
Net book value					
At 28 February 2007	4,570	5,926	19,994	-	30,490
At 28 February 2006	4,570	12,655	29,221	89,350	135,826

NOTES TO THE ACCOUNTS
For the year ended 28 February 2007

6. DEBTORS

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
BHP Billiton	48,540	393,345
Sundry	-	1,218
	48,540	394,563

7. SHARE CAPITAL

	Year ended 28 February 2007 / £	Year ended 28 February 2006 / £
Authorised		
250,000,000 ordinary 1 pence shares	2,500,000	2,500,000
	2,500,000	2,500,000
Called up, allotted and fully paid		
130,816,633 ordinary 1 pence shares	1,308,166	1,308,166
Converted to US$ at date of issue	$2,354,482	$2,354,482

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
Loss for the financial year	(678,249)	(3,717,875)
New share capital subscribed	-	3,694,500
Opening shareholders' funds	3,781,709	3,805,084
Closing shareholders' funds	3,103,460	3,781,709

9. RESERVES

	Share premium account $	Capital contribution reserve $	Profit and loss account $	Total $
At 1 March 2006	13,849,554	555,110	(12,977,437)	1,427,227
Share issue	-	-	-	-
Retained loss for year	-	-	(678,249)	(678,249)
At 28 February 2007	13,849,554	555,110	(13,655,686)	748,978

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 Holdings Limited (a major shareholder in the Company) and are described below.

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.

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.

Options have been granted, 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 of 25 pence at any time between the first and the fifth anniversaries of grant. None of the options were exercised during the year and they have a nil fair value.

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 22: 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. The warrants expired on 30 September 2006.

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
Earnings per share		
Loss attributable to share holders from continuing operations	(209,552)	(1,218,956)
Loss attributable to share holders from discontinued operations	(468,697)	(2,498,919)
Weighted average number of ordinary shares	130,816,633	96,608,315
Basic, from continuing operations (cents per share)	(0.2)	(1.3)
Basic, from discontinued operations (cents per share)	(0.3)	(2.5)

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.

	Year ended 28 February 2007 / $	Year ended 28 February 2006 / $
Sterling	1,202,947	1,451,633
US Dollar	1,844,465	2,170,782
South African Rand	55,700	43,813
Guyanan Dollar	-	(20,345)
Total	3,103,112	3,645,883

GOLDSTONE
RESOURCES LTD.

www.goldstoneresources.com