

PRESS CLIPPING

Client: Firestone Diamonds

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PLAYS OF THE WEEK

FIRESTONE DIAMONDS (AIM:FDI) 67p

by: Timon Day

BUY

Faithful readers will remember I tipped Firestone as one of my tips of the year for 2001 (4 Jan '01) at 56p. They jumped, peaking about 88p, before dropping to 54p and then recovering. This year's performance has been similar with a rise to 103p before halving to 52p. The fall is largely due to lack of news and worries about the South African Government bill on mineral rights.

Fears of nationalisation or forcible privatisation have been laid to rest with the publication of the Mining Charter last week. The key measure is for black groups to own 26% of the South African mining industry by 2013 with asset transfers to be done in a transparent manner at a fair market price.

Philip Kenny, chief executive of Firestone, was worried that small exploration companies might be disadvantaged in the push to give black workers a stake in the sector. This has not happened. Indeed Firestone could benefit through being offered exploration acreage by major miners.

Secondly Firestone was expected to make announcements about its exploration and development programmes at Sandberg on the Orange River and Mopipi in Botswana several months ago. Instead there has been no news of any note since the encouraging interim results released on 27 March.

But I hear an announcement is likely within a few weeks. The delayed Sandberg project is now back on track and processing of the gravel deposits expected to begin any day. Production was supposed to have started in June.

The Sandberg deposit, next door to the well established Oena Mine, is expected to contain up to 70,000 carats of diamonds worth £40 million. This translates to profits of around £25 million for Firestone equivalent to its market capitalisation.

Hopefully there will also be news about drilling at the exciting Mopipi location, close to De Beers major Orapa Mine, where surveys done last year showed likely diamond deposits. The Groen River Valley project is the company's most promising exploration area due to the high quality and size of the diamonds mined in the area. But a lot more work needs to be done to evaluate its potential.

In any case the shares now appear on a firm upwards tack jumping almost a fifth this month firmly underpinned by production at its Avontuur and Oena mines. Full year profits to June, to be released in mid-December, should be around £400,000, similar to last year's total, but should top £500,000 this year and maybe reach £750,000 next year.

Firestone is debt free with over £1 million of cash.

Shares Summary

Small mining shares are not for the faint hearted as Firestone's roller-coaster ride indicates. If the Mopipi and Groen River sites come up trumps the shares will probably double as a bid for the company is likely. The Sandberg mine should more than justify Firestone's current market value which is underpinned by the two producing mines and firm diamond prices.

BUSINESS: South African diamond producer and explorer

VITAL STATS:

market capitalisation: £23m
historic PE June 2001: 70
prospective PE June 2002: 65
prospective PE June 2003: 49
no dividend yield

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