

FIRESTONE DIAMONDS

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FIRESTONE DIAMONDS plc
Interim Report 2008



Firestone Diamonds plc – an emerging force in diamond mining and exploration in Africa

Firestone Diamonds is the most active diamond explorer in Botswana, the world's largest and lowest cost producer of diamonds.



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HIGHLIGHTS

Tsabong, Botswana

- Independent data review concludes that Tsabong has “real chances of discovering an economic large sized diamondiferous kimberlite”
- MK1 initial grade estimate of 20 carats per hundred tonnes; estimate of 1.1 billion tonnes of kimberlite to 1,000 metres
- Commissioning of bulk sampling plant completed in Q1 2008
- Additional core drilling completed and large diameter drilling commenced on MK1 in Q1 2008; microdiamond and macrodiamond results expected in Q2 2008
- Evaluation of other 13 priority A kimberlites continuing

Orapa and Jwaneng, Botswana

- New prospecting licences covering 4,000 square kilometres granted in Orapa and Jwaneng areas
- Large diameter drilling of BK11 completed in Q1 2008; results expected in Q2 2008

South Africa

- Bonte Koe toll treatment mining JV with De Beers at full production

Financial

- Turnover increased 224% to £1.9 million (H1 2007: £0.6 million)
- Profit of £2.4 million (H1 2007: £0.1 million); diluted earnings per share 3.7 pence (H1 2007: a loss of 0.04 pence)
- Profit of £2.8 million on disposal of interest in African Diamonds plc

LETTER FROM THE CHAIRMAN

Dear shareholder,

Activities during the period were primarily focused on Botswana, which is the world's largest and lowest cost producer of diamonds. Firestone is the largest holder of diamond exploration rights surrounding Botswana's kimberlite fields, with approximately 26,000 square kilometres now under license, and has 92 known kimberlites in its licence areas.

The most significant development during the period has been at the MK1 kimberlite in the Tsabong kimberlite field, where results from initial evaluation work carried out have exceeded our expectations and show significant economic potential.

We have continued to increase the pace of our activities in Botswana, with between twenty five and thirty 100 tonne mini bulk samples planned in 2008. We believe that it is likely that further major economic diamond discoveries will be made in Botswana, and with our highly prospective portfolio and an experienced technical and management team in place we believe that the Company is in a very good position to do so.

Tsabong, Botswana

Tsabong is the Company's most important project. It contains 83 known kimberlites, including the 180 hectare MK1 kimberlite, which is one of the world's largest known diamondiferous kimberlites. An independent review of data from Tsabong by Mineral Services (Pty) Limited of Cape Town, one of the industry's leading diamond exploration and

evaluation consultancies, was completed during the period. The results of this review confirm that the Tsabong 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.

Evaluation programme

Evaluation work at Tsabong was focused on 14 high priority kimberlites that were selected for large diameter drill ("LDD") bulk sampling. High resolution ground magnetic surveys covering approximately 9 square kilometres were undertaken over 5 kimberlites and approximately 1,650 metres of core drilling carried out during the period.

MK1

A 508 metre deep core hole was completed on MK1 and samples of core were submitted for microdiamond recovery. Results from this work were received in February 2008, with 117 microdiamonds (greater than 0.075 mm) recovered from 561 kilogrammes of kimberlitic core treated. Independent analysis of the size frequency distribution of the microdiamonds indicated an overall grade of 20 carats per hundred tonnes. The analysis also indicated an increase in grade with depth, with the deepest sample, although small, indicating a potential grade of 119 carats per hundred tonnes. These results are very encouraging, although it should be noted that the grade estimates are preliminary and that between 200-400 microdiamonds will be required to provide the necessary levels of confidence. The data does indicate, however, that MK1 has the potential

to be significantly mineralised. Preliminary volumetric modelling indicates that MK1 contains approximately 1.1 billion tonnes of kimberlite to a depth of 1,000 metres.

The Company expects to be able to make higher confidence grade estimates through the recovery of additional microdiamonds from core drilling and macrodiamonds from LDD bulk sampling. This work has advanced rapidly. Two additional core holes were completed in January 2008 and samples have been submitted for microdiamond recovery, with results expected during Q2 2008. Four 100 tonne LDD mini bulk samples are planned for MK1 and the LDD rig commenced drilling ahead of schedule in March 2008. Commissioning of the Company's bulk sampling plant at Tsabong was completed in the first quarter of 2008 and the plant is ready to process material from MK1 as it becomes available.

If results from the core drilling and LDD bulk sampling confirm that significant mineralisation is present, a second phase of drilling and bulk sampling will be undertaken with the objective of developing a resource.

Exploration programme

There is significant potential for the discovery of new kimberlites at Tsabong. Two additional kimberlites were discovered during the period. Microdiamond, indicator mineral chemistry and petrographic analysis are currently being carried out on these kimberlites and the other 11 kimberlites discovered since November 2006, on the basis of which some of the kimberlites may be added to the high priority list for bulk sampling. With many more geophysical targets to drill, the Company expects to continue to make new discoveries and the number of kimberlites in the field to

increase to more than 100 as exploration continues in 2008.

BK11, Botswana

The BK11 kimberlite is situated approximately 20 kilometres south east of Debswana's Orapa Mine and 5 kilometres north east of the AK6 kimberlite, on which De Beers and African Diamonds are developing a new mine. Previous evaluation work produced grades of between 2 and 16 carats per hundred tonnes. BK11 is estimated to be approximately 8 hectares in size and overburden is shallow, at less than 20 metres.

Approximately 2,500 metres of core drilling was carried out on BK11 during the period in order to develop a 3D geological model of the kimberlite and to select locations for LDD bulk sampling. LDD drilling was undertaken in Q1 2008. Three 200 tonne samples were taken and transported to the bulk sampling plant at Tsabong, where they are currently being processed. Results are expected to be available in Q2 2008.

Orapa and Jwaneng, Botswana

Continued progress was made in the Jwaneng and Orapa areas, where some of the Company's licences are being explored by De Beers in joint venture with Firestone. De Beers completed its high resolution airborne geophysical surveys over the Jwaneng joint venture area during the period. Data from these surveys is now being processed and interpreted to select targets for drilling, which is expected to take place in the second half of 2008.

During the period the Company was granted new prospecting licences over an area of approximately 1,000 square kilometres in the Orapa region and approximately 3,000 square

kilometres in the Jwaneng region. Exploration on these areas will be carried out by Firestone and is expected to commence later in 2008.

South Africa

Activities in South Africa were focused on the Company's toll treatment joint venture project with De Beers at the Bonte Koe Mine. The expanded plant at Bonte Koe reached its full design capacity of one million tonnes per annum during the period. Discussions continued during the period in relation to further increases in production capacity in order to exploit additional De Beers' resources in the area.

With the Company's strategic focus increasingly directed towards Botswana, the Company announced in December 2007 that it intended to limit its future activities in South Africa to low risk toll treatment and joint venture mining opportunities such as Bonte Koe, and that the Company's other alluvial assets in South Africa would be sold or joint ventured.

Financial

Turnover for the period increased 224% to £1.9 million compared to the same period last year, principally as a result of Bonte Koe reaching full production capacity. Turnover for the current financial year is also expected to be significantly ahead of last year. The Company produced a profit for the period of £2.9 million, primarily as a result of the disposal of its interest in African Diamonds plc, which resulted in a gain of £2.8 million. Diluted earnings per share rose to 3.7 pence (0.04 pence loss per share for the same period last year).

James F. Kenny **Chairman**

31 March 2008

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD TO 31 DECEMBER 2007

CONSOLIDATED INCOME STATEMENT

	Six months ended 31 December 2007 £'000	Six months ended 31 December 2006 £'000 Restated	Year ended 30 June 2007 £'000 Restated
Revenue	1,899	586	1,633
Changes in inventories	(82)	(14)	85
Raw materials and consumables used	(159)	(82)	(274)
Employee benefits expense	(203)	(103)	(320)
Depreciation and amortisation	(513)	(65)	(523)
Other operating expenses	(889)	(154)	(664)
Operating profit	53	168	(63)
Financial income	165	64	98
Financial expense	(174)	(14)	(135)
Gain on sale of available-for-sale investments	2,721	–	–
Fair-value gains/(losses) on derivative financial instruments	30	(692)	(752)
Net financial income/(expense)	2,742	(642)	(789)
Profit/(loss) before tax	2,795	(474)	(852)
Taxation	(438)	242	(451)
Profit/(loss) for the period	2,357	(232)	(1,303)
Attributable to:			
Equity shareholders of the parent	2,302	(246)	(1,282)
Minority interests	55	14	(21)
	2,357	(232)	(1,303)
Basic earnings per share – pence	4.1p	(0.04p)	(2.3p)
Diluted earnings per share – pence	3.7p	(0.04p)	(2.3p)

All amounts relate to continuing operations.

CONSOLIDATED BALANCE SHEET

	31 December 2007 £'000	31 December 2006 £'000 Restated	30 June 2007 £'000 Restated
Non-current assets			
Goodwill	2,058	2,058	2,058
Intangible assets	10,892	8,992	9,590
Property, plant and equipment	13,912	12,574	12,568
	26,862	23,624	24,216
Current assets			
Inventories	291	63	275
Trade and other receivables	2,189	1,246	2,510
Available-for-sale investments	–	6,022	5,537
Cash and cash equivalents	4,774	4,161	1,119
	7,254	11,492	9,441
Total assets	34,116	35,116	33,657
Equity and liabilities			
Equity attributable to ordinary shareholders			
Share capital	11,158	11,152	11,158
Share premium	19,182	19,133	19,182
Merger reserve	(1,076)	(1,076)	(1,076)
Fair-value reserve	–	3,173	3,435
Translation reserve	1,084	–	–
Retained earnings	(1,840)	(1,201)	(4,210)
Total equity attributable to ordinary shareholders	28,508	31,181	28,489
Minority interests	(156)	(191)	(211)
Total equity	28,352	30,990	28,278
Non-current liabilities			
Interest-bearing loans and borrowings	2,104	2,118	2,163
Deferred tax	638	102	257
Provisions	364	432	339
	3,106	2,652	2,759
Current liabilities			
Interest-bearing loans and borrowings	571	271	636
Derivative financial instruments	–	572	662
Trade and other payables	2,087	631	1,322
	2,658	1,474	2,620
Total equity and liabilities	34,116	35,116	33,657

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December 2007 £'000	Six months ended 31 December 2006 £'000 Restated	Year ended 30 June 2007 £'000 Restated
Cash flows from operating activities			
Profit/(loss) before tax	2,795	(474)	(852)
Adjustments for:			
Depreciation and amortisation	513	380	523
Interest payable	168	137	1,070
Equity-settled share-based payment expenses	67	64	208
Profit on sale of non-current assets	–	–	(23)
Other reserve movements	(3,435)	–	–
Cash flows from operating activities before changes in working capital and provisions			
	108	107	926
(Increase)/decrease in trade and other receivables	322	641	(624)
(Increase)/decrease in inventories	(15)	2	(211)
(Decrease)/increase in trade and other payables	1,130	596	(171)
Cash generated from/(absorbed by) operating activities	1,545	1,346	(80)
Cash flows from investing activities			
Acquisition of intangible assets	(1,073)	(1,915)	(2,581)
Acquisition of property, plant and equipment	(1,242)	(1,613)	(2,893)
Sale of investments	4,664	–	–
Disposal of non-current assets	19	2	95
Net cash from investing activities	2,368	(3,526)	(5,379)
Cash flows from financing activities			
Proceeds from the issue of share capital	–	–	55
Proceeds from interest-bearing borrowings	–	1,667	2,132
Repayment of interest-bearing borrowings	(124)	(62)	(226)
Interest paid	(134)	(15)	(134)
Net cash from financing activities	(258)	1,590	1,827
Net increase/(decrease) in cash and cash equivalents	3,655	(590)	(3,632)
Cash and cash equivalents at the beginning of the period	1,119	4,751	4,751
Cash and cash equivalents at the end of the period	4,774	4,161	1,119

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2007

Restated

Share	Share Capital £'000	Merger Premium £'000	Fair-value Reserve £'000	Translation Reserve £'000	Retained Shareholders Reserve £'000	Total Shareholders Earnings £'000	Minority Equity £'000	Total Interests £'000	Equity £'000
Balance at 1 July 2007	11,158	19,182	(1,076)	3,435	-	(4,210)	28,489	(211)	28,278
Profit after tax for the period	-	-	-	-	-	2,303	2,303	55	2,358
Total recognised in income and expense for the period	-	-	-	-	-	2,303	2,303	55	2,358
Arising on revaluation of investments	-	-	-	(3,435)	-	-	(3,435)	-	(3,435)
Foreign exchange gain on translation of foreign subsidiaries	-	-	-	-	1,084	-	1,084	-	1,084
Total gains/(losses) recognised in equity	-	-	-	(3,435)	1,084	-	(2,351)	-	(2,351)
Shares issued in the period	-	-	-	-	-	-	-	-	-
Equity-settled share-based payments	-	-	-	-	-	67	67	-	67
Balance at 31 December 2007	11,158	19,182	(1,076)	-	1,084	(1,840)	28,508	(156)	28,352

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2006

Restated

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Fair-value Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total Shareholders Equity £'000	Minority Interests £'000	Total Equity £'000
Balance at 1 July 2006	11,152	19,133	(1,076)	4,569	-	(1,028)	32,750	(205)	32,545
Loss after tax for the period	-	-	-	-	-	246	246	14	232
Total recognised in income and expense for the period	-	-	-	-	-	(246)	(246)	14	(232)
Arising on revaluation of investments	-	-	-	(1,396)	-	-	(1,396)	-	(1,396)
Foreign exchange loss on translation of foreign subsidiaries	-	-	-	-	-	9	9	-	9
Total gains/(losses) recognised in equity	-	-	-	(1,396)	-	9	(1,387)	-	(1,387)
Shares issued in the period	-	-	-	-	-	-	-	-	-
Equity-settled share-based payments	-	-	-	-	-	64	64	-	64
Balance at 31 December 2006	11,152	19,133	(1,076)	3,173	-	1,201	31,181	(191)	30,990

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

Restated

	Share Capital £'000	Share Premium £'000	Merger Reserve £'000	Fair-value Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total Shareholders' Equity £'000	Minority Interests £'000	Total Equity £'000
Balance at 1 July 2006	11,152	19,133	(1,076)	4,569	–	(1,028)	32,750	(205)	32,545
Loss after tax for the year	–	–	–	–	–	(1,303)	(1,303)	(21)	(1,324)
Total recognised in income and expense for the year	–	–	–	–	–	(1,303)	(1,303)	(21)	(1,324)
Arising on revaluation of investments	–	–	–	(1,134)	–	–	(1,134)	–	(1,134)
Foreign exchange loss on translation of foreign subsidiaries	–	–	–	–	–	(2,087)	(2,087)	15	(2,072)
Total gains/(losses) recognised in equity	–	–	–	(1,134)	–	2,087	(3,221)	15	(3,206)
Shares issued in the year	6	49	–	–	–	–	55	–	55
Equity-settled share-based payments	–	–	–	–	–	208	208	–	208
Balance at 30 June 2007	11,158	19,182	(1,076)	3,435	–	(4,210)	28,489	(211)	28,278

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

Firestone Diamonds plc ("the Company") is a company incorporated in England and Wales and listed on the London Stock Exchange's Alternative Investment Market.

2 Basis of preparation

These interim financial statements of the Company and its subsidiaries ("the Group") for the six months ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union and also in accordance with the Companies Act 1985. The comparative periods for the six months ended 31 December 2006 and the year ended 30 June 2007 have been restated to reflect the adoption of IFRSs by the Group.

The financial information set out above does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. Statutory accounts for the twelve months to 30 June 2007, on which the report of the auditors was unqualified and did not contain a statement under section 237 of the Companies Act 1985, have been filed with the Registrar of Companies.

3 Earnings per share

The calculation of the basic earnings per share for the six month period to 31 December 2007 is based upon the following:

	Six months ended 31 December 2007 £'000	Six months ended 31 December 2006 £'000 Restated	Year ended 30 June 2007 £'000 Restated
Basic			
Earnings/(loss) per share – pence	4.1p	(0.04p)	(2.3p)
Profit/(loss) attributable to equity shareholders	£2,302,000	(£246,000)	(£1,282,000)
Weighted average number of shares in issue	55,791,445	55,757,901	55,758,177
Diluted			
Earnings/(loss) per share – pence	3.7p	(0.04p)	(2.3p)
Profit/(loss) attributable to equity shareholders	£2,302,000	(£246,000)	(£1,282,000)
Weighted average number of shares in issue	62,409,144	55,757,901	55,758,177

4 Changes in accounting policies

The following adjustments have been made to the opening shareholders equity to reflect the changes required by the adoption by the Group of International Financial Reporting Standards as adopted by the European Union.

	Share Option Reserve £'000 <i>Note 1</i>	Fair-value Reserve £'000 <i>Note 2</i>	Retained Earnings £'000 <i>Note 3</i>	Effect on Equity £'000
At 1 July 2006				
Opening equity	–	–	–	27,892
As presented under previous GAAP	244	–	(1,356)	–
Transfer to retained earnings	(244)	–	244	–
Changes in fair-value of available-for-sale investments	–	4,569	–	4,569
Fair-value of derivative financial instruments	–	–	84	84
Restated 1 July 2006	–	4,569	(1,028)	32,545

	Share Option Reserve £'000 <i>Note 1</i>	Fair-value Reserve £'000 <i>Note 2</i>	Retained Earnings £'000 <i>Note 3, 4</i>	Effect on Equity £'000
At 1 July 2007				
Opening equity	–	–	–	26,097
As presented under previous GAAP	453	–	(3,409)	–
Transfer to retained earnings	(453)	–	453	–
Reversal of amortisation of goodwill	–	–	13	13
Changes in fair-value of available-for-sale investments	–	3,435	–	3,435
Fair-value of derivative financial instruments	–	–	(1,267)	(1,267)
Restated 1 July 2007	–	3,435	(4,210)	28,278

Notes

- 1 The amounts attributable to equity arising from the share-based payment charges in the income statement have been transferred to retained earnings.
- 2 The fair-value reserve is the amount of the fair-value gain arising from the mark-to-market valuation of available-for-sale investments held in equity until disposal.
- 3 Changes in value of investments in derivative financial instruments comprising future currency options and future share purchase agreements have been recognised in the income statement and balance sheet.
- 4 Goodwill recognised at 30 June 2006 is carried at this value and is no longer amortised. Goodwill is subject to an annual review for potential impairment.

5 Dividend

The directors are not declaring a dividend for the period.

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The information in this statement has been reviewed by Mr. Tim Wilkes, B Sc, Pr Sci Nat, who is a qualified person for the purposes of the AIM Guidance Note for Mining, Oil and Gas Companies. Mr. Wilkes is Chief Operating Officer of Firestone Diamonds plc and has over 25 years experience in diamond exploration, mineral resource management and mining. Mr. Wilkes is a member of the sub-committee for diamonds of the South African Mineral Resource Committee (SAMREC).

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Copies of this report are being sent to all shareholders. Additional copies will be available to the public from the offices of Brewin Dolphin, 48 St Vincent Street, Glasgow, G2 5TS and will be posted on the Company's website at www.firestonediamonds.com.

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