

**DIAMONEX LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010**

DIAMONEX LIMITED
ABN 26 091 951 978

DIRECTORS' REPORT

Your Directors of present their report of the Company and its controlled entities for the year to 30 June 2010.

DIRECTORS

The Directors of the Company during or since the end of the financial year are listed below. During the year there were 2 meetings of the full Board of Directors. The meetings attended by each Director were

DIRECTOR	ELIGIBLE TO ATTEND	ATTENDED
G.M. King (Resigned 4 November 2009)	2	2
D.C. O'Neill	2	2
P.A. Crawford	2	2
D.N. Magang (Resigned 4 November 2009)	2	2
P. Van Riet-Lowe (Appointed 4 November 2009)	Nil	Nil
W. Osterberg (Appointed 4 November 2009)	Nil	Nil
L.T. Siwawa (Appointed 19 November 2010)	Nil	Nil

Company Secretary

Paul A. Crawford held the position of Company Secretary at the end of the financial year. Mr Crawford is a CPA and holds the following qualifications Bachelor of Business – Accountancy, Master of Financial Management, Graduate Diploma in Business Law and Graduate Diploma in Company Secretarial Practice. Mr Crawford has been Company Secretary and Director of DiamonEx Limited since its incorporation in 2000.

PRINCIPAL ACTIVITY

During the financial year the economic entity's major subsidiary Diamonex Botswana Limited the owner of the Group's principal asset the Lerala Diamond Mine, was in Judicial Management. In that time the Company has been working on a Recovery Plan with its financiers.

Previously the principal activities had been Mineral exploration and development/operation of the Lerala Diamond Mine.

OPERATING AND FINANCIAL REVIEW

Operating Results

The entity's consolidated operating loss for the financial year after applicable income tax was \$1,865,333 (2009: \$29,856,283 loss).

Review of Operations

The Lerala Diamond Mine commenced commissioning in April 2008. By August 2008 it was still experiencing significant operational and diamond recovery problems.

By the end of 2008, the plant had begun to perform nearer to its specification and during the months of October through to December 2008, 160,000 tonnes of ore were processed, recovering 43,000 carats of diamonds. An analysis was then done on minor engineering works which would improve Plant performance to at least 100,000 tonnes per month and thus achieve its name plate specification.

By the middle of October 2008, the Mine had recovered around 10,000 carats, which were arranged to be sold by WWW International Diamond Consultants ("WWWIDC"). WWWIDC were engaged by DiamonEx Botswana Limited (DBL) on a two year contract to sell Lerala's goods.

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WWWIDC valued the 10,000 carats at +/-US\$50 per carat, and that valuation was supported by the Government of Botswana's independent valuation. One week later, the goods were put up for sale via WWWIDC's online closed tender process. Disappointingly the sales only achieved a US\$20 per carat average price.

The advice from WWWIDC after this sale was that due to the Global Financial Crisis there had been a dramatic decline in rough diamond prices. By the time the Company sought to sell its first diamonds buyer interest had disintegrated and buyers had disappeared from the market altogether.

As a consequence of the previous delay in commencing production, the development cost overruns and the virtual non existence of a market for the Company's products the Company found itself in financial difficulties in late October 2008. The Company's requested that it be suspended from trading on the ASX and the BSE on 27 January 2009.

The Government of Botswana, in a show of support for the project provided a short term funding line of P10 million secured against further diamond recovery of around 25,000 carats to give DBL time to put an off-take contract in place at an acceptable price to underwrite sales going forward, and to then re-capitalise the Company. However the continuing decline in the world economy meant the diamond market did not improve and the prospect of an off take contract at an acceptable price became extremely remote.

Appointment of Judicial Manager to DiamonEx Botswana Limited

The Directors of DiamonEx Botswana Limited ("DBL") applied to the Botswana High Court to place DBL into Provisional Judicial Management on 27 January 2009, which was subsequently confirmed by the High Court on 27 March 2009, for a period of 12 months from that date. In March 2010, the Botswana High Court extended the Judicial Management Order to 27 September 2010. Following restructuring of group debt and settlement with unsecured and some secured creditors of DiamonEx (Botswana) Limited, the Company came out of Judicial Management on 27 September 2010.

Following appointment of the Judicial Manager the Directors of the Company immediately started working with the Judicial Manager and the creditors of the Company and DBL, to restructure and recapitalise the Group's balance sheet with a view to putting the Lerala mine onto care and maintenance until such time as the rough diamond market recovered.

A recovery plan (the "Recovery Plan") for DBL was presented by the Company to the Botswana High Court on 27 January 2009. On 27 March 2009 when the Judicial Management was confirmed by the High Court, the Company proceeded to execute the Recovery Plan. The Recovery Plan provided for:

- the Mine being placed on care and maintenance;
- Raising of capital to fund the plan;
- Securing an acceptable off take contract for the unprocessed stockpile;
- Profitably processing the stockpile ore over 6 months;
- Polishing diamonds to improve value with a view to selling polished product at a better price;
- Securing a second off take contract for the ongoing production after the stock pile ore was processed.

The Recovery Plan was put on hold when in April 2009, the European Investment Bank ("EIB"), DBL's main banker and secured lender, withdrew its support for the plan and proceeded to apply to the Botswana High Court to have DBL put into liquidation.

In August 2009, the Botswana High Court dismissed the EIB's application and the Judicial Manager was then able to proceed to execute his part of the Recovery Plan.

EIB brought a further application in August 2009 in the Botswana High Court against the Company to enforce two charges that the EIB held over the shares in DBL, and the loan account from the Company

DIRECTORS' REPORT

to DBL. The Company opposed the application on the grounds that the charges only secured debts owing by the Company to EIB, of which there are none.

In October 2009 the Botswana High Court found in favour of the Company and dismissed EIB's application, and in late January 2010, the decision of the Botswana High Court was upheld by the Botswana Court of Appeal.

The net result of this case is that the Company's two main assets, the shares it owns in DBL and the loan advances it has made to DBL, were encumbrance free. However, the need to defend the legal proceedings and the uncertainty created by the litigation meant that the implementation of the Recovery Plan was substantially delayed.

The Recovery Plan

The Recovery Plan has to date been promoted, managed and funded by Fleming Asset Management Botswana (Pty) Limited ("Fleming"), a Botswana investment fund management company whose clients hold a large proportion of the Convertible Notes previously issued by the Company, and more recently by one of Fleming's client's.

In March 2009, Fleming agreed to underwrite, with the financial backing of its client, BWP 35 million (approximately A\$6 million), to support the Recovery Plan. In October 2009, another Botswana investment management company, Stanbic Investment Management Services (Pty) Limited ("SIMS") also with client exposure to the Convertible Notes, agreed to support and share in the risk with Fleming in this underwriting.

A special purpose vehicle, Flamenco (Pty) Limited, has been used to advance the funds on behalf of Fleming and SIMS.

Implementation of the Recovery Plan

The Recovery Plan has three aspects to it:

- Return of the Lerala Diamond Mine to production;
- Balance sheet clean up of the Company – that is the settlement certain liabilities of the Company mainly by the issue of shares in the Company to those creditors, and either retain the Convertible Notes on new terms or repay; and
- Balance sheet clean up of DBL – that is the settlement of current liabilities of DBL and the retention of long term liabilities on new terms.

In September 2010, DBL concluded debt restructuring agreements with all its employees and unsecured creditors, leaving two secured creditors in the company, one of whom has agreed new terms, and the other who is currently in negotiations. On 27 September 2010 the Judicial Management of DBL terminated.

The Company has entered into a conditional agreement to sell DBL to Mantle Diamonds Limited. Consideration consists of US\$3.25 million in cash, and the issue of 45,330,913 shares in Mantle at an issue price of GBP0.10 per share. Proceeds of the sale will be used to fund initial working capital, repay the Convertible Notes and funding provided by Fleming and Flamenco during the re-structuring period.

In addition, DiamonEx creditors totalling about \$4.5 million have agreed to convert their debt into DiamonEx equity at two cents per share, subject to shareholder approval.

This will extinguish most debt in DiamonEx, and the Company will look to recapitalise as soon as possible, with a view to acquiring new resource projects for the Company.

The implementation of aspects of the recovery plan and the restructure of the Company are subject to shareholder approval. The Company is currently preparing documentation in relation to these transactions and plans to hold a general meeting of the shareholders in early 2011.

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GOING CONCERN & FINANCIAL POSITION

At 30 June 2010 the economic entity has a deficiency of net assets of \$6,626,446. The financial statements have been prepared on the basis that the economic entity is a going concern.

As outlined above, the economic entity has encountered significant financial difficulties. At balance date the main asset of the economic entity, the Lerala Diamond Mine was under judicial management and various finance facilities were in breach.

The economic entity has been working with the Judicial Manager, the financiers, other creditors and stakeholders on a recovery plan and re-structuring. At balance date the economic entity and the parent entity have incurred significant losses and have negative net equity. The economic entity and the parent entity have the ongoing financial support of the financiers and other creditors whilst the recovery plan and re-structuring are underway. These plans are well advanced, including removal of the Judicial Manager and a conditional agreement for the sale of the mine.

The ability of the economic entity and the parent entity to continue as a going concern is dependent on the ongoing financial support of the financiers and other creditors, and achievement of the recovery plan and re-structuring. On the basis of this support and the status of the recovery plan and re-structuring, the directors have prepared the financial statements on a going concern basis. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary if the economic entity and parent entity could not continue as a going concern.

The ability of the economic entity and the parent entity to continue as a going concern beyond the period of finalisation of the recovery plan/re-structuring will depend on attaining new forms of finance (either equity or debt). Directors are confident that new funding initiatives will be successful, however no commitment has yet been made to source additional funding. On the expectation of obtaining further funding directors have prepared the financial statements on a going concern basis.

INFORMATION ON DIRECTORS

The names and qualifications of current Directors are summarised as follows

Peter Van Reit Lowe	Non Executive Chairman
Qualifications	B Com (Hons) (Econ), B Compt (Hons) (Acc.Sci),ACMA, IMC, FCPA (Botswana)
Experience	Appointed to the Board on 4/11/2009. Over 30 years experience in accounting and financial services. Founded the Fleming Group in 1992 which has approximately US\$1.2 billion under management
Interest in Shares	Currently holds 127,700 ordinary shares
Directorships in Other Listed Companies	Chobe Holdings Limited (Botswana)
Wayne Osterberg	Director (Non Executive)
Qualifications	BA LLB MBA
Experience	Appointed to the Board on 4/11/2009. Practised law in Zimbabwe before entering stockbroking as an analyst in 1997. Thirteen years experience in the capital markets of Southern Africa and Australia. Currently Chief Operating Officer of Fleming Asset Management Botswana
Interest in Shares	Currently holds 60,000 ordinary shares

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Gregory M King	Previous Executive Chairman (Resigned 4/11/2009)
Qualifications	Bachelor of Applied Science – Applied Geology
Experience	Appointed Chairman in 2004. Board member since 2000, 29 years experience in exploration project management
Interest in Shares	Founding shareholder and held 10,620,000 ordinary shares at date of resignation.
Dennis C O'Neill	Director (Non Executive)
Qualifications	Bachelor of Science - Geology
Experience	Board member since 2000, 30 years experience in exploration project and corporate management
Interest in Shares	Founding shareholder and currently holds 4,900,000 ordinary shares and 1,000,000 options
Directorships in Other Listed Companies	Orocobre Limited
Paul A Crawford	Director (Non Executive)
Qualifications	Bachelor of Business – Accountancy; CPA; Master of Financial Management; Graduate Diploma in Business Law; Graduate Diploma in Company Secretarial Practice.
Experience	Board member since 2000; 28 years experience in accounting and commercial management, Principal of corporate consultancy firm.
Interest in Shares	Founding shareholder and currently holds 4,123,350 ordinary shares.
Directorships in Other Listed Companies	ActivEX Limited
David N Magang	Director (Non Executive) Resigned 4/11/2009
Qualifications	LLB (Honours); Barrister and Attorney
Experience	Board member since April 2004, resident of Botswana, member of the Botswana Parliament for 23 years including 4 years as Minister for Minerals, Energy and Water Affairs
Interest in Shares	Held 516,100 ordinary shares at date of resignation.
Leonard T. Siwawa	Director (Non Executive)
Qualifications	Bachelor of Science in Actuarial Science & Master of Science in Actuarial Management.
Experience	Appointed to the Board on 19/11/2010. Mr Siwawa has considerable experience in investment fund management, covering both debt and equity instruments.
Interest in Shares	Nil

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REMUNERATION REPORT

This report details the nature and amount of remuneration of each Director and other key executive personnel.

The current financial position of the Company has resulted in the suspension of a number of remuneration arrangements. The Company's remuneration policy ordinarily seeks to align Director and executive objectives with those of shareholders and business, while at the same time recognising the development stage of the Company and the criticality of funds being utilised to achieve development objectives. The Board believes that the current policy has been appropriate and effective in achieving a balance of objectives.

The remuneration structure for executive officers including executive Directors is based on a number of factors including length of service, particular experience of the individual concerned and overall performance of the group

The Company's policy for determining the nature and amount of remuneration of board members and senior executives of the Company is as follows:

The remuneration policy setting the terms and conditions for the executive Directors was developed by and approved by non-executive Directors. Executive Directors receive a base salary, superannuation and fringe benefits and in prior years equity based performance remuneration. Superannuation payments consist of the 9% superannuation guarantee contribution. Individuals may elect to salary sacrifice part of their salary to increase payments towards superannuation. No other form of retirement benefit is paid. The current financial position of the Company has resulted in the termination of all executive appointments.

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amounts of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting and are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company. The maximum aggregate amount of fees that can be paid to non-executive Directors approved by shareholders is currently \$100,000.

The Company's remuneration policy provides for long term incentives through participation in the Company's Employee and Officers Share Option Plan. Further details on options issued under the Plan are set out in Note 20 in the financial statements. The Company does not currently have any other performance based incentives component built into Director and executive remuneration.

The Board of Directors is responsible for determining and reviewing the Company's remuneration policy, remuneration levels and performance of both executive and non executive Directors. Independent external advice will be sought when required.

The Non Executive Directors agreed to stop accruing fees at 31 December 2008, the month before DBL was put into Judicial Management and the shares in the Company suspended from trading on the ASX and the BSE. Fees and post employment benefits owing to the non executive Directors are unpaid at 30 June 2010 and as at the date of this report.

Since then the Non Executive Directors remained on the Board of the Company, at their own cost, managing the Company to the point where the Board had settled on the Recovery Plan with the Note Holders, at which point two of the Directors, Messrs Magang and King resigned. Messrs Crawford and O'Neill remain Directors. Neither Mr. Crawford nor Mr. O'Neill have accrued Directors' fees since and have agreed to waive them up to the completion of the Recovery Plan. Non-executive directors appointed in the current year (Messrs Van Reit Lowe and Osterberg) have also waived any fees.

The remuneration of each Director and specified executive officers of the consolidated entity during the year were as follows:

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2010 Key Management Personnel	Short-term Benefits		Post Employment Benefits Super- annuation	Equity Settled Options	Total	Performance Related (i)
	Fees and/or Salary	Non- Cash Benefits				
	\$	\$				
P Van Riet Lowe (ii,v)	-	-	-	-	-	-
W Osterberg (ii,v)	-	-	-	-	-	-
L Siwana (ii,vii)	-	-	-	-	-	-
G. King (iii,vi)	-	-	-	-	-	-
D O'Neil (iii)	-	-	-	9,436	9,436	100.0
P Crawford (ii)	-	-	-	-	-	-
D Magang (ii,vi)	-	-	-	-	-	-
	-	-	-	9,436	9,436	100.0

2009 Key Management Personnel	Short-term Benefits		Post Employment Benefits Super- annuation	Equity Settled Options	Total	Performance Related (i)
	Fees and/or Salary	Non- Cash Benefits				
	\$	\$				
P Van Riet Lowe (ii,v)	-	-	-	-	-	-
W Osterberg (ii,v)	-	-	-	-	-	-
L Siwana (ii,vii)	-	-	-	-	-	-
G. King (iii)	76,453	-	6,881	10,160	93,494	10.87
D O'Neil (iii)	97,799	-	8,802	10,160	116,761	8.70
P Crawford (ii)	-	-	11,000	-	11,000	-
D Magang (ii)	11,000	-	-	-	11,000	-
D Duncan (ii)	9,167	-	-	-	9,167	-
M Seed (iv)	105,000	-	8,100	3,884	116,984	3.32
M Gray (iv)	31,109	-	-	3,884	34,993	11.10
M Coetzee (iv)	58,315	-	-	3,884	62,199	6.24
M Whillier (iv)	102,295	-	7,875	3,884	114,054	3.40
	491,138	-	42,658	35,856	569,652	6.29

(i) Represents the percentage of total remuneration represented by options

(ii) Non executive Director

(iii) Changed from Executive to Non-executive Director in the 2009 year.

(iv) These executives terminated during the year.

(v) Appointed 4 November 2009.

(vi) Resigned 4 November 2009

(vii) Appointed 19 November 2010.

Options granted as remuneration

No options were granted as remuneration in the current year. Remuneration options granted in prior years were:

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Key Management Personnel	Vested Number	Grant Number	Grant Date	Value per Option at Grant Date	Terms & Conditions of each Grant		
					Exercise Price	First Exercise Date	Last Exercise Date
M Seed	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
M Gray	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
M Coetzee	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
M Whillier	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
	<u>800,000</u>	<u>800,000</u>					

All options vested immediately and expire within 5 years of granting. All options were granted for nil consideration. No options have been exercised. The options lapsed when these persons ceased to be employed by the Company and were not exercised within the allowed time.

The employment conditions for the previous executive Chairman, Mr King and former Managing Director, Mr O'Neill were formalised in contracts of employment. Messrs King and O'Neill have ceased employment with the Company and Mr O'Neill remains a non-executive director. None of the current Directors have any contract.

DIVIDENDS

No dividends were declared or paid during the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company's major subsidiary DBL was placed into Provisional Judicial Management on 27 January 2009 which was subsequently confirmed by the High Court of Botswana on 27 March 2009 for a period of 12 months from that date. In March 2010, the Botswana High Court extended the Judicial Management Order to 27 September 2010. Following re-structuring of group debt and settlement with unsecured and some secured creditors of DiamonEx (Botswana) Limited, the Company came out of Judicial Management on 27 September 2010.

Further details are provided in the Operating and Financial Review above.

SIGNIFICANT EVENTS AFTER BALANCE DATE

a) Recovery Plan

Since the end of the financial year, the economic entity's activities have been focussed on the implementation of the Recovery Plan as set out in Operating and Financial Review above.

In September 2010 DiamonEx Botswana Limited was released from Judicial Management.

In October 2010 DiamonEx Limited was released from the Stanbic Bank Guarantee granted as security for debts of DiamonEx Botswana Limited.

(b) Sale of DiamonEx Botswana Limited

In November 2010, the Company entered into a conditional agreement to sell DBL to Mantle Diamonds Limited. Consideration consists of US\$3.25 million in cash and the issue of 45,330,913 shares in Mantle at an issue price of GBP0.10 per share.

(c) Shareholder Meeting

A General Meeting of shareholders of the parent entity is to be held to approve critical aspects of the Recovery Plan and restructuring, including:

- appointment of and ratification of the appointment of certain Directors of the parent entity;

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- issue of up to 223,580,642 shares at \$0.02 each to creditors, financiers and Directors to convert amounts owed by the Company (excluding the principal owing under the note facility) to these parties into equity;
- issue up to 100,000,000 shares at \$0.005 to raise working capital for the company;
- issue up to 177,286,637 shares at \$0.02 to finalise settlement of their debts; and
- approval to sell the DiamonEx Botswana Limited to Mantle Diamonds Limited.

Other than as set out in this report and the attached financial statements no matters or circumstances have arisen since 30 June 2010, which significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

LIKELY DEVELOPMENTS

Since balance date, the economic entity's activities have been focussed on the implementation of the Recovery Plan, as discussed above.

ENVIRONMENTAL REGULATION

The Company's is not subject to any significant environmental regulation under the law of the Commonwealth and a State or Territory.

Under the terms of the mining licence granted by the Botswana Government in relation to the Lerala Mine, DBL is required to operate in accordance with the Government approved Environmental Management Program. Following the placing of DBL into Judicial Management, the responsibility for complying with the Environmental Management Program has passed to the Judicial Manager.

SHARE OPTIONS

At the date of this report there are unissued ordinary shares of the Company under option as follows:

- 1,000,000 granted to Directors having a grant date of 30 November 2006, expiry date of 30 November 2011 and an exercise price of \$0.35;

No person entitled to exercise these options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

No options have been issued or exercised during the financial year or since year end to the date of this report.

Options on issue at the start of the financial year that have expired or lapsed at the date of this report are:

- 1,000,000 granted to Directors on 30 November 2006;
- 1,000,433 granted to Fox-Davies Capital Limited on 23 October 2007;
- 1,000,000 granted to RFC Corporate Finance Ltd on 1 November 2007;
- 1,550,000 granted to executive management and staff on 18 April 2008; and
- 422,850 granted to Fox-Davies Capital Limited on 17 January 2008.

INDEMNIFICATION OF DIRECTORS AND AUDITORS

The economic entity has paid insurance premiums to indemnify each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The contracts include a prohibition on disclosure of the premium paid and nature of the liabilities covered under the policy.

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The Company has not given an indemnity or entered into any agreement to indemnify, or paid or agreed to pay insurance premiums in respect of any person who is or has been an auditor of the Company or a related body corporate during the year and up to the date of this report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability the Directors of DiamonEx Limited support and where practicable or appropriate have adhered to the ASX Principles of Corporate Governance. The Company's Corporate Governance statement is contained within this annual report.

AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

NON-AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are satisfied that the services disclosed below did not compromise the external auditors' independence as:

- All non audit services are reviewed and approved prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor and
- The nature and scope of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement P1: Professional Independence

The following fees were paid for non audit services:

	2010	2009
Share registry and taxation services in Botswana paid to Price Waterhouse Coopers Botswana	-	\$17,200
Compliance assurance services in Australia paid to Hayes Knight Audit (Qld) Pty Ltd	-	\$4,500

Signed in accordance with a resolution of the Directors.



Peter Van Riet-Lowe
Chairman

Signed: 9 February 2011
Brisbane, Queensland



Paul Crawford
Director

Hayes Knight Audit (Qld) Pty Ltd
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Registered Audit Company 299289

Lead Auditor's Independence Declaration
Under Section 307C of the *Corporations Act 2001*

To the Directors of DiamonEx Limited

As lead auditor for the audit of DiamonEx Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions to the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DiamonEx Limited and the entities it controlled during the period.

Hayes Knight Audit (Qld) Pty Ltd

Hayes Knight Audit (Qld) Pty Ltd

Nigel Bamford

N D Bamford
Director

Date: *9 February 2011*

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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2010 and of the performance of the economic entity for the year ended on that date.
2. The Chief Executive Officer and Chief Finance Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Peter Van Riet-Lowe
Chairman



Paul Crawford
Director

Dated this: 9th day of February 2011

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STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2010

		Economic Entity	
	Note	2010	2009
		\$	\$
Continuing Operations			
Revenue and other income	2	56,150	102,136
Expenses			
Exploration & evaluation expenditure		-	(2,518,989)
Administrative expenses		(542,454)	(1,393,274)
Employee benefit expense		(33,334)	(461,496)
Occupancy expenses		(172,049)	(236,418)
Finance costs		(1,841,662)	(3,260,476)
Foreign exchange gains (losses)		246,895	359,961
Write back of impairment to subsidiaries		421,121	-
Loss before income tax	3	(1,865,333)	(7,408,556)
Income tax expense	4	-	(1,685)
Loss from continuing operations for the year		(1,865,333)	(7,410,241)
Loss from discontinued operations	5	-	(22,446,042)
Loss for the year		(1,865,333)	(29,856,283)
Other comprehensive income			
Exchange differences on translation of foreign controlled entities		19,456	1,974,544
Other Comprehensive income for the year net of tax		19,456	1,974,544
Total comprehensive loss attributable to members		(1,845,878)	(27,881,739)
Earnings per Share			
Overall operations			
Basic earnings per share (cents per share)	7	(0.97)	(16.40)
Diluted earnings per share (cents per share)	7	(0.97)	(16.40)
Continuing operations			
Basic earnings per share (cents per share)	7	(0.97)	(4.07)
Diluted earnings per share (cents per share)	7	(0.97)	(4.07)
Discontinued operations			
Basic earnings per share (cents per share)	7	-	(12.33)
Diluted earnings per share (cents per share)	7	-	(12.33)
Dividends per share (cents per share)		-	-

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED

ABN 26 091 951 978

STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		Economic Entity	
	Note	2010	2009
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	9	58,379	106,115
Trade and other receivables	10	7,829	29,592
Inventories	11	-	-
Other	12	4,279	12,079
Total Current Assets		70,487	147,786
NON-CURRENT ASSETS			
Trade and other receivables	10	-	-
Property, plant and equipment	13	-	58,537
Financial assets	14	9,556,248	9,556,248
Exploration and evaluation asset	15	-	-
Mine development asset	16	-	-
Total Non-Current Assets		9,556,248	9,614,785
TOTAL ASSETS		9,626,735	9,762,571
CURRENT LIABILITIES			
Trade and other payables	17	2,108,120	2,076,085
Borrowings	18	14,145,061	12,476,490
Total Current Liabilities		16,253,181	14,552,575
NON CURRENT LIABILITIES			
Borrowings	18	-	-
Total Non Current Liabilities		-	-
TOTAL LIABILITIES		16,253,181	14,552,575
NET ASSETS		(6,626,446)	(4,790,004)
EQUITY			
Issued capital	19	39,033,979	39,033,979
Reserves	21	(4,308,551)	(4,337,442)
Accumulated losses		(41,351,874)	(39,486,541)
TOTAL EQUITY		(6,626,446)	(4,790,004)

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED

ABN 26 091 951 978

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

	Note	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
		\$	\$	\$	\$	\$
Economic Entity						
Balance at 1 July 2008		32,173,103	(9,630,258)	(6,548,350)	185,944	16,180,439
Loss attributable to members of entity		-	(29,856,283)	-	-	(29,856,283)
Other comprehensive income for period		-	-	1,974,544	-	1,974,544
Total comprehensive income (loss)		-	(29,856,283)	1,974,544	-	(27,881,739)
Shares issued during the period	19	6,953,938	-	-	-	6,953,938
Equity reclassified to debt	19	(93,062)	-	-	-	(93,062)
Share based payment - employee share options expense		-	-	-	50,420	50,420
Balance at 30 June 2009		39,033,979	(39,486,541)	(4,573,806)	236,364	(4,790,004)
Loss attributable to members of entity		-	(1,865,333)	-	-	(1,865,333)
Other comprehensive income for period		-	-	19,456	-	19,456
Total comprehensive income (loss)		-	(1,865,333)	19,456	-	(1,845,878)
Shares issued during the period	19	-	-	-	-	-
Share based payment - share options expense		-	-	-	9,436	9,436
Balance at 30 June 2010		39,033,979	(41,351,874)	(4,554,351)	245,800	(6,626,446)

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED

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STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Note	Economic Entity	
		2010	2009
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(546,081)	(4,775,335)
Rent received		53,496	32,273
Interest received		2,654	33,421
Finance costs		(1,841,662)	(3,719,505)
Foreign taxes paid		-	(1,684)
Net cash provided by (used in) operating activities	22	(2,331,593)	(8,430,830)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-	(407,752)
Exploration & evaluation expenditure		-	-
Development expenditure		-	(5,673,836)
Proceeds from sale of property, plant and equipment		7,192	36,442
Investment in group entities		-	-
Advances to group entities		(225,611)	(129,825)
Cash balance of de-consolidated group entity		-	1,898,886
Net cash provided by (used in) investing activities		(218,419)	(4,276,085)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	6,800,614
Proceeds from issue of convertible notes		-	-
Costs associated with share issue		-	(175,000)
Proceeds from borrowings		2,518,302	4,511,988
Net cash provided by (used in) financing activities		2,518,302	11,137,602
Net increase (decrease) in cash held		(31,710)	(1,569,313)
Cash at beginning of financial year		106,115	1,673,696
Effect of exchange rates on cash holdings in foreign currencies		(16,026)	1,732
Cash at end of financial year	9	58,379	106,115

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers the economic entity of DiamonEx Limited and controlled entities. DiamonEx Limited is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis and is based on historical cost modified, where applicable, by measurement at fair value of selected non-current assets, financial assets and liabilities.

Separate financial statements for DiamonEx Limited as an individual entity are not presented following a change to the *Australian Corporations Act 2001*. However, financial information required for DiamonEx Limited as an individual entity is included in Note 29.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

Going Concern Basis

The financial statements have been prepared on the basis that the parent and consolidated entity is a going concern.

As outlined in note 5, the economic entity has encountered significant financial difficulties. At balance date the main asset of the economic entity, the Lerala Diamond Mine was under judicial management and various finance facilities were in breach.

The economic entity has been working with the Judicial Manager, the financiers, other creditors and stakeholders on a recovery plan and re-structuring. At balance date the economic entity and the parent entity have incurred significant losses and have negative net equity. The economic entity and the parent entity have the ongoing financial support of the financiers and other creditors whilst the recovery plan and re-structuring are underway. These plans are well advanced, including the removal of the Judicial Manager and a conditional agreement for the sale of the mine.

The ability of the economic entity and the parent entity to continue as a going concern is dependent on the ongoing financial support of the financiers and other creditors, and achievement of the recovery plan and re-structuring. On the basis of this support and the status of the recovery plan and re-structuring, the directors have prepared the financial statements on a going concern basis. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary if the economic entity and parent entity could not continue as a going concern.

The ability of the economic entity and the parent entity to continue as a going concern beyond the period of finalisation of the recovery plan/re-structuring will depend on attaining new forms of finance (either equity or debt). Directors are confident that new funding initiatives will be successful, however no commitment has yet been made to source additional funding. On the expectation of obtaining further funding directors have prepared the financial statements on a going concern basis.

DIAMONEX LIMITED

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

A controlled entity is any entity DiamonEx Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 14 to the financial statements. All controlled entities have a financial year end and accounting policies consistent with the parent entity.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

DIAMONEX LIMITED

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Property, Plant and Equipment

Each class of plant and equipment is brought to account at cost or fair value, less where applicable, any accumulated depreciation or amortisation, and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets is depreciated on a straight line basis, over their useful lives to the economic entity, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Plant and Equipment	20% - 30%
Leasehold Improvements	30%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

Exploration and Evaluation Assets

Exploration and evaluation expenditure incurred is recognised as exploration and evaluation assets, measured on the cost basis and classified as an intangible asset. The expenditure incurred is accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that rights of tenure are current and either they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation or alternatively sale of the respective areas of interest.

Mine Development Asset

Development expenditure incurred by or on behalf of the economic entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and an appropriate proportion of related overhead expenditure having a specific nexus with the mine development asset. Once a development decision has been taken, any deferred exploration and evaluation expenditure is transferred to Mine Development Asset in respect of the area of interest.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which the recoupment out of revenue to be derived from the sale of production from the relevant property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until they are reclassified following a decision to commence mining.

Restoration Costs

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the exploration and mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

The economic entity currently has no obligation for any restoration costs in relation to discontinued operations, nor is it currently liable for any future restoration costs in relation to current areas of interest. Consequently, no provision for restoration has been deemed necessary.

Impairment of Assets

At each reporting date, the economic entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not practicable to estimate the recoverable amount of an individual asset the economic entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

The economic entity does not designate any interests in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity is no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

iii. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition. The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default

Foreign Currency Transactions and Balances

Functional and presentation currency:

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group companies:

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits

Provision is made for the liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Contributions are made by the entity to employee superannuation funds and are charged as expenses when incurred.

Equity Settled Payments

The parent entity has issued equity settled payments for services rendered by executives, employees and external parties. The fair value of options granted (measured at grant date) is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the services rendered or options granted.

Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of less than 3 months, and bank overdrafts.

Issued Capital

Ordinary shares are classified as equity. Transaction costs (net of tax, where the deduction can be utilised) arising on the issue of ordinary shares are recognised in equity as a reduction of the share proceeds received.

Where share application monies have been received, but the shares have not been allotted, these monies are shown as a payable in the statement of financial position.

The equity component of compound financial instruments issued by the group is determined in accordance with the substance of the contractual arrangement.

Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Borrowing Costs

All borrowing costs are recognised in income in the period in which they are incurred.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the Australian Tax Office or the Botswana Unified Tax Office. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST/VAT.

Cash flows are presented in the statement of cashflows on a gross basis except for the GST component of investing activities which are disclosed as operating cash flow.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative Figures and Financial Period

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Earnings per Share (EPS)

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the economic entity.

Key estimates/judgments taken in preparation of the financial statements are:

Going concern basis - see comments at note 1.

De-consolidation of subsidiary - as outlined in note 5, a wholly owned subsidiary has been de-consolidated due to a loss of control (but not ownership).

Carrying value of subsidiary - as outlined in note 5, the interest in the de-consolidated subsidiary has been impaired and carrying value is based on a best estimate of fair value.

Adoption of New and Revised Accounting Standards

During the current year the Company adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of the Company.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting.

AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance.

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

As the Company operates in a single segment, the adoption of the 'management approach' to segment reporting has had no impact.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Company's financial statements.

Disclosure impact:

Terminology changes — The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — The revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — The revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Company's financial statements contain a statement of comprehensive income.

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The company has decided against early adoption of these standards.

The following standards and amendments to standards have been identified as those which may impact on the company in the period of initial application:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Company has not yet determined the potential impact on the financial statements. The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;

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Notes to the Financial Statements for the financial year ended 30 June 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a. the objective of the entity's business model for managing the financial assets; and
 - b. the characteristics of the contractual cash flows.

AASB 2009-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Company.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Company.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Company.

AASB 2009-8: Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in interpretation 8 and Interpretation 11 and as a consequence, these Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

DIAMONEX LIMITED

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Notes to the Financial Statements for the year ended 30 June 2010

	Economic Entity	
	2010	2009
	\$	\$
NOTE 2: REVENUE AND OTHER INCOME - CONTINUING OPERATIONS		
Revenue		
Sales revenue	-	-
Other income:		
Interest received from other persons	2,654	33,421
Interest received from wholly owned controlled entity	-	-
Rent received from other persons	53,496	32,273
Profit on disposal of plant & equipment	-	36,442
Total revenue and other income	56,150	102,136

NOTE 3: PROFIT/(LOSS) FOR THE YEAR - CONTINUING OPERATIONS

Included in expenses are the following items:

Depreciation	27,735	40,847
Foreign currency translation losses/(gains)	(246,895)	(359,961)
Loss on disposal of property, plant & equipment	23,610	-
Impairment write-back	(421,121)	-
Rental expense on operating leases - minimum lease payments	151,879	202,188
Finance costs:		
- interest paid and payable to external parties	1,841,662	1,582,834
- loan guarantee called by financier	-	1,677,642
	1,841,662	3,260,476
Exploration & evaluation expenditure		
Expensed in year	-	654,387
Write-off of amounts previously capitalised	-	1,864,602
	-	2,518,989
The following significant items are relevant in explaining the financial performance:		
Finance costs	1,841,662	3,260,476
Impairment of subsidiaries written back	(421,121)	-

NOTE 4: INCOME TAX EXPENSE

The prima facie tax on loss from ordinary activities is reconciled to the income tax as follows:

Prima facie tax payable/(benefit) on loss from ordinary activities before income tax at 30% (2009: 30%).	(559,600)	(8,956,379)
Adjust for tax effect of:		
Tax losses and temporary differences not brought to account	123,415	1,580,457
Non-allowable items	435,545	7,052,392
Effects of different tax rates on foreign tax losses / (gains)	640	325,215
Income tax expense/(benefit) attributable to entity	-	1,685

The economic entity has unrecouped unconfirmed carry forward tax losses of approximately \$12,600,000 (2009: \$12,000,000) comprising unrecouped unconfirmed losses arising in Australia of \$11,600,000 (2009: \$11,000,000), in Botswana of \$nil (2009: nil) and in USA \$1,000,000 (2009: \$1,000,000). The Botswana carry forward losses in 2009 and 2010 are no longer available to the consolidated entity as result of Diamonex Botswana Limited being placed into judicial management on 27 January 2009. The USA carry forward losses are quarantined under Australian tax legislation and are only available to be offset against future taxable income derived in USA .

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Notes to the Financial Statements for the year ended 30 June 2010

Economic Entity	
2010	2009
\$	\$

NOTE 4: INCOME TAX EXPENSE (continued)

Deferred Tax

Balances not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur:

Temporary differences (comprising exploration expenditure, provisions and other items)

Tax losses

Net unbooked deferred tax asset

526,942	454,745
(3,807,802)	(3,612,192)
(3,280,860)	(3,157,447)

NOTE 5: DIAMONEX BOTSWANA

The economic entity, through it wholly owned subsidiary DiamonEx Botswana Limited ("DBL"), developed the Lerala Diamond Mine in Botswana. The mine was in commissioning stage at 30 June 2008 and commenced production and sales of diamonds in October 2008. This timing coincided with the global financial crisis and a significant fall in the price and demand for diamonds. Consequently, DBL fell into financial difficulties and the Directors of DBL applied to the Botswana High Court to place DBL into Provisional Judicial Management on 27 January 2009, which was subsequently confirmed by the High Court on 27 March 2009.

A recovery plan (the "Recovery Plan") for DBL was presented by the Company to the Botswana High Court on 27 January 2009. On 27 March 2009 when the Judicial Management was confirmed by the High Court, the Company proceeded to execute the Recovery Plan. The Recovery Plan provided for

- the Mine being placed on care and maintenance;
- Raising of capital to fund the plan;
- Securing an acceptable off take contract for the unprocessed stockpile;
- Profitably processing the stockpile ore over 6 months;
- Polishing diamonds to improve value with a view to selling polished product at a better price;
- Securing a second off take contract for the ongoing production after the stock pile ore is processed.

The Recovery Plan has to date been promoted, managed and funded by Fleming Asset Management Botswana (Pty) Limited ("Fleming"), a Botswana investment fund management company whose clients hold a large proportion of the Convertible Notes previously issued by the Company, and more recently by one of Fleming's client's.

In March 2009, Fleming agreed to underwrite, with the financial backing of its client, BWP 35 million (approximately A\$6 million), to support the Recovery Plan. In October 2009, another Botswana investment management company, Stanbic Investment Management Services (Pty) Limited ("SIMS") also with client exposure to the Convertible Notes, agreed to support and share in the risk with Fleming in this underwriting.

The financing expires in August 2011 and a success fee is payable should DBL be sold (see note 26).

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Notes to the Financial Statements for the year ended 30 June 2010

Economic Entity	
2010	2009
\$	\$

NOTE 5: DIAMONEX BOTSWANA (continued)

The appointment of Judicial Management for DBL results in a loss of control for the parent entity and consequently DBL has been de-consolidated and treated as a discontinued operation. The financial performance of the discontinued operation to 27 January 2009 which is included in loss from discontinued operations per the income statement is as follows:

Revenue	-	312,516
Expenses	-	(13,930,330)
(Loss) attributable to the members	-	(13,617,814)
Group result on de-consolidation:		
Impairment of parent entity loans	-	(29,006,257)
Impairment of investment	-	(1,268,527)
Less prior year DBL post acquisition equity included in consolidated results	-	21,446,556
	-	(8,828,228)
Total loss attributable to discontinued operation	-	(22,446,042)

There is no income tax expense relating to the above.

The net cashflows from the discontinued subsidiary incorporated into the statement of cashflows are as follows:

Net cash flow from operating activities	-	(6,094,816)
Net cash flow from investing activities	-	(6,211,413)
Net cash flow from financing activities	-	3,282,535
Net cash flow of discontinued operation	-	(9,023,694)

Current Status of DBL

Implementation of the Recovery Plan has been lengthy, involved and has required some modification. As at the date of this report, the Recovery Plan is well advanced, and the Judicial Management of DBL was terminated on 27 September 2010. Consequently, the parent entity is now working with financiers to re-structure the group's debt and recapitalise. A conditional agreement has been entered into for the sale of DBL for net consideration of approximately A\$9.5 million. The major portion of the consideration will be applied to reduce group debt.

Carrying Value of DBL

Following de-consolidation, the group's interest in DBL at 30 June 2010 comprises:

Amounts receivable (note 10)	28,585,136	29,006,257
Investment (note 14)	10,824,775	10,824,775
	39,409,911	39,831,032
Impairment	(29,853,663)	(30,274,784)
Net carrying value	9,556,248	9,556,248

The interest in DBL is shown at fair value, being the directors' best estimate based on the currently proposed sale transaction. The consideration of A\$9,556,248 for that transaction has been determined from negotiations with the purchaser and financiers and reference to internal assessments of the value of DBL assuming the mine can be returned to production.

The consideration includes US\$ 3,250,000 cash and equity in the purchaser valued at GBP6,901,572, less estimated costs. Should the proposed sale transaction be settled the actual consideration received may vary due to exchange rate imposts and actual sale costs.

Should the proposed sale not proceed, the fair value of the group's interest in DBL is uncertain but in the current financial circumstances, likely to be less than carrying value.

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Notes to the Financial Statements for the year ended 30 June 2010

Economic Entity	
2010	2009
\$	\$

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION & EQUITY

(a) The names of key management personnel of the parent and economic entity who held office during the financial year are:

Key Management Person	Position
Peter Van Riet-Lowe	Chairman - Non-Executive (Appointed 4/11/09)
Dennis C. O'Neill	Director - Non-Executive
Paul A. Crawford	Director - Non-Executive
Wayne Osterberg	Director - Non-Executive (Appointed 4/11/09)
Gregory M. King	Director - Non-Executive (Resigned 4/11/09)
David N. Magang	Director - Non-Executive (Resigned 4/11/09)

(b) Key management personnel compensation

Short-term employee benefits	-	491,138
Post-employment benefits	-	42,658
Other long-term benefits	-	-
Share-based payments	9,436	35,856
	<u>9,436</u>	<u>569,652</u>

Detailed disclosures on compensation for key management personnel are set out in the Remuneration Report included in the Directors' Report. See also note 23 for related party transactions.

(c) Number of shares held by Key Management Personnel

Key Management Personnel (i)	Balance 1 July 2009	Remun- eration (ii)	Purchased / (Sold)	Balance 30 June 2010
Gregory M King (at date of resignation)	10,620,000	-	-	10,620,000
Dennis C O'Neill	4,900,000	-	-	4,900,000
Paul A Crawford	4,123,350	-	-	4,123,350
David N Magang (at date of resignation)	516,100	-	-	516,100
Peter Van Riet-Lowe (at date of appointment)	127,700	-	-	127,700
Wayne Osterberg (at date of appointment)	60,000	-	-	60,000
Total	<u>20,347,150</u>	-	-	<u>20,347,150</u>

Key Management Personnel (i)	Balance 1 July 2008	Remun- eration (ii)	Purchased / (Sold)	Balance 30 June 2009
Gregory M King	10,620,000	-	-	10,620,000
Dennis C O'Neill	4,900,000	-	-	4,900,000
Paul A Crawford	4,080,800	-	42,550	4,123,350
David N Magang	516,100	-	-	516,100
Donald J. Duncan (at date of resignation)	500,000	-	-	500,000
Michael Whillier (at date of resignation)	75,000	-	-	75,000
Michael Seed (at date of resignation)	-	-	-	-
Mark Gray (at date of resignation)	-	-	-	-
Mark Coetzee (at date of resignation)	-	-	-	-
Total	<u>20,691,900</u>	-	<u>42,550</u>	<u>20,734,450</u>

(i) Represents shares held directly, indirectly or beneficially.

(ii) The parent entity does not issue shares as remuneration.

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Notes to the Financial Statements for the year ended 30 June 2010

Economic Entity
2010 2009
\$ \$

NOTE 6: KEY MANAGEMENT PERSONNEL COMPENSATION & EQUITY (continued)

(d) Number of options held by Key Management Personnel

Key Management Personnel (i)	Balance 1 July 2009	Remun- eration	Purchased / (Sold/Lapsed)	Balance 30 June 2010
Gregory M King (at date of resignation)	1,000,000	-	(1,000,000)	-
Dennis C O'Neill	1,000,000	-	-	1,000,000
Paul A Crawford	-	-	-	-
David N Magang (at date of resignation)	-	-	-	-
Peter Van Riet-Lowe	-	-	-	-
Wayne Osterberg	-	-	-	-
Total	2,000,000	-	(1,000,000)	1,000,000

Key Management Personnel (i)	Balance 1 July 2008	Remun- eration	Purchased / (Sold)	Balance 30 June 2009
Gregory M King	1,000,000	-	-	1,000,000
Dennis C O'Neill	1,000,000	-	-	1,000,000
Paul A Crawford	-	-	-	-
David N Magang	-	-	-	-
Donald J. Duncan (at date of resignation)	-	-	-	-
Michael Whillier (at date of resignation)	200,000	-	-	200,000
Michael Seed (at date of resignation)	200,000	-	-	200,000
Mark Gray (at date of resignation)	200,000	-	-	200,000
Mark Coetzee (at date of resignation)	200,000	-	-	200,000
Total	2,800,000	-	-	2,800,000

(i) Represents options held directly or indirectly.

(ii) All of these options have vested and are exercisable.

NOTE 7: EARNINGS PER SHARE

The earnings figures used in the calculation of both the basic EPS and the dilutive EPS are the same.

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS

Weighted average number of dilutive securities outstanding.

Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in the calculation of diluted EPS

No.	No.
193,154,246	182,038,429
-	-
193,154,246	182,038,429

Options totalling 3,423,283 (2009: 5,973,283) in the parent entity are the only securities considered as potential ordinary shares in determination of diluted EPS. These options and notes, are not presently dilutive and have been excluded from the calculation of diluted EPS.

NOTE 8: AUDITORS' REMUNERATION

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial report	42,000	44,000
- other assurance services	-	4,500

Remuneration of the auditor of Diamonex (Botswana) Ltd for:

- auditing or reviewing the financial report	-	15,401
- other compliance services	-	17,200

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**Notes to the Financial Statements
for the year ended 30 June 2010**

	Economic Entity	
	2010	2009
	\$	\$
NOTE 9: CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	18,190	35,926
Short-term bank deposits	40,189	70,189
Total cash	58,379	106,115

The effective interest rate on short-term bank deposits was 4.8% (2009: 3.8%). These deposits have an average maturity of 30 days.

NOTE 10: TRADE AND OTHER RECEIVABLES

Current:		
Other Debtors	7,829	29,592
Non-Current:		
Amount receivable from wholly owned entities	28,585,136	29,006,257
Provision for impairment	(28,585,136)	(29,006,257)
Total Non- Current	-	-

There are no balances within current receivables that are impaired and past due. It is expected that these balances will be received when due.

Refer to note 5 for details of impairment of non-current receivables. The movement in the provision is as follows:

Opening balance	29,006,257	-
Change for the year	(421,121)	29,006,257
Closing balance	28,585,136	29,006,257

The group has significant credit risk exposure arising from the amount receivable from DiamonEx (Botswana) Limited. On a geographical basis, significant exposure exists in Botswana. These amounts are also considered past due and no interest income is recognised on the amount whilst it is impaired. The amount of the interest not recognised is \$2,154,961 (2009:\$3,164,171).

The parent entity does not hold any collateral over these amounts. These amounts have been given as collateral for finance facilities. See note 18.

NOTE 11: INVENTORIES

Current:		
Mining costs in advance (at cost)	-	-

NOTE 12: OTHER ASSETS

Current:		
Prepayments	4,279	12,079

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
At cost	-	187,584
Accumulated depreciation	-	(129,047)
Total Plant and equipment	-	58,537

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Notes to the Financial Statements for the year ended 30 June 2010

	Economic Entity	
	2010	2009
	\$	\$
NOTE 13: PROPERTY, PLANT AND EQUIPMENT (continued)		
Leasehold Improvements		
At cost	-	-
Accumulated amortisation	-	-
Total Leasehold Improvements	-	-
Total Property, Plant and Equipment	-	58,537
Reconciliation		
Reconciliation of the carrying amounts for property, plant and equipment is set out below:		
	Plant and Equipment	Leasehold Improve.
Balance at 1 July 2008	358,358	490,294
Additions	232,159	175,593
Deconsolidation of subsidiary	(491,360)	(665,887)
Disposals	-	-
Foreign currency translation movement	227	-
Depreciation and amortisation expense	(40,847)	-
Carrying amount at 30 June 2009	58,537	-
Balance at 1 July 2009	58,537	-
Additions	-	-
Deconsolidation of subsidiary	-	-
Disposals	(30,802)	-
Foreign currency translation movement	-	-
Depreciation and amortisation expense	(27,735)	-
Carrying amount at 30 June 2010	-	-
NOTE 14: FINANCIAL ASSETS		
Non-current		
Available for sale investments		
Shares in Unlisted Group Entities:		
Lake Exploration Pty Ltd, incorporated in Australia. The parent entity holds 100% (2009: 100%) of the ordinary shares of the entity, carried at recoverable amount	-	-
Diamonex (USA) Limited, incorporated in Wyoming, USA. The parent entity holds 100% (2009: 100%) of the ordinary shares of the entity, carried at recoverable amount	-	-
Diamonex (Botswana) Ltd, incorporated in Botswana. The parent entity holds 100% (2009: 100%) of the ordinary shares of the entity, carried at cost (Refer Note 5).	10,824,775	10,824,775
Less impairment of investment in Diamonex Botswana Limited	(1,268,527)	(1,268,527)
Total available for sale investments	9,556,248	9,556,248
NOTE 15: EXPLORATION AND EVALUATION ASSET		
Exploration and evaluation expenditure carried forward in respect of areas of interest are:		
Exploration and evaluation phase - at cost	-	-

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Notes to the Financial Statements
for the year ended 30 June 2010

Economic Entity
2010 2009
\$ \$

NOTE 15: EXPLORATION AND EVALUATION ASSET (continued)

Movement in exploration and evaluation asset:

Opening balance - at cost	-	1,538,135
Capitalised exploration expenditure	-	222,294
Transferred to subsidiary companies	-	-
Deconsolidation of subsidiary	-	-
Transferred to development asset	-	-
Foreign currency translation movement	-	104,173
Written off during the year	-	(1,864,602)
Carrying amount at the end of year	-	-

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and development of projects or alternatively through the sale of the areas of interest.

NOTE 16: MINE DEVELOPMENT ASSET

Development expenditure carried forward in respect of areas of interest are:

Mine development - at cost	-	-
Accumulated depreciation	-	-
Total mine development cost	-	-

Movement in mine development asset:

Opening balance - at cost	-	29,307,101
Capitalised development expenditure	-	5,673,836
Transferred from exploration and evaluation asset	-	-
Transferred to Diamonex (Botswana) Limited	-	-
Foreign currency translation movement	-	499,217
Deconsolidation of subsidiary	-	(35,480,154)
Carrying amount at the end of year	-	-

Recoverability of the carrying amount of mine development assets is dependent on revenue to be derived from sale of production from the relevant development property, or from the sale of that property.

NOTE 17: TRADE AND OTHER PAYABLES

Current:

Trade creditors	626,995	759,464
Sundry creditors and accrued expenses	517,349	363,112
Loans from Directors (i)	768,237	756,427
Accrued employee benefits	195,539	197,082
Share application monies received	-	-
Total trade & other payables (unsecured) (ii)	2,108,120	2,076,085

- (i) During the previous year Mr G. King advanced \$393,602 and Mr P. Crawford advanced \$362,825 to assist with company liquidity. The amounts advanced are unsecured & interest free. Subsequent to balance date, these amounts will convert to equity. See note 28.
- (ii) Included in trade & other payables is a total of \$1,772,366 (2009: \$1,586,394) which, subsequent to balance date, will convert to equity. See note 28. Within trade and other payables is \$758,616 (2009: \$1,274,058) owing to related parties

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Notes to the Financial Statements for the year ended 30 June 2010

	Economic Entity	
	2010	2009
	\$	\$

NOTE 18: BORROWINGS

Current:

Secured loan European Investment Bank	-	-
Unsecured loan Stanbic Bank Limited	1,852,721	2,046,840
Secured convertible capital notes (unsecured in 2009)	8,422,358	9,267,500
Secured loan Flamenco (unsecured in 2009)	1,632,108	130,582
	<u>11,907,187</u>	<u>11,444,922</u>
Convertible capital notes interest payable (unsecured 2009)	2,237,874	1,031,568
	<u>14,145,061</u>	<u>12,476,490</u>

Unsecured loan Stanbic Bank Limited Botswana

In May 2008 Diamonex (Botswana) Limited obtained a loan facility from Stanbic Bank Limited Botswana, for the funding of the High Pressure Roller Crusher for the Lerala Diamond Mine.

The loan was for a period of 3 years and bears interest at 17% per annum, repayable monthly. The loan is secured by a lien over the crusher unit and is repayable in equal monthly instalments.

The parent entity guaranteed the loan to Diamonex Botswana Limited. Accordingly the appointment of the Judicial Manager on 27 January 2009 (refer Note 5) resulted in the lender exercising the guarantee which in turn resulted in the loan becoming an unsecured current liability of the parent entity. The loan is secured over the high pressure roller crusher owned by DBL.

As set out in note 28, subsequent to balance date the parent entity's guarantee has been released & the loan has been de-recognised.

Secured loan European Investment Bank

During October 2007 Diamonex (Botswana) Limited signed a finance contract with European Investment Bank (EIB) for Euro 5 million. This facility is secured by first ranking mortgage over the surface rights, Mining Licence No. 2006/29L (the Lerala Diamond Mine) and all assets of Diamonex (Botswana) Limited. Interest may be fixed or floating, with election made at each drawdown, and is payable six months in arrears. The loan is for a period of up to eight years from drawdown with repayment in US Dollars in 12 equal semi-annual tranches commencing on the first payment date following 12 October 2009. The final drawdown on the loan was made on 9 July 2008 resulting in the facility being fully drawn

In April 2009 EIB withdrew its support for the recovery plan (refer Note 5) and proceeded to apply to the Botswana High Court to have DBL put into liquidation.

In August 2009, the Botswana High Court dismissed the EIB's application.

EIB brought a further application in August 2009 in the Botswana High Court against the parent entity to enforce charges that the EIB held over the shares in DBL, and the loan account from the parent entity to DBL. The Company opposed the application on the grounds that the charges only secured debts owing by the parent entity to EIB, of which there are none.

In October 2009 the Botswana High Court found in favour of the parent entity and dismissed EIB's application, and in late January 2010, the decision of the Botswana High Court was upheld by the Botswana Court of Appeal.

The EIB facility is a liability of DiamonEx Botswana Limited and was de-recognised from the consolidated financial statements on the de-consolidation of that Company. (Refer note 5).

Secured loan Flamenco - Botswana

The Recovery Plan has to date been promoted, managed and funded by Fleming Asset Management Botswana (Pty) Limited ("Fleming"), a Botswana investment fund management company whose clients hold a large proportion of the Convertible Notes previously issued by the Company, and more recently by one of Fleming's client's. Details of the financing are provided at Note 5.

Fixed rate convertible capital notes

On 3 September 2007 DiamonEx Limited issued 50,000 unsecured fixed rate convertible capital notes with a total face value of Botswana Pula 50 million. The interest rate is 13.2% per annum paid six monthly in arrears.

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Notes to the Financial Statements for the year ended 30 June 2010

Economic Entity	
2010	2009
\$	\$

NOTE 18: BORROWINGS (continued)

The notes were listed on the Botswana Stock Exchange and are represented by the Trustee of the DiamonEx Note Trust. The notes mature on 3 September 2011 but may be redeemed early if the group materially breaches its obligations under the Trust Deed, which include conditions such as no significant changes to the business. In addition, covenants with the Trustee require the group:

- (i) not to allow indebtedness to exceed 55% of its equity; or
- (ii) not to create any encumbrances to secure indebtedness unless such additional debt is subordinated to the notes and the EIB loan facility (see below); or
- (iii) not to cause acts which would render Diamonex (Botswana) Limited in breach of the future EIB loan drawdown or to require DiamonEx Limited to fulfil its guarantee to EIB.

DiamonEx Limited has indemnified the Trustee for his acts as trustee provided the Trustee exercises due diligence and degree of care.

The parent entity is in breach of the terms of the convertible note facility and has been served a notice of default by the Trustee.

Under the terms of the Recovery Plan (refer Note 5), the convertible note facility will be restructured. An Amending Deed (which has effect until August 2011) has been entered into with the Trustee and includes the following material conditions:

Conversion of accrued interest to shares in DON

The Note Holders have agreed to convert the interest due to them as at the date on the same terms of conversion as all other creditors of the Company.

Interest

Interest will no longer be paid half yearly in arrears, but instead will accrue and either convert to equity or be repaid.

Security

In consideration for waiving rights of enforcement against historical defaults under the Note Facility, the Company has agreed to grant the Note Holders a second legal mortgage by way of security over the DBL Shares and a legal assignment by way of security of the DON Loan Account.

Limited Recourse

Repayment of the Convertible Notes is now limited to profits generated from DBL and returned to the Company either by repayment of the DON Loan Account or dividends, or the proceeds of the sale the shares in DBL. Beyond the DON Loan Account and the shares in DBL, the Company has no further liability to the Note Holders to repay the Notes.

Current conversion rights cancelled

Any rights to convert the Convertible Notes into shares in the Company have been waived and cancelled by the Note Holders. In this regard the equity component of the convertible notes has been reallocated to debt (refer Note 19). The proceeds from the issue of the notes were initially allocated to a liability element and a capital component in accordance with the substance of the contractual arrangement.

Convertible capital notes

Balance at beginning
Issued during the year for cash
Allocated to equity
Reallocated from equity
Foreign currency translation movement
Balance at reporting date

Balance at beginning
Issued during the year for cash
Allocated to equity
Reallocated from equity
Balance at reporting date

\$	\$
9,267,500	7,676,938
-	-
-	-
-	93,062
(845,142)	1,497,500
8,422,358	9,267,500
No.	No.
50,000	45,000
-	-
-	-
-	5,000
50,000	50,000

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	Economic Entity	
	2010	2009
	\$	\$

NOTE 18: BORROWINGS (continued)

Secured liabilities at reporting date total \$12,439,450 (2009: nil) for the economic entity. The carrying amounts of non-current assets pledged as security total \$9,556,248 being the amount receivable from, and investment in DiamonEx Botswana Limited.

At balance date available borrowing facilities are associated with the Recovery Plan and are set out in Note 5.

NOTE 19: ISSUED CAPITAL

	\$	\$
193,154,196 (2009:193,154,196) fully paid ordinary shares	39,033,979	39,033,979
Nil, (2009: nil) convertible capital notes	-	-
	<u>39,033,979</u>	<u>39,033,979</u>
Ordinary shares		
Balance at the beginning of the reporting period	39,033,979	32,080,041
Shares issued during the year for cash:		
Prior year issues	-	7,128,938
Transaction costs relating to share issues	-	(175,000)
Balance at reporting date	<u>39,033,979</u>	<u>39,033,979</u>
	No.	No.
Balance at the beginning of the reporting period	193,154,246	148,648,075
Shares issued during the year:		
Prior year issues	-	44,506,171
Balance at reporting date	<u>193,154,246</u>	<u>193,154,246</u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the company does not have authorised capital or par value in respect of its issued shares.

Convertible capital notes

	\$	\$
Balance at the beginning of the reporting period	-	93,062
Issued during the year for cash	-	-
Reallocated to convertible note loan	-	(93,062)
Balance at reporting date	<u>-</u>	<u>-</u>
	No.	No.
Balance at beginning	-	5,000
Issued during the year for cash	-	-
Reallocated to convertible note loan	-	(5,000)
Balance at reporting date	<u>-</u>	<u>-</u>

The convertible capital notes contain a liability element and an equity element - see note 18 for details.

Capital management policy

Exploration companies such as DiamonEx are funded by share capital during exploration and a combination of share capital and borrowings as they move into the development and operating phases of their business life.

Following the appointment of the Judicial Manager to Diamonex Botswana Limited on 27 January 2009, the capital management activities of the Group have changed from previous years and been focussed on formulating and implementing the Recovery Plan as set out in Note 5.

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Economic Entity	
2010	2009
\$	\$

NOTE 20: SHARE OPTIONS

Options outstanding at reporting date	No.	No.
Balance at the beginning of the reporting period	5,973,283	5,973,283
Options issued during the prior reporting period	-	-
Issued during the year	-	-
Lapsed during the year	(2,550,000)	-
Balance at reporting date	3,423,283	5,973,283

The balance outstanding comprises parent entity granted options in prior reporting periods as follows:

Grant Date & Vesting

To Fox-Davies Capital Limited for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting. The terms of the grant are as follows:

Number of options	422,850
Date of grant and vesting of options	17 January 2008
Fair value at grant date	12.6 cents
Share price	38.5 cents
Exercise price	37 cents
Expected volatility	35.00%
Option life	3 years
Expected dividends	nil
Risk-free interest rate	6.02%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

To RFC Corporate Finance Limited pursuant to an agreement dated March 2006 for services performed in respect of a successful AIM listing. The options were issued pursuant to shareholder approval at the entity's Annual General Meeting. The terms of the grant are as follows:

Number of options	1,000,000
Date of grant and vesting of options	1 November 2007
Fair value at grant date	\$ 50,000
Share price	27 cents
Exercise price	30 cents
Expected volatility	34.90%
Option life	3 years
Expected dividends	nil
Risk-free interest rate	6.02%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

To the executive directors, pursuant to shareholder approval at the entity's 2007 Annual General Meeting. The terms of the grants are as follows:

Number of options	1,000,000
Date of grant and vesting of options	30 November 2007
Fair value at grant date	5.08 cents
Share price	22 cents
Exercise price	35 cents
Expected volatility	33.40%
Option life	5 years
Expected dividends	nil
Risk-free interest rate	5.75%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

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**Notes to the Financial Statements
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Economic Entity	
2010	2009
\$	\$

NOTE 20: SHARE OPTIONS (continued)

To Fox-Davies Capital Limited for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting. The terms of the grant are as follows:

Number of options	1,000,433
Date of grant and vesting of options	23 October 2007
Fair value at grant date	4.45 cents
Share price	35 cents
Exercise price	31 cents
Expected volatility	34.71%
Option life	3 years
Expected dividends	nil
Risk-free interest rate	6.02%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

The fair values of all options were determined with reference to fair value of services received, or by using a binomial option pricing model. Further details on these options are set out in note 27.

Since balance date, a number of the options have expired or lapsed (refer note 28).

NOTE 21: RESERVES

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Options reserve

The options reserve records amounts recognised as expenses on valuation of employee share options.

NOTE 22: CASH FLOW INFORMATION**Reconciliation of Cash Flow from Operations with Loss from
Ordinary Activities after Income Tax:**

Loss from ordinary activities after income tax	(1,865,333)	(29,856,284)
Non-cash flows in profit from ordinary activities:		
Group result on deconsolidation of subsidiary		8,828,228
Depreciation/ Amortisation	27,735	1,127,102
Write-off of exploration & evaluation expenditure	-	1,864,602
Movement in employee benefits	(1,543)	4,755
Employee options expense	9,436	50,420
Loss/ (gain) on sale of fixed asset	23,610	(36,442)
Financing costs	-	1,677,642
Impairment of receivables	(421,121)	-
Unrealised foreign exchange (gain)/loss	(246,895)	359,961
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	21,194	(453,658)
(Increase)/Decrease in prepayments and inventory	7,800	1,264,112
(Decrease)/Increase in creditors and accruals	113,524	6,738,732
Cash flows from operations	(2,331,593)	(8,430,830)

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Economic Entity	
2010	2009
\$	\$

NOTE 22: CASH FLOW INFORMATION (continued)

Deconsolidation of subsidiary

As set out in note 5, control of the Bostwana subsidiary was lost during the prior year. Aggregate details of this transaction were:

Disposal consideration

Assets and liabilities at disposal date:

Receivables and other assets	-	507,361
Inventories	-	1,216,726
Exploration assets	-	-
Mine assets	-	35,480,154
Payables	-	(6,563,124)
Interest bearing liabilities	-	(39,469,345)
	-	(8,828,228)
Group result on disposal	-	8,828,228
Cash overdraft balance cleared on de-consolidation	-	1,898,886

Non-cash Financing and Investing Activities

In the previous year \$93,062 was re-classified from capital to debt (note 19) and \$328,234 of capital was issued, but was recieved in the 2007/08 financial year (note 17).

NOTE 23: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

Controlled Entities

The parent entity's shareholding in the controlled entities is detailed in note 14.

Finance provided to the controlled entities is detailed in note 10.

Guarantees issued by the parent entity in respect of controlled entities are detailed in Note 26.

Key management personnel transactions with the economic entity

Key management personnel compensation and equity interests are detailed in Note 6.

During the year, the parent entity incurred professional fees of \$54,000 (2009: \$234,475) for accounting, company secretarial, financial management and other services provided to the entity by Cambridge Business & Corporate Services, an entity controlled by Mr Paul Crawford, a director of the company. The amount owing by the company at 30 June was \$273,822 (2009: \$224,923).

During the financial year Mr Crawford loaned to the company on an interest free, unsecured, short term basis \$11,660 (2009:\$362,825). The balance outstanding at the end of the financial year was \$374,485 (2009: \$362,825).

During the previous financial year Mr King, a former Director loaned to the company on an interest free, unsecured, short term basis \$393,602. The balance outstanding at the end of the current financial year was \$393,602 (2009: \$393,602).

As indicated in note 17 the above amounts relating to Mr Crawford and Mr King are subject to conversion to equity.

During the previous financial year, the parent entity incurred professional fees and expenses of \$19,044 for consulting geological and field services provided to the entity by Duncan Geological Services, an entity controlled by Mr Don Duncan, a former director of the company. The amount owing by the company at 30 June was \$19,044 (2009: \$19,044).

The company was party to a tenancy agreement with Orocobre Limited, a company of which Dan O'Neill and Paul Crawford, directors of the company, were also directors at the time. During the year \$53,496 was received (2009: \$32,273) under this agreement. The amount owing by Orocobre Limited at 30 June is nil (2009: nil) .

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Economic Entity	
2010	2009
\$	\$

NOTE 23: RELATED PARTY TRANSACTIONS (continued)

New leasing arrangements were entered into from 1 April 2010 whereby Diamonex Limited became a tenant of Orocobre Limited. The amount owing to Orocobre Limited at 30 June 2010 is \$57,562 (2009:nil).

During the the year, Fleming Asset Management Botswana (Pty) Ltd, a company of which Messrs Van Reit Lowe and Osterberg are directors, advanced funds to the entity. The balance of amounts owing at 30 June 2010 is \$1,475,571 (2009:\$126,282).

NOTE 24: COMMITMENTS

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements, payable:

Not later than 1 year	-	112,036
Later than 1 year but not later than 5 years	-	168,433
Greater than 5 years	-	-
Total commitment	-	280,469

Operating lease commitments relate to office premises of the economic entity. During the year the office lease was transferred to Orocobre Limited, who assumed all financial liability under the lease.

NOTE 25: FINANCIAL INSTRUMENTS

Financial Risk Management

Risk management is carried out by the senior executive team. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, foreign exchange risk, interest rate risk, credit risk, use of financial instruments and non-derivative financial instruments.

The overall risk strategy seeks to assist the economic entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance. In the current circumstances the focus is on the financial recovery of the economic entity.

The economic entity's financial instruments comprise mainly bank balances and deposits, amounts receivable and payable, intercompany investments and loans, bank facilities and convertible capital notes. The main purpose of these financial instruments is to provide finance for the entity's operations. In the current financial circumstances of the Group, a number of these financial instruments are subject to the Recovery Plan (refer note 5).

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. These risks usually are managed through monitoring of forecast cashflows, interest rates, economic conditions and ensuring adequate funds are available.

During the previous financial year the Group became exposed to commodity price risk as the Group moved into production at its Lerala Diamond Mine in Botswana. Due to the Global Financial Crisis a dramatic decline in rough diamond prices suddenly occurred such that by the time the Company sought to sell its first diamonds, buyer interest had disintegrated and disappeared from the market altogether. As a result, the Botswana operations became uneconomic and the subsidiary was placed into Judicial Management on 27 January 2009 (refer note 5). The Judicial Management Order was subsequently lifted on 27 September 2010.

The Directors believe that it is in the interests of shareholders to expose the Group to foreign currency risk and interest rate risk. Therefore the Group does not employ any derivative hedging of these risks. The Directors and management monitor these risks, in particular market forecasts of future movements in foreign exchange movements and if it is believed to be in the interests of shareholders will implement risk management strategies to minimise potential adverse effects on the financial performance of the Group.

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Economic Entity
2010 2009
\$ \$

NOTE 25: FINANCIAL INSTRUMENTS (continued)

Financial instruments at carrying value are summarised as:

	Consolidated	
	2010	2009
	\$	\$
Financial Assets		
Cash and cash equivalents	58,379	106,115
Trade and other receivables (net of impairment)	7,829	29,592
Available for sale financial assets (net of impairment)	9,556,248	9,556,248
	<u>9,622,456</u>	<u>9,691,955</u>
Financial liabilities		
Trade and other payables	2,108,120	2,076,085
Borrowings	14,145,061	12,476,490
	<u>16,253,181</u>	<u>14,552,575</u>

(a) Market risk

(i) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from currency movements, primarily in respect of the US Dollar and the Botswana Pula. No derivative financial instruments are employed to mitigate the exposed risks. This is the Group's current policy and it is reviewed regularly including forecast movements in these currencies by management and the Board.

These foreign exchange risks arise from

- the significant Group assets at the Lerala Diamond Mine which are denominated in Botswana Pula.
- the financial liabilities incurred in the development of the Lerala Diamond Mine and exploration activities in Botswana are incurred in Botswana Pula,
- Previous Group activity in USA which are denominated in US dollars,
- Group borrowings which are denominated in US Dollars for the development of the Lerala Diamond Mine,
- Parent entity borrowings which are denominated in Botswana Pula for the development of the Lerala Diamond Mine.

The Group assets and liabilities relating to the Lerala Diamond Mine were held by the Group's Botswana subsidiary which was placed in Judicial Management in January 2009.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	US\$		BWP	
	2010	2009	2010	2009
Cash and cash equivalents	1,336	27,824	-	-
Receivables	-	10,050	-	-
Payables	(101,984)	(141,431)	-	-
Borrowings	-	-	(83,973,610)	(67,691,351)
Net	<u>(100,648)</u>	<u>(103,557)</u>	<u>(83,973,610)</u>	<u>(67,691,351)</u>

Group sensitivity

If the spot Australian Dollar rate weakened / strengthened by 5 percent against the US Dollar, with all other variables held constant, the Group's post-tax loss for the year would have been \$6,253 higher / lower (2009: \$6,434).

If the spot Australian Dollar rate weakened / strengthened by 5 percent against the Botswana Pula, with all other variables held constant, the Group's post-tax loss for the year would have been \$707,256 lower/higher (2009: \$606,515).

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Economic Entity
2010 2009
\$ \$

NOTE 25: FINANCIAL INSTRUMENTS (continued)

(ii) Interest risk

The group is exposed to interest rate risks primarily from bank balances and borrowings. This risk is managed through the use of fixed and variable rate instruments.

The Directors and management do not believe it is appropriate at this time to use derivative financial instruments to hedge interest rates based on current conditions.

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Group - 2010	Floating Interest Rate 2010 \$	Fixed Interest Rate 2010 \$	Non-Interest Bearing 2010 \$	Total 2010 \$
Financial Assets:				
Cash & cash equivalents	58,374	-	5	58,379
Receivables	-	28,585,136	7,829	28,592,965
Provision for impairment	-	(28,585,136)	-	(28,585,136)
Total Financial Assets	58,374	-	7,834	66,208
Financial Liabilities:				
Trade & other payables	-	-	2,108,120	2,108,120
Borrowings	-	14,145,061	-	14,145,061
Total Financial Liabilities	-	14,145,061	2,108,120	16,253,181
Group - 2009	2009 \$	2009 \$	2009 \$	2009 \$
Financial Assets:				
Cash & cash equivalents	105,493	-	622	106,115
Receivables	-	29,006,257	29,592	29,035,849
Provision for impairment	-	(29,006,257)	-	(29,006,257)
Total Financial Assets	105,493	-	30,214	135,707
Financial Liabilities:				
Trade & other payables	-	-	2,076,085	2,076,085
Borrowings	-	12,476,490	-	12,476,490
Total Financial Liabilities	-	12,476,490	2,076,085	14,552,575

Cash and cash equivalents received interest at a weighted average rate of 4.0% (2009: 3.8%)

Interest on borrowings carried a weighted average interest rate of 13.0% (2009: 13.8%)

All other receivables and payables were non-interest bearing, or interest is not currently recognised due to impairment.

Group sensitivity

As at 30 June 2010, if interest rates on variable rate financial instruments had been 1% higher / lower with all other variables held constant the post tax loss for the year would have been \$584 higher / lower (2009: \$1,055).

(b) Credit risk

Credit risk arises from cash and cash equivalents, bank deposits, and amounts receivable. At this stage there is no credit exposure to trade customers. The carrying amounts of these financial assets, as recorded in the financial statements, represents the economic entity's and the parent entity's maximum exposure to credit risk.

Concentration of credit risk is outlined in note 10.

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Economic Entity
2010 2009
\$ \$

NOTE 25: FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its obligations as they fall due. The risk is managed by ensuring, to the extent possible, that there is sufficient liquidity to meet liabilities when due, without incurring unacceptable losses or risking damage to the group's reputation. In the current financial circumstances liquidity risk is being managed with the assistance of the group's financiers.

The Group's liquidity requirements are monitored through cash flow forecasts which are based upon forward production, operations, development, exploration and capital projections. Liquidity management, including debt / equity management, is carried out under policies approved by the Board. The following table analyses financial assets and liabilities into relevant maturity groupings based on remaining period (excluding any Recovery Plan effect) at the reporting date. The amounts disclosed are the contractual undiscounted cash flows.

Group entity	1 year or less	1 to 2 years	More than 2 years	Total
	\$	\$	\$	\$
2010				
Financial assets				
Cash & cash equivalents	58,379	-	-	58,379
Receivables	7,829	-	-	7,829
	<u>66,208</u>	<u>-</u>	<u>-</u>	<u>66,208</u>
Financial liabilities				
Payables	2,108,120	-	-	2,108,120
Borrowings	14,145,061	-	-	14,145,061
	<u>16,253,181</u>	<u>-</u>	<u>-</u>	<u>16,253,181</u>
Net cash outflow	<u>16,186,973</u>	<u>-</u>	<u>-</u>	<u>16,186,973</u>
2009				
Financial assets				
Cash & cash equivalents	106,115	-	-	106,115
Receivables	29,592	-	-	29,592
	<u>135,707</u>	<u>-</u>	<u>-</u>	<u>135,707</u>
Financial liabilities				
Payables	2,076,085	-	-	2,076,085
Borrowings	12,476,490	-	-	12,476,490
	<u>14,552,575</u>	<u>-</u>	<u>-</u>	<u>14,552,575</u>
Net cash outflow	<u>14,416,868</u>	<u>-</u>	<u>-</u>	<u>14,416,868</u>

(d) Fair values

The net fair value of financial assets and financial liabilities of the Group approximate their carrying amounts.

The net fair value of cash or other monetary financial assets and financial liabilities is based upon market prices where a market exists, or through discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the financial statements. Fair values are materially in line with carrying values.

No financial assets or liabilities are readily traded on organised markets in a standardised form.

As shown in note 5, the fair value of the interest in the de-consolidated subsidiary is based on the the directors' best estimate, based on the currently proposed sale transactions.

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Economic Entity	
2010	2009
\$	\$

NOTE 25: FINANCIAL INSTRUMENTS (continued)

Financial instruments recognised at fair value have been analysed and classified using a fair value hierarchy reflecting the significance of inputs used in making the measurements. The fair value hierarchy is:

- Level 1 - quoted prices in active markets.
- Level 2 - inputs that are observable either directly or indirectly.
- Level 3 - inputs that are not based on observable market data.

The only financial assets recognised at fair value are the amounts receivable from and investment in Diamonx (Botswana) Limited (see notes 5, 10 and 14). This is assessed as a level 2 hierarchy.

NOTE 26: CONTINGENT LIABILITIES

Indemnity to Trustee of Diamonex Note Trust

DiamonEx Limited has indemnified the Trustee for his acts as trustee provided the Trustee exercises due diligence and degree of care (Refer note 18).

Guarantee to Botswana Government

The parent entity has guaranteed the performance of the obligations of Diamonex (Botswana) Limited under its mining licence issued by the government of Botswana. Under the guarantee, the parent entity also undertakes to indemnify the government against any losses which may arise under any failure by Diamonex (Botswana) Limited to meet its obligations.

Sale of DiamonEx (Botswana) Limited - Success Fee

Under the Deed of Loan & Guarantee entered into with Flamenco (Pty) Limited, as consideration for funds drawn down under the Facility, the parent entity is liable to pay an at risk fee of 10 percent of the profits generated and distributed by DBL to DiamonEx and/or 10 percent of the price paid for the shares in DBL in the event that they are sold in whole or part.

A conditional agreement has been entered into for the sale of DBL for total consideration of approximately A\$10.5 million. Under the terms of the of Loan & Guarantee Agreement, a fee of approximately A\$1.0 million will be payable if the sale agreement proceeds to completion.

NOTE 27: SHARE BASED PAYMENTS

No share based transactions were completed during the current and previous financial years.

In previous years, the following share based payments arrangements were transacted:

On 23 October 2007, 1,000,433 share options were granted to Fox-Davies Capital Limited for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting to take up ordinary shares at an exercise price of \$0.31 each. The options are exercisable on or before 22 October 2010. The options hold no voting or dividend rights.

On 1 November 2007, 1,000,000 share options were granted to RFC Corporate Finance Limited pursuant to an agreement dated March 2006 for services performed in respect of a successful AIM listing, pursuant to shareholder approval at the entity's Annual General Meeting to take up ordinary shares at an exercise price of \$0.30 each. The options are exercisable on or before 1 November 2010. The options hold no voting or dividend rights.

On 17 January 2008, 422,850 share options were granted to Fox-Davies Capital Limited for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting to take up ordinary shares at an exercise price of \$0.37 each. The options are exercisable on or before 16 January 2011. The options hold no voting or dividend rights.

On 18 April 2008, 1,550,000 share options were granted to management and staff (excluding directors) under the Company's Employee and Officers Share Option Plan. The options are exercisable on or before 17 April 2013. The options hold no voting or dividend rights.

In the 2007 financial year 2,000,000 share options were granted to executive directors to take up ordinary shares at an exercise price of \$0.35 each. The options are exercisable on or before 30 November 2011. The options hold no voting or dividend rights.

All options granted are over ordinary shares in DiamonEx Limited, which confer a right of one ordinary share per option.

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Economic Entity
2010 2009
\$ \$

NOTE 27: SHARE BASED PAYMENTS (continued)

Consolidated Group	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	5,973,283	\$0.350	5,973,283	\$0.350
Granted	-	-	-	-
Forfeited	(2,550,000)	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	3,423,283	\$0.350	5,973,283	\$0.350
Exerciseable at year-end	3,423,283	\$0.350	5,973,283	\$0.350

The options outstanding at 30 June 2010 had a weighted average exercise price of \$0.35 and a weighted average remaining contractual life of 1.16 years. Shares in the Company were suspended from trading at reporting date. Refer note 20 regarding assessment of fair value of options. The fair value of options granted to employees is deemed to represent the value of the services received over the vesting period.

Included under employee benefits expense in the income statement is \$9,436 (2009: \$50,420), and relates, in full, to equity-settled share-based payment transactions relating to directors and employees.

NOTE 28: EVENTS AFTER BALANCE SHEET DATE

(a) Recovery Plan

Since the end of the financial year, the economic entity's activities have been focussed on the implementation of the Recovery Plan and the re-structuring of the economic entity. Key events since balance date have been:

- (i) Ongoing financial support from financiers pursuant to the Recovery Plan.
- (ii) Re-structuring of group debt which has resulted in the removal of DiamonEx Botswana Limited from Judicial Management on 27 September 2010.
- (iii) The release of DiamonEx Limited from the Stanbic Bank Guarantee in October 2010.
- (iv) Re-structuring of various liabilities which will result in \$4.0 million of balance date payable amounts converting to equity.
- (v) Reduction in parent entity loan to DBL, resulting from the compromise of debt under the Judicial Management plan. Debt compromised totalled A\$6,023,875.
- (vi) Entering of arrangements for the sale of DBL and pay down of group debt.
- (vii) Plans to present to shareholders in an upcoming general meeting resolutions to provide necessary consents to relevant statements of the Recovery Plan and re-structure, including the issue of up to 400,867,279 new shares.

(b) Other Matters

Since balance date 422,850 options to acquire shares in the parent entity have expired or lapsed.

(c) Financial report

This financial report was authorised for issue on 9 February 2011 by the Board of Directors.

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Economic Entity
2010 2009
\$ \$

NOTE 29: PARENT ENTITY INFORMATION

The following information relates to the parent entity, Orocobre Limited at 30 June 2010. This information has been prepared using consistent accounting policies as presented in note 1.

	30 June 2010	30 June 2009
	\$	\$
Current assets	68,924	100,717
Non-current assets	9,556,811	9,610,823
Total assets	9,625,735	9,711,540
Current liabilities	16,134,137	14,376,839
Non-current liabilities	-	-
Total liabilities	16,134,137	14,376,839
Contributed equity	39,033,979	39,033,979
Reserves	245,800	236,364
Accumulated losses	(45,788,181)	(43,935,642)
Total equity	(6,508,402)	(4,665,299)
Loss for the year	(1,852,539)	(37,617,327)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,852,539)	(37,617,327)

NOTE 30: COMPANY DETAILS

The registered office and principal place of business is:

Diamonex Limited
Level 1
349 Coronation Drive
Milton Qld 4064

**DIAMONEX LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2010**

NOTE 31: SEGMENT REPORTING

The economic entity operates internationally, in the mineral exploration industry. The exploration focus is exclusively on diamonds. In the current financial circumstances though, all activity has ceased and segment reporting is based on whole of entity. Geographical segment information is as follows:

Primary Reporting: Geographical Segments

	Australia		USA		Economic Entity		Discontinued Operation	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$	\$			\$	\$	\$	\$
REVENUE								
Revenue	56,150	102,116	-	20	56,150	102,136	-	312,516
Total revenue from ordinary activities	56,150	102,116	-	20	56,150	102,136	-	312,516
RESULT								
Loss from ordinary activities before income tax expense	(1,852,539)	(6,084,137)	(12,794)	(1,324,419)	(1,865,333)	(7,408,556)	-	(22,446,042)
Income tax expense	-	(1,685)	-	-	-	(1,685)	-	-
Loss from ordinary activities after income tax expense	(1,852,539)	(6,085,822)	(12,794)	(1,324,419)	(1,865,333)	(7,410,241)	-	(22,446,042)
ASSETS								
Segment assets	9,625,175	9,710,986	1,560	51,585	9,626,735	9,762,571	-	-
LIABILITIES								
Segment liabilities	16,134,138	14,376,839	119,043	175,736	16,253,181	14,552,575	-	-

Diamonex Botswana Limited was deconsolidated during the 2009 financial year. The loss for the discontinued operations of the subsidiary for the year was \$13,617,814 (refer Note 5).

There were no transfers between segments reflected in the revenues, expenses or result above. The pricing of any intersegment transactions is based on market values.

Segment accounting policies are consistent with the economic entity.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DIAMONEX LIMITED

Report on the Financial Report

We have audited the accompanying financial statements of DiamonEx Limited (the company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of DiamonEx Limited as attached to the directors' report, has not changed as at the date of this auditor's report.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DIAMONEX LIMITED (continued)

Basis For Qualified Auditor's Opinion On Subsidiary Company Results

As set out in Note 5, Diamonex Botswana Limited ("DBL") was placed in Judicial Management in January 2009. Consequently DBL's results for the period July 2008 – January 2009 (a net loss of \$13,617,814) are included in the economic entity's financial statements and then the entity has been de-consolidated. Many of the accounting records of DBL were destroyed in a fire prior to commencement of our 2009 audit and we were unable to obtain sufficient and appropriate audit evidence to verify DBL's results, nor were we able to verify its balance sheet at the time of de-consolidation. We were also unable to quantify the effects on the economic entity's financial statements had this limitation not existed.

Qualified Auditor's Opinion

In our opinion, because of the significance of the above matter in relation to the financial information of DBL included in the economic entity's comparative 30 June 2009 financial statements, we are not in a position to, and do not express an opinion on these results as they relate to the comparative financial information in the income statement and the related note 4, nor the cash flow statement and the related notes 5 and 22.

In our opinion except for the above matter:

- a. the financial report of DiamonEx Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty – Continuation As A Going Concern

Without further qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the ability of the consolidated entity and the company to continue as a going concern is dependent on the ongoing financial support of the financiers and other creditors, and achievement of the recovery plan and re-structuring.

As indicated in the note, at balance date the consolidated entity and the company have incurred significant losses and have negative net equity, the main asset was under judicial management and various finance facilities were in breach. However the consolidated entity and the company have ongoing financial support of the financiers and the other creditors whilst the recovery plan and re-structuring are underway. Since balance date these activities have continued.

On the basis of the ongoing financial support and status of the recovery plan and re-structuring the directors have prepared the financial statements on a going concern basis. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary if the consolidated entity and the company could not continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DIAMONEX LIMITED (continued)

As also indicated in the note, the ability of the economic entity and the parent entity to continue as a going concern beyond the period of finalisation of the recovery plan/re-structuring will depend on attaining new forms of finance (either equity or debt). Directors are confident that new funding initiatives will be successful, however no commitment has yet been made to source additional funding. On the expectation of obtaining further funding directors have prepared the financial statements on a going concern basis. The financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary if the consolidated entity and the company could not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of DiamonEx Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



Hayes Knight Audit (Qld) Pty Ltd



ND Bamford
Director

Level 19, 127 Creek Street,
Brisbane, QLD, 4000

Date: 9 February 2011