

DiamonEx Limited
ABN 26 091 951 978

Notice of 2011 Annual General Meeting
And Explanatory Statement

2011 Annual General Meeting to be held in the
Board Room St. George Capital Pty Ltd
Level 9, 105 St Georges Terrace, Perth WA 6000
On Friday 29th June, commencing at 3.00 pm Western Standard Time

This Notice of 2011 Annual General Meeting and Explanatory Statement should be read in its entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional advisor without delay

Notice of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Shareholders of DiamonEx Limited (**Company**) will be held in the Board Room St. George Capital Pty Ltd Level 9, 105 St Georges Terrace, Perth WA 6000 On Friday 29th June, commencing at 3.00 pm Western Standard Time

BUSINESS

Receive and Consider the Financial Statements

To receive and consider:

- a. The Financial Report
- b. The Directors' Report and
- c. The Auditors' Report

Of the Company for the year ended 30 June 2011

Resolution 1 – Adoption of Remuneration Report

To consider and if thought fit to pass the following as an ordinary resolution:

“That the Remuneration Report of the Company’s Directors’ Report be considered and adopted”

Please note that the vote on this resolution is advisory only and does not bind the Company or its Directors.

Resolution 2 – Re-election of Mr Dennis O’Neill as a Director

Mr Dennis O’Neill retires as a Director pursuant to the provisions of the constitution of the Company.

To consider and if thought fit to pass the following as an ordinary resolution:

“That Mr Dennis O’Neill, who retires as a Director of the Company in accordance with the provisions of the constitution, and being eligible offers himself for re-election, be elected as a Director of the Company”

Resolution 3 – Re-election of Mr Wayne Osterberg as a Director

Mr Wayne Osterberg retires as a Director pursuant to the provisions of the constitution of the Company.

To consider and if thought fit to pass the following as an ordinary resolution:

“That Mr Wayne Osterberg, who retires as a Director of the Company in accordance with the provisions of the constitution, and being eligible offers himself for re-election, be elected as a Director of the Company”

Resolution 4 – to elect Mr Mark Gray as a Director

During the year, Mr Mark Gray was appointed a Director of the Company by the Board of Directors to fill a casual vacancy on the Board. Pursuant to the provisions of the constitution of the Company he retires at the first AGM after such appointment and being eligible offers himself for election to the Board of Directors.

To consider and if thought fit, pass the following as an ordinary resolution:

“That Mr Mark Gray who retires as a Director of the Company in accordance with the provisions of the constitution, and being eligible offers himself for election, be elected as a Director of the Company”.

Proxies

Please note that:

- a. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies;
- b. A proxy need not be a member of the Company; and
- c. A member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number votes each proxy is appointed to exercise, but where the proportion is not specified each proxy is entitled to cast half of the number of votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms.

Corporate Representative

In order to vote on behalf of a company that is a shareholder in the Company, a valid Appointment of Corporate Representative form must be either lodged with the Company prior to the Annual General Meeting or be presented at the meeting before registering on the Attendee Register for the Annual General Meeting.

By order of the Board

Hubert Lennerts
Company Secretary
DiamonEx Limited

Dated 11 May 2012

Explanatory Statement

Purpose of this Explanatory Statement

This Explanatory Statement is provided to shareholders of DiamonEx Limited to explain the resolutions to be put to shareholders at the Annual General Meeting to be held in the Board Room St. George Capital Pty Ltd Level 9, 105 St Georges Terrace, Perth WA 6000 on Friday 29th June, commencing at 3.00 pm Western Standard Time

The directors recommend shareholders read the accompanying Notice of Meeting and this Explanatory Statement in full before making any decision in relation to the resolutions.

Receive and consider the Financial Statements

The Corporations Act 2001 (**Corporations Act**) requires the Financial Report, Directors Report and Auditors' Report for the past financial year to be tabled before the Annual General Meeting (**meeting**), and the Company's Constitution provides for such Reports to be received and considered at that Meeting. Neither the Corporations Act nor the Company's Constitution requires a vote of shareholders on the Reports. The Annual General Meeting provides a forum for shareholders to ask questions and make comments on the Company's Reports and Accounts and on the business and operations of the Company for the year ended 30 June 2011.

In addition shareholders may at the meeting ask questions of the auditor in relation to the following matters – the conduct of the audit, the preparation and content of the auditors' Report, the accounting policies adopted by the Company for the preparation of the financial statements and the auditor's independence in relation to the conduct of the audit. Members may submit written questions to the auditor in relation to the above items. Any written questions to the auditor must be submitted to the Company 5 business days before the Annual General Meeting.

Resolution 1: Adoption of Remuneration Report

The Remuneration Report of the Company for the period ended 30 June 2011 is set out in the Directors' Report to shareholders (the **Remuneration Report**)

The Remuneration Report sets out the Company's remuneration arrangements for the CEO, executive and non-executive Directors. A reasonable opportunity will be provided for discussion of the Remuneration Report at the Meeting. In addition, the Corporations Act requires that Resolution 1, to adopt the Remuneration Report, be put to the vote. However, the vote on this resolution is only advisory and does not bind the Company or its Directors.

Resolution 2: Re-elect Mr Dennis O'Neill as a Director

In accordance with the provisions of the Company's Constitution, Mr Dennis O'Neill retires as a Director of the Company and offers himself for re-election.

Mr O'Neill was a foundation director of the Company. He has a Bachelor of Science – Geology and 30 years experience in exploration, project and corporate management.

Resolution 3: Re-elect Mr Wayne Osterberg as a Director

Mr Wayne Osterberg BA LLB MBA was appointed to the Board on 4/11/2009. He practiced law in Zimbabwe before entering stockbroking as an analyst in 1997. He has thirteen years experience in the capital markets of Southern Africa and Australia.

Resolution 4: Elect Mr Mark Gray as a Director

Mark has worked extensively in corporate finance in the junior mining and resources sector in Australia and Sub-Sahara Africa for the last eight years. He has specialised in merger and acquisitions, and company restructurings and turnarounds over this period. For the last three years in particular he has worked with the creditors and directors of the Company in the formulation and execution of the Company's restructuring and ultimate re-quotations of its shares on the ASX. Prior to his work in mining, Mark had a 15 year career in corporate law and investment banking in London, Australia and New Zealand. He holds a degree in Law from Victoria University in Wellington, New Zealand.

DIAMONEX LTD
ABN 26 091 951 978
(the "Company")

PROXY FORM

I/We,.....of.....
being a member of the Company hereby appoint.....
of.....(or failing him/her), the Chairman of the meeting as
my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting ("AGM") of
the Company to be held in the Board Room, St George Capital Pty Ltd, Level 9, 105 St
George's Terrace, Perth WA 6000 on Friday, 29th June 2012 commencing at 3.00 pm. WST
and at any subsequent meeting held pursuant to an adjournment of that Meeting.

This form is to be used in accordance with the directions below. Unless the proxy is directed,
he/she may vote or abstain as he/she thinks fit.

Resolution	<u>FOR</u>	<u>AGAINST</u>	<u>ABSTAIN</u>
1. Adoption of Accounts	☐	☐	☐
2. Re-election of Director – Mr Dennis O'Neill	☐	☐	☐
3. Re-election of Director – Mr Wayne Osterberg	☐	☐	☐
4. Election of Director – Mr Mark Gray	☐	☐	☐

Instructions

To direct the appointee to cast all votes covered by this instrument in respect of an item of
business in a particular manner, place a sufficient indication (including, without limitation, a tick
or a cross) in the relevant box in respect of that item of business.

Dated:.....

Signed:.....

Note: This proxy must be received by DiamonEx Limited, whose registered office is at Level
9, 105 St. Georges Terrace, Perth Western Australia 6000, by 3.00 pm. on
Wednesday 27th June 2012.

A proxy must be signed by the Member or his or her attorney, or if a Corporation,
under its Common Seal or under the hand of its attorney. A copy of any power of
attorney should be lodged with this proxy.

**DIAMONEX LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2011**

DIAMONEX LIMITED
ABN 26 091 951 978

DIRECTORS' REPORT

Your Directors present their report of the Company and its controlled entities for the year to 30 June 2011.

DIRECTORS

The Directors of the Company during or since the end of the financial year are listed below. During the year there were 5 meetings of the full Board of Directors. The meetings attended by each Director were

DIRECTOR	ELIGIBLE TO ATTEND	ATTENDED
D.C. O'Neill	5	5
P.A. Crawford	5	4
P. van Riet-Lowe	5	5
W. Osterberg	5	5
L.T. Siwawa (Appointed 19 November 2010)	5	4
J. G. Allan (Appointed 24 March 2011)	1	1
M.N. Gray (Appointed 22 July 2011)	-	-

Company Secretary

Paul Crawford held the position of Company Secretary at the end of the financial year. Mr Crawford has since resigned and Mr Hugh Lennerts and Mr Stewart McIntosh were appointed joint Company Secretaries on the 22 July 2011. Mr Lennerts is a Fellow of Chartered Secretaries Australia, a Fellow of the CPA's, a Fellow of the Australian Institute of Company Directors and holds a Masters of Business Administration from UWA. Mr McIntosh is an Associate Member of Chartered Secretaries Southern Africa and is a Fellow of the Botswana Institute of Accountants.

PRINCIPAL ACTIVITY

The economic entity had previously developed a diamond mine in Botswana. During the financial year the economic entity's principal activity has been working on a Recovery Plan with its financiers.

OPERATING AND FINANCIAL REVIEW

Operating Results

The entity's consolidated operating loss for the financial year after applicable income tax was \$2,023,146 (2010: \$1,865,333 loss).

Review of Operations

During the financial year to 30 June 2011, the Company continued a restructuring of its balance sheet following the financial difficulties that the Company suffered in late 2008.

In March 2011, at an extra-ordinary meeting of the Company, the shareholders approved the conversion of debt owed by the Company and its subsidiary DiamonEx Botswana Limited ("DBL") into DiamonEx Limited shares, and also approved the sale of DBL.

In April 2011, the Company completed the sale of DBL to Mantle Diamonds Limited, which eliminated the majority of the Company's debt.

Since then, the Directors have been assessing the continued development of the Company's other assets including the Sloan Kimberlite and Northern Colorado. In addition, the Directors have reviewed the acquisition of a number of other projects in Botswana and in November 2011 entered into a binding agreement with Shumba Resources Limited to acquire three coal prospecting licences in Botswana.

The Directors are now working to satisfy the conditions precedent in that deal, as well as advance discussions with potential investors to recapitalise the Company.

DIAMONEX LIMITED
ABN 26 091 951 978

DIRECTORS' REPORT

GOING CONCERN & FINANCIAL POSITION

At 30 June 2011 the economic entity has a deficiency of net assets of \$103,993 (2010:\$6,626,446). The financial statements have been prepared on the basis that the economic entity is a going concern.

As reported previously the economic entity encountered significant financial difficulties as a result of the impact of the global financial crisis in late 2008. Since then the Company has been working with 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 were well advanced at balance date, and shareholders approved the sale of DiamonEx (Botswana) Limited ("DBL") and other recovery plan measures at a general meeting in March 2011. The sale of DBL was settled in April 2011, with 90% of the sale proceeds received and the 10% balance is held in escrow and due for release in October 2011. At the date of these financial statements, this escrow amount has not been received, pending the outcome of a warrantee claim by Mantle.

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. On the expectation of obtaining the necessary funding the 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 Riet 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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DIRECTORS' REPORT

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 9,890,429 ordinary shares and 1,000,000 options
Directorships in Other Listed Companies	Altura Mining 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 36,473,225 ordinary shares.
Directorships in Other Listed Companies	ActivEX Limited
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
Directorships in Other Listed Companies	Nil
James G. Allan	Director (Non Executive)
Qualifications	BSc. Eng (Mining); MBA
Experience	Appointed to the Board on 24/3/2011. Mr. Allan is based in Johannesburg and MD of a corporate advisory company concentrating on the mining sector.
Interest in Shares	Nil
Directorships in Other Listed Companies	Nil
Mark N. Gray	Director (Executive)
Qualifications	Degree in Law, Victoria University, Wellington, New Zealand
Experience	Appointed to the Board on 22/7/2011. Mr Gray is based in Australia and has worked extensively in Corporate Finance in the Junior Mining and Resource sector in Australia and Africa for the last 8 years.
Interest in Shares	Nil
Directorships in Other Listed Companies	Nil

DIRECTORS' REPORT

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 limitation of 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 16 in the financial statements. In the current financial circumstances use of this Plan is limited. However, a separate equity based performance remuneration arrangement exists in respect of Mr Mark Gray (see below).

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.

No Non-executive Directors fees have accrued since 31 December 2008, prior to the Company seeking a suspension from trading on the ASX and the BSE. Fees and post employment benefits owing to the non-executive Directors at that time were settled during the year in the form of the issue of shares.

Non-executive directors have agreed to waive Directors' fees up to the completion of the Recovery Plan. If the parent entity re-lists on the Australian Stock Exchange, fees will be paid to Directors in relation to meetings held since the restructuring plan was approved by shareholders at the general meeting held in March 2011. Fees payable will be calculated on the basis of \$3,000 per meeting for non-executive directors and \$5,000 per meeting for the Chairman. At the date of this report, the contingent liability is \$80,000.

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

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DIRECTORS' REPORT

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

2011 Key Management Personnel	Short-term Benefits		Post Employment Benefits Superannuation	Equity Settled Options	Total
	Fees and/or Salary	Non-Cash Benefits			
	\$	\$	\$	\$	\$
P Van Riet Lowe (ii)	-	-	-	-	-
W Osterberg (ii)	-	-	-	-	-
L Siwana (ii,vi)	-	-	-	-	-
D O'Neil (ii)	-	-	-	15,199	15,199
P Crawford (ii)	-	-	-	-	-
J Allan (ii,iv)	-	-	-	-	-
M Gray (iii)	18,700	-	-	-	18,700
	18,700	-	-	15,199	33,899

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

- (i) Represents the percentage of total remuneration represented by options
- (ii) Non executive Director
- (iii) Chief executive officer, appointed 1 May 2011
- (iv) Appointed 24 March 2011
- (v) Resigned during 2010 year
- (vi) Appointed 19 November 2010

Following are employment details of persons who were key management personnel of the group during the financial period.

Key Management Personnel	Position held & change during period	Contract Details	Proportion of Remuneration:		Total
			Related to performance	Not related to performance	
			Options	Salary & Fees	
P van Riet-Lowe	Non-executive Chairman	No fixed term, termination as provided by Corporations Act	-	100%	100%
W Osterberg	Non-executive Director	No fixed term, termination as provided by Corporations Act	-	100%	100%

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DIRECTORS' REPORT

Key Management Personnel	Position held & change during period	Contract Details	Proportion of Remuneration:		Total
			Related to performance	Not related to performance	
			Options	Salary & Fees	
	Director	provided by Corporations Act		-	
P Crawford	Non-executive Director & Company Secretary	No fixed term, termination as provided by Corporations Act	-	100%	100%
L Siwana	Non-executive Director - appointed 19 November 2010	No fixed term, termination as provided by Corporations Act	-	100%	100%
J Allan	Non-executive Director - appointed 24 March 2011	No fixed term, termination as provided by Corporations Act	-	100%	100%
M Gray	Chief Executive Officer – appointed 1 May 2011 Director – appointed 22 July 2011	Initial term of 6 months, notice to terminate of 3 months'	-	100%	100%

The terms of appointment of the Non-executive Directors provide for the payment of fixed directors' fees in the event that the Company relists on the Australian Securities Exchange.

Options granted as remuneration

No options were granted as remuneration in the current year. The only remuneration options granted in prior years that have not lapsed are:

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
D O'Neill	1,000,000	1,000,000	30.11.2007	0.22 cents	35 cents	30.11.2007	29.11.2012

All options vested immediately and expire within 5 years of granting. All options were granted for nil consideration. No options have been exercised. The value of options granted has been determined in accordance with applicable Australian Accounting Standards. Options entitle the holder to 1 ordinary share in the Company for each option held. Options have no dividend or voting rights.

Employment Contract of Key Management Personnel (audited)

The service conditions for Chief Executive Officer Mark Gray are formalised in an Executive Engagement Agreement ("Agreement") between the Company and Gray Corporate Advisory Pty Ltd, a company controlled by Mr Gray. Under the Agreement Mr Gray is engaged for an initial period of six months, extendable at the option of DiamonEx.

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DIRECTORS' REPORT

The Agreement provides for a base retainer of \$8,500 per month and can be terminated by either party giving three months' notice. No additional leave or superannuation entitlements are payable under the Agreement.

In addition, the Agreement provides for the issue of DiamonEx shares to Gray Corporate Advisory Pty Ltd equal to 1% of the total number of ordinary shares the Company has on issue upon completion of the following:

- The recapitalisation of the Company sufficient to enable the suspension of the Company's shares to be lifted; and
- The acquisition of or investment in a new project to again enable the suspension of the Company's shares to be lifted; and
- The re-quotations of the Company's shares on the ASX.

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.

In October 2010, the Company was released from its guarantee of a DiamonEx (Botswana) Limited loan facility from Stanbic Bank Limited Botswana.

The Company also entered into an agreement to sell DBL to Mantle Diamonds Limited. Consideration consisted 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 were used to fund initial working capital, repay the Convertible Notes and funding provided by Fleming and Flamenco during the re-structuring period.

A General Meeting of shareholders of the parent entity was held in March 2011 and approved critical aspects of the Recovery Plan and restructuring, including:

- approval to sell the DiamonEx Botswana Limited to Mantle Diamonds Limited;
- issue of up to 201,619,269 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 198,657,459 shares at \$0.02 to finalise settlement of the Bondholders debts; and
- ratification of the appointment of certain Directors of the parent entity

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

- Ongoing financial support from financiers pursuant to the Recovery Plan.

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DIRECTORS' REPORT

- Mantle Diamonds Plc. has lodged a claim for \$95,637 in relation to their acquisition of BDL. No assessment of the merit of the claim has been made at the date of this report.
- In November 2011, the Company entered into a binding terms sheet with Shumba Resources Limited to acquire all the shares in Sechaba Natural Resources (Pty) Limited for \$6,395,000, payable by the issue of 2,299,005,454 shares at an issue price of \$0.0028 per share.
- Mantle Diamonds Plc. has agreed to allot the shares component of the sale consideration withheld. The cash component will be held pending settlement of the warranty claim.
- Following settlement of the Mantle warranty claim, the parent entity has agreed with parties funding the reconstruction that the balance of cash received from Mantle will be held by the Company. Any amounts still owing to lenders will be settled through the issue of shares in the Company.
- The security for the convertible capital notes was released.

Other than as set out in this report and the attached financial statements no matters or circumstances have arisen since 30 June 2011, 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.

SHARE OPTIONS

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

- 1,000,000 granted to Directors having a grant date of 30 November 2007, expiry date of 30 November 2012 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 other 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;
- 422,850 granted to Fox-Davies Capital Limited on 17 January 2008.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period.

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

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DIRECTORS' REPORT

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.

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*.

There are no non-audit services provided by the auditors in the current financial year.

Signed in accordance with a resolution of the Directors.



Peter Van Riet-Lowe
Chairman

Signed: 15 February 2012
Brisbane, Queensland



Paul Crawford
Director

DIAMONEX LIMITED
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CORPORATE GOVERNANCE STATEMENT

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2nd Edition) (the "Recommendations"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A Checklist summarising the Company's compliance with the recommendations is also set out at the end of this statement.

Unless disclosed below, all the Recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2011.

Principle 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Roles and Responsibilities

The Board is first and foremost accountable to provide value to its shareholders through delivery of timely and balanced disclosures.

The Company's Board Charter will be made publicly available on the Company's website, once the Company has been recapitalized.

Performance evaluation

There is no current need for a formal process for evaluating the performance of senior executives, as Mr Gray is the only executive of the Company and is under constant review of the Board.

There is no formal process for evaluating the performance of the Board and individual directors. Board performance is evaluated on an ongoing basis, including within this reporting period, having regard to Company objectives and each director's contribution to board deliberations.

Principle 2: STRUCTURE THE BOARD TO ADD VALUE

Board Composition

The Board considers the mix of skills and diversity of board members when assessing the composition of the board. The Board assesses existing and potential director's skills to ensure they have appropriate industry experience in the Company's operating segments.

The board considers the diversity of existing and potential directors to ensure they are in line with the geographical and operational segments of the Company. The Board's policy is to seek a diverse range of directors who have a range of ages and ethnicity which mirrors the environment in which the Company operates.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

All Directors of the Company, except Mr Crawford, are considered to be independent at the date of this report. Mr Paul Crawford was not an independent Director for the year ended 30 June 2011 as he is the Principal of a firm providing accounting, company secretarial and financial management services to the Company, which have now ceased.

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CORPORATE GOVERNANCE STATEMENT

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds;

- Less than 10% of company shares are held by the director and any entity of individual directly or indirectly associated with the director;
- No sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- None of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the company

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chair prior to incurring any expense on behalf of the company.

Nomination Committee

The board has not established a nomination committee. Processes are in place for the full board to consider issues that would otherwise be considered by a nomination committee.

Principle 3: PROMOTE ETHICAL AND RESPONSINLE DECISION MAKING

Ethical Standards

The Board acknowledges and emphasizes the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A Corporate Governance Charter will be established when the Company is re-capitalized requiring directors and employees to:

- Act honestly and in good faith
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any conflict of interest;
- Comply with the law;
- Encourage the reporting and investigating of unlawful and unethical behaviour; and
- Comply with the share trading policy outlined in the Corporate Governance Charter, when it is adopted.

Directors are obliged to be independent in judgment and ensure that all reasonable steps are taken to ensure due care is taken by the board in making sound decisions.

Trading Policy

The Company's policy regarding directors and employees trading in its securities is set by the board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

Principle 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit Committee

The Board has not established an audit committee. Processes are in place for the full board to consider issues that would otherwise be considered by an audit committee.

Principle 5; MAKE TIMELY AND BALANCED DISCLOSURE

A Continuous Disclosure Policy will be made available on the Company's website, after it is re-capitalized setting out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy will also provide procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

CORPORATE GOVERNANCE STATEMENT

Principle 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholders Rights

Shareholders are entitled to vote on significant matters of impact on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual financial statements. Shareholders are strongly encouraged to attend and participate in the Annual General Meetings of Diamonex Limited, to lodge questions to be responded by the Board, the CEO or the Auditors, and are able to appoint proxies.

Principle 7; RECOGNISE AND MANAGE RISK

Risk Management

The Board considers identification and management of key risks associated with the business as vital to maximise shareholders wealth. A continual assessment of the business' risks is undertaken and reviewed by the Board, covering all aspects of the business.

The Company is currently not operating while it appraises new business opportunities having sold its Diamond Mine to Mantle during the financial year. As such no assurance in accordance with Section 295A has been sought from Mr Gray.

Principle 8; REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration Policy

The amount of remuneration for all key management personnel for the Company and the five highest paid executives, including all monetary and non-monetary components, are detailed in the directors' report under the heading Key Management Personnel Compensation. All remuneration paid to executives is valued at the cost to the Company and expensed. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options are valued using Black-Scholes methodology.

Non-executive directors will be remunerated by way of fees in the form of cash and shares, once the Company is re-capitalised. Non-executive directors do not receive bonus payments, nor are they provided with retirement benefits.

Remuneration Committee

The Board has not established a remuneration committee. Processes are in place for the full Board to consider issues that would otherwise be considered by a remunerations committee. This structure is considered appropriate having regard for the size of the Board and the Company.

Other Information

The following checklist summarises the Company's compliance with the Recommendations, explanations regarding compliance with the Principles and Recommendations is disclosed in this Corporate Governance Statement and further information is available on the company's website .

DIAMONEX LIMITED
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CORPORATE GOVERNANCE STATEMENT

	Requirement	Comply Yes/No
Principle 1	Lay solid foundation for management and oversight	
Rec. 1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	Yes
Rec. 1.2	Companies should disclose the process for evaluating the performance of senior executives	Yes
Rec. 1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Yes
Principle 2	Structure the Board to add value	
Rec. 2.1	A majority of the Board should be independent directors	Yes
Rec. 2.2	The Chair should be an independent director	Yes
Rec. 2.3	The roles of Chair and Managing Director should not be exercised by the same individual	Yes
Rec. 2.4	The Board should establish a nomination committee	No
Rec. 2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors	Yes
Rec. 2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	Yes
Principle 3	Promote ethical and responsible decision-making	
Rec. 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the Company's integrity; • The practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders; • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices	Yes
Rec. 3.3	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy	Yes
Rec. 3.3	Companies should provide the information indicated in the Guide for reporting on Principle 3	Yes
Principle 4	Safeguard integrity in Financial Reporting	
Rec. 4.1	The Board should establish an Audit Committee	No
Rec. 4.2	The audit committee should be structured so that it: • Consists only of non-executive directors; • Consists of a majority of independent directors; • Is chaired by an independent chair; who is not chair of the Board • Has at least three members	No
Rec. 4.3	The audit committee should have a formal charter	No
Rec. 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes
Principle 5	Make timely and balanced disclosure	
Rec. 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
Rec. 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes

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CORPORATE GOVERNANCE STATEMENT

Principle 6	Respect the rights of shareholders	
Rec. 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	Yes
Rec. 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 2	Yes
Principle 7	Recognise and manage Risk	
Rec. 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	Yes
Rec. 7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	No
Rec. 7.3	The Board should disclose whether it has received assurance from the Managing Director (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	No
Rec. 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes
Principle 8	Remunerate fairly and responsibly	
Rec. 8.1	The Board should establish a remuneration committee	No
Rec. 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of the executive directors and senior executives	Yes
Rec. 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8	Yes



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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 2011, 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: 17 February 2012

DIAMONEX LIMITED
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STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

	Note	Economic Entity 2011 \$	2010 \$
Revenue and other income	2	1,766,962	56,150
Less expenses:			
Exploration & evaluation expenditure		-	-
Administrative expenses		(267,905)	(438,996)
Restructure costs		(675,678)	(103,458)
Employee benefit expense		(54,580)	(33,334)
Occupancy expenses		-	(172,049)
Finance costs		(829,444)	(1,841,662)
Foreign exchange gains (losses)		1,322,590	246,895
Loss on disposal of available for sale investments	5	(755,644)	-
Write (off)/back of impairment to subsidiaries		(2,529,447)	421,121
Loss before income tax	3	(2,023,146)	(1,865,333)
Income tax expense	4	-	-
Loss from continuing operations for the year		(2,023,146)	(1,865,333)
Loss for the year		(2,023,146)	(1,865,333)
Other comprehensive income			
Exchange differences on translation of foreign controlled entities		24,868	19,456
Other Comprehensive income for the year net of tax		24,868	19,456
Total comprehensive loss attributable to members		(1,998,278)	(1,845,877)
Earnings per Share			
Overall operations			
Basic earnings per share (cents per share)	7	(0.90)	(0.97)
Diluted earnings per share (cents per share)	7	(0.90)	(0.97)
Continuing operations			
Basic earnings per share (cents per share)	7	(0.90)	(0.97)
Diluted earnings per share (cents per share)	7	(0.90)	(0.97)
Dividends per share (cents per share)		-	-

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED
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STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

		Economic Entity	
	Note	2011	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	9	505,985	58,379
Trade and other receivables	10	1,012,873	7,829
Other	11	10,097	4,279
Total Current Assets		1,528,955	70,487
NON-CURRENT ASSETS			
Financial assets	12	-	9,556,248
Total Non-Current Assets		-	9,556,248
TOTAL ASSETS		1,528,955	9,626,735
CURRENT LIABILITIES			
Trade and other payables	13	650,503	2,108,120
Borrowings	14	982,445	14,145,061
Total Current Liabilities		1,632,948	16,253,181
TOTAL LIABILITIES		1,632,948	16,253,181
NET ASSETS		(103,993)	(6,626,446)
EQUITY			
Issued capital	15	47,539,511	39,033,979
Reserves	17	(4,268,484)	(4,308,551)
Accumulated losses		(43,375,020)	(41,351,874)
TOTAL EQUITY		(103,993)	(6,626,446)

The accompanying notes form part of these financial statements.

DIAMONEX LIMITED

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**STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011**

	Note	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
		\$	\$	\$	\$	\$
Balance at 1 July 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)
Share based payment - employee 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)
Loss attributable to members of entity		-	(2,023,146)	-	-	(2,023,146)
Other comprehensive income for period		-	-	24,868	-	24,868
Total comprehensive income (loss)		-	(2,023,146)	24,868	-	(1,998,278)
Shares issued during the period	15	8,505,532	-	-	-	8,505,532
Share based payment - share options expense		-	-	-	15,199	15,199
Balance at 30 June 2011		47,539,511	(43,375,020)	(4,529,483)	260,999	(103,993)

The accompanying notes form part of these financial statements.

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

	Note	Economic Entity	
		2011	2010
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(795,327)	(546,081)
Rent received		-	53,496
Interest received		1,644	2,654
Finance costs		(829,444)	(1,841,662)
Net cash provided by (used in) operating activities	18	(1,623,127)	(2,331,593)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	7,192
Net proceeds from sale of available for sale investments		975,167	-
Advances to group entities		(2,039,763)	(225,611)
Net cash provided by (used in) investing activities		(1,064,596)	(218,419)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from borrowings		2,635,642	2,518,302
Proceeds from issue of shares		500,000	-
Net cash provided by (used in) financing activities		3,135,642	2,518,302
Net increase (decrease) in cash held		447,919	(31,710)
Cash at beginning of financial year		58,379	106,115
Effect of exchange rates on cash holdings in foreign currencies		(313)	(16,026)
Cash at end of financial year	9	505,985	58,379

The accompanying notes form part of these financial statements.

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

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 25.

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 reported previously the economic entity encountered significant financial difficulties as a result of the impact of the global financial crisis in late 2008. Since then the Company has been working with 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 continue to have the ongoing financial support of the financiers and other creditors.

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. On the basis of this support and the status of the recovery plan and restructuring, 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 and restructuring will depend on attaining new forms of finance (either equity or debt). Directors are confident that new funding initiatives will be successful. On the expectation of obtaining the necessary funding the directors have prepared the financial statements on a going concern basis.

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 12 to the financial statements. All controlled entities have a financial year end and accounting policies consistent with the parent entity.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.
- Carrying value of receivables - as outlined in notes 5 & 10, the deferred sale consideration receivable is recoverable in foreign currency and is subject to a warranty claim.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those Standards and Interpretations likely to be relevant to the Group and their impact is as follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key 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;
- 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;
- requiring financial assets to be reclassified 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

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 IFRSs 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. The amendments are not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

AASB 2011-7 – Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards (applicable for annual reporting periods commencing on or after 1 July 2013).

Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 12 Disclosure of Interests in Other Entities.

The Group has not yet determined the impact on the Group's financial statements.

AASB 10 – Consolidated Financial Statements (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and Interpretation 112 Consolidation – Special Purpose Entities.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

The Group has not yet determined the impact on the Group's financial statements.

AASB 12 – Disclosure of Interests in Other Entities (applicable for annual reporting periods commencing on or after 1 July 2013).

AASB12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

The Group has not yet determined the impact on the Group's financial statements.

AASB 13 – Fair Value Measurement (applicable for annual reporting periods commencing on or after 1 July 2013).

Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 12 Disclosure of Interest in Other Entities,

The Group has not yet determined the impact on the Group's financial statements.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 2: REVENUE AND OTHER INCOME - CONTINUING OPERATIONS		
Revenue		
Sales revenue	-	-
Other income:		
Interest received from other persons	1,644	2,654
Release of guarantee (see note 14)	1,765,318	-
Rent received from other parties	-	53,496
Total revenue and other income	1,766,962	56,150

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

Included in expenses are the following significant items:

Depreciation	-	27,735
Foreign currency translation losses/(gains)	(1,322,590)	(246,895)
Loss on disposal of property, plant & equipment	-	23,610
(Profit)Loss on disposal of available for sale investments	755,644	-
Impairment expense/(write-back) to subsidiary (a)	(2,529,447)	(421,121)
Rental expense on operating leases		
- minimum lease payments	-	151,879

Finance costs:

- interest paid and payable to external parties	829,444	1,841,662
- loan guarantee called by financier	-	-
	829,444	1,841,662

- (a) The impairment expense relates to additional funding during the year, prior to the asset disposal in April 2011 and exchange rate movement.

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% (2010: 30%).	(606,944)	(559,600)
Adjust for tax effect of:		
Tax losses and temporary differences not brought to account	460,492	123,415
Non-allowable items	145,158	435,545
Effects of different tax rates on foreign tax losses / (gains)	1,294	640
Income tax expense/(benefit) attributable to entity	-	-

Following the disposal in the current year of DiamonEx Botswana Limited, the economic entity has realised significant tax losses on both revenue and capital accounts. These losses, together with losses in prior years, are unconfirmed and have not been brought to account because recovery is not yet considered probable.

The tax benefits will only be obtained if the conditions in note 1 are satisfied and if:

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 4: INCOME TAX EXPENSE (continued)

- (a) the economic entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (b) the economic entity continues to comply with the conditions for deductibility imposed by the relevant tax legislation; and
- (c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for losses.

The amount of such benefits has not been disclosed due to the complexities of their calculation under relevant Australian legislation. Also the economic entity has USA carry forward losses which are quarantined under Australian tax legislation and are only available to be offset against future taxable income derived in USA.

NOTE 5: DIAMONEX BOTSWANA

The economic entity, through its 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 appointment of Judicial Management for DBL resulted in a loss of control for the parent entity and consequently DBL was de-consolidated and treated as a discontinued operation in the 2008/09 financial year.

Current Status of DBL

Implementation of the Recovery Plan has been lengthy, involved and has required some modification. A General Meeting of shareholders of the parent entity was held in March 2011 and approved critical

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 5: DIAMONEX BOTSWANA (continued)

aspects of the Recovery Plan and restructuring, including the sale of DiamonEx Botswana Limited to Mantle Diamonds Limited and settlement of liabilities from the sale proceeds and equity issues.

The sale of DiamonEx Botswana Limited to Mantle Diamonds Limited was completed in April 2011, with 90% of the sale proceeds received and the 10% balance is held in escrow and due for release in October 2011. Sale consideration was \$10,110,974 made up 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.

The major portion of the consideration was applied to reduce group liabilities. The financial impact of the disposal of the DBL investment in the current year has been:

Investment at 30 June 2010:	\$
Receivable	28,585,136
Equity	10,824,775
Impairment	(29,853,663)
	9,556,248
Current year movements:	
Further funds advanced	2,039,763
Further impairment	(2,529,447)
Book value at disposal date	9,066,564
Sale proceeds	10,110,974
Costs of disposal	(1,800,054)
Loss on disposal	755,644

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:

<u>Key Management Person</u>	<u>Position</u>
Peter van Riet-Lowe	Chairman - Non-Executive
Dennis C. O'Neill	Director - Non-Executive
Paul A. Crawford	Director - Non-Executive
Wayne Osterberg	Director - Non-Executive
Leonard Siwawa	Director - Non-Executive (Appointed 19 November 2010)
James Allan	Director - Non-Executive (Appointed 24 March 2011)
Mark Gray	Chief Executive Officer (Appointed 1 May 2011)

	2011	2010
(b) Key management personnel compensation	\$	\$
Short-term employee benefits	18,700	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	15,199	9,436
	33,899	9,436

Detailed disclosures on compensation for key management personnel are set out in the Remuneration Report included in the Directors' Report. See also note 19 for related party transactions.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

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

(c) Number of shares held by Key Management Personnel

Key Management Personnel (i)	Balance 1 July 2010	Remun- eration (ii)	Purchased / Issued/(Sold)	Balance 30 June 2011
Dennis C O'Neill	4,900,000	-	4,990,429	9,890,429
Paul A Crawford	4,123,350	-	32,349,875	36,473,225
Peter van Riet-Lowe	127,700	-	-	127,700
Wayne Osterberg	60,000	-	-	60,000
Leonard Siwawa (at date of appointment)	-	-	-	-
James Allan (at date of appointment)	-	-	-	-
Mark Gray (at date of appointment)	-	-	-	-
Total	9,211,050	-	37,340,304	46,551,354

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	20,347,150	-	-	20,347,150

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

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

(d) Number of options held by Key Management Personnel

Key Management Personnel (i)	Balance 1 July 2010	Remun- eration	Purchased / (Sold/Lapsed)	Balance 30 June 2011
Dennis C O'Neill	-	-	-	1,000,000
Paul A Crawford	-	-	-	-
Peter van Riet-Lowe	-	-	-	-
Wayne Osterberg	-	-	-	-
Leonard Siwawa (at date of appointment)	-	-	-	-
James Allan (at date of appointment)	-	-	-	-
Mark Gray (at date of appointment)	-	-	-	-
Total	1,000,000	-	-	1,000,000

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

(i) Represents options held directly or indirectly.

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

DIAMONEX LIMITED
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Notes to the Financial Statements
for the financial year ended 30 June 2011

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

2011 No.	2010 No.
224,879,390	193,424,196
-	-
224,879,390	193,154,246

Options totalling 1,000,000 (2010: 3,423,283) in the parent entity are the only securities considered as potential ordinary shares in determination of diluted EPS. These options 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
- other assurance services

2011 \$	2010 \$
37,200	42,000
-	-

NOTE 9: CASH AND CASH EQUIVALENTS

Cash at bank and on hand

Short-term bank deposits

Total cash

505,985	18,190
-	40,189
505,985	58,379

The effective interest rate on short-term bank deposits in 2010 was 4.8%. These deposits had an average maturity of 30 days.

NOTE 10: TRADE AND OTHER RECEIVABLES

Current:

Deferred sale consideration

Other Debtors

982,445	-
30,428	7,829
1,012,873	7,829

Non-Current:

Amount receivable from wholly owned entities

Provision for impairment

-	28,585,136
-	(28,585,136)

Total Non- Current

-	-
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The group has significant credit risk exposure arising from the deferred receivable of \$982,445 from Mantle Diamonds Plc., relating to the value of cash and shares withheld on the sale of DBL pending any warranty claims that may arise during the warranty period. A warranty claim has been made by Mantle to the value of \$95,637. The Company is assessing the validity of the claim but no impairment has been made. On a geographical basis the exposure is in US dollars and Great Britain Pounds (see note 5).

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

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 10: TRADE AND OTHER RECEIVABLES (continued)

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

	2011	2010
	\$	\$
Opening balance	28,585,136	29,006,257
Change for the year	(28,585,136)	(421,121)
Closing balance	-	28,585,136

Within other debtors is \$26,696 receivable from related parties.

NOTE 11: OTHER ASSETS

Current:

Prepayments	10,097	4,279
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NOTE 12: 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% (2010: 100%) of the ordinary shares of the entity, carried at recoverable amount	-	-
DiamonEx (USA) Limited, incorporated in Wyoming, USA. The parent entity holds 0% (2010: 100%) of the ordinary shares of the entity, carried at recoverable amount	-	-
DiamonEx (Botswana) Ltd, incorporated in Botswana. The parent entity holds 0% (2010: 100%) of the ordinary shares of the entity, carried at cost (Refer Note 5).	-	10,824,775
Less impairment of investment in DiamonEx Botswana Limited	-	(1,268,527)
Total available for sale investments	-	9,556,248

As previously reported, Diamonex's subsidiary company, DiamonEx Botswana Limited ("DBL"), was placed into judicial management in 2009 which resulted in a loss of control for the parent entity and so DBL was deconsolidated. In November 2010 the parent company entered into a conditional agreement to sell DBL. The sale was completed in April 2011, with 90% of the sale proceeds received and the 10% balance is held in escrow.

NOTE 13: TRADE AND OTHER PAYABLES

	2011	2010
	\$	\$
Current:		
Trade creditors	374,553	626,995
Sundry creditors and accrued expenses	275,950	517,349
Loans from Directors	-	768,237
Accrued employee benefits	-	195,539
Total trade & other payables (unsecured) (i)	650,503	2,108,120

- (i) During the period, a total of \$1,648,495 (2010: nil) was settled through the issue of shares. See note 15. Within trade and other payables is \$118,066 (2010:\$758,616) owing to related parties.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 14: BORROWINGS

Current:

	2011	2010
	\$	\$
Unsecured loan Stanbic Bank Limited	-	1,852,721
Secured convertible capital notes	982,445	8,422,358
Secured loan Flamenco	-	1,632,108
	982,445	11,907,187
Convertible capital notes interest payable	-	2,237,874
	982,445	14,145,061

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 was secured by a lien over the crusher unit and 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 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 was secured over the high pressure roller crusher owned by DBL.

In October 2010 the parent entity's guarantee was released & the loan has been de-recognised (note 2).

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. Loans were repaid from the proceeds of the sale of DBL.

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. The notes fell into breach and have been the subject of the Recovery Plan which has resulted in part repayment of the notes by way of issue of DiamonEx shares. The balance of the notes will be settled from the deferral proceeds of the sale of DBL.

Secured liabilities at balance date total \$982,445 (2010:\$12,439,450) for the economic entity. Carrying amount of assets pledged as security total \$982,445 (2010:\$9,556,248). Since balance date, the security has been released (see note 24(vi)).

NOTE 15: ISSUED CAPITAL

	2011	2010
	\$	\$
693,430,924 (2010:193,154,196) fully paid ordinary shares	47,539,511	39,033,979
Nil, (2010: nil) convertible capital notes	-	-
	47,539,511	39,033,979

Ordinary shares

Balance at the beginning of the reporting period	39,033,979	39,033,979
Shares issued during the year:		
23/04/2011 - 37,340,304 ordinary shares at \$0.02 each	746,805	-
26/04/2011 - 100,000,000 ordinary shares at \$0.005 each, cash	500,000	-
23/06/2011 - 317,852,078 ordinary shares at \$0.02 each	6,357,041	-
23/06/2011 - 45,084,346 ordinary shares at \$0.02 each	901,686	-
Transaction costs relating to share issues	-	-
Balance at reporting date	47,539,511	39,033,979

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 15: ISSUED CAPITAL (continued)

	2011	2010
	No.	No.
Balance at the beginning of the reporting period	193,154,196	193,154,196
Shares issued during the year:		
23 April 2011	37,340,304	-
26 April 2011	100,000,000	-
23 June 2011	317,852,078	-
23 June 2011	45,084,346	-
Balance at reporting date	693,430,924	193,154,196

Shares issued during the year related to the Recovery Plan, refer notes 5 and 23.

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.

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.

During the year, the capital management activities of the Group have focussed on formulating and implementing the Recovery Plan developing a capital management structure to complete the Company reconstruction.

NOTE 16: SHARE OPTIONS

	2011	2010
	No.	No.
Options outstanding at reporting date		
Balance at the beginning of the reporting period	3,423,283	5,973,283
Issued during the year	-	-
Lapsed during the year	(2,423,283)	(2,550,000)
Balance at reporting date	1,000,000	3,423,283

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

Grant Date & Vesting

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.

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 23.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 17: 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 18: CASH FLOW INFORMATION

	2011 \$	2010 \$
Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax:		
Loss from ordinary activities after income tax	(2,023,146)	(1,865,333)
Non-cash flows in profit from ordinary activities:		
Depreciation/Amortisation	-	27,735
Movement in employee benefits	-	(1,543)
Employee options expense	15,199	9,436
Loss/(gain) on sale of controlled entity	755,644	23,610
Impairment of receivables writeback	2,529,447	(421,121)
Release of guarantee	(1,765,318)	-
Unrealised foreign exchange (gain)/loss	(1,322,590)	(246,895)
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	(22,599)	21,194
(Increase)/Decrease in prepayments and inventory	(5,818)	7,800
(Decrease)/Increase in creditors and accruals	216,054	113,524
Cash flows from operations	(1,623,127)	(2,331,593)

Non-cash Financing and Investing Activities

As set out in note 23, 400,276,728 shares were issued in settlement of \$6,357,041 borrowings and \$1,648,491 creditors of the Group.

As set out in note 5, the consideration from the sale of DiamonEx Botswana was received partly in cash, partly in shares, with a portion held in escrow. The shares received, at a value of \$6,353,308 were applied to settle borrowings of an equal amount.

NOTE 19: 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 12.

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 22.

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 \$50,000 (2010: \$54,000) 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 \$54,500 (2010: \$273,822).

DIAMONEX LIMITED

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**Notes to the Financial Statements
for the financial year ended 30 June 2011**

NOTE 19: RELATED PARTY TRANSACTIONS (continued)

During the financial year Mr Crawford provided funds to the company on an interest free, unsecured, short term basis. The balance outstanding at the end of the financial year was \$9,021 (2010: \$374,485).

During the year the Company issued 32,349,875 shares at \$0.02 in settlement of amounts owing to Mr Crawford and associated entities. Refer notes 15 and 23.

The Company also issued 4,990,429 shares at \$0.02 each in settlement of employment amounts owing to Mr. O'Neill. Refer notes 15 and 23.

During the previous financial year, 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 that year \$53,496 was received under this agreement. The amount owing by Orocobre Limited at 30 June is nil (2010: nil).

New leasing arrangements were entered into from 1 April 2010 whereby DiamonEx Limited became a tenant of Orocobre Limited. No amounts were paid during the period. The amount owing to Orocobre Limited at 30 June 2011 is \$19,774 (2010:\$5,562).

During the year, Fleming Asset Management Botswana (Pty) Ltd (FAMB), a company of which Messrs van Riet-Lowe and Osterberg are directors, received fees of \$124 561 in relation to funds advanced to the entity. No amount was owing at 30 June 2011.

During the previous year, FAMB advanced funds to the entity to support its restructure plan. Amounts owing to FAMB were repaid from the proceeds of the sale of DBL. An amount of \$16,071 was owing at 30 June 2011 (2010:\$1,475,571).

During the year, the Company was party to Deed of Loan & Guarantee with Flamenco (Pty) Ltd, a company of which Messrs van Riet-Lowe, Osterberg, Allan and Gray and are directors. During the year, Flamenco advanced BWP30,000,000 funds to the entity. Amounts owing to FAMB were repaid from the proceeds of the sale of DBL. No amount was owing at 30 June 2011 (2010:nil). At balance date, an amount of \$26,696 was receivable from Flamenco.

In addition, Flamenco received fees of \$1,473 273, interest of \$87,526 and other charges of \$76,470 in relation to funds advanced to the entity. No amount was owing at 30 June 2011.

During the year, the parent entity incurred professional fees of \$115,000 (2010:\$nil) for management services provided to the entity by Gray Corp Pty Ltd, an entity controlled by Mr Mark Gray, Chief Executive Officer of the company. The amount owing by the company at 30 June was nil (2010: nil).

In addition, Mr Gray received fees of \$202,219 in relation to the sale of DiamonEx Botswana Limited. No amount was owing at 30 June 2011.

NOTE 20: COMMITMENTS

The consolidated entity has no commitments at balance date.

NOTE 21: 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.

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 21: FINANCIAL INSTRUMENTS (continued)

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. Many of these items were restructured in the year.

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.

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.

Financial instruments at carrying value are summarised as:

	2011	2010
	\$	\$
Financial Assets		
Cash and cash equivalents	505,985	58,379
Trade and other receivables (net of impairment)	1,012,873	7,829
Available for sale financial assets (net of impairment)	-	9,556,248
	<u>1,518,858</u>	<u>9,622,456</u>
Financial liabilities		
Trade and other payables	650,503	2,108,120
Borrowings	982,445	14,145,061
	<u>1,632,948</u>	<u>16,253,181</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

- Previous Group activity in Botswana which are denominated in Botswana Pula,
- Previous Group activity in USA which are denominated in US dollars,
- Amount receivable on the sale of DBL, denominated in US dollars and Great Britain Pounds.

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

	US\$		BWP		GBP	
	2011	2010	2011	2010	2011	2010
Cash and cash equivalents	1,337	1,336	-	-	-	-
Receivables	500,000	-	-	-	315,000	-
Payables	(128,333)	(101,984)	-	-	-	-
Borrowings	-	-	(6,759,804)	(83,973,610)	-	-
Net	<u>373,003</u>	<u>(100,648)</u>	<u>(6,759,804)</u>	<u>(83,973,610)</u>	<u>315,000</u>	<u>-</u>

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 21: FINANCIAL INSTRUMENTS (continued)

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 \$17,400 higher / lower (2010: \$6,253).

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 \$49,124 lower/higher (2010: \$707,256).

If the spot Australian Dollar rate weakened / strengthened by 5 percent against the Great Britain Pound, with all other variables held constant, the Group's post-tax loss for the year would have been \$23,598 lower/higher (2010: nil).

(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 - 2011	Floating Interest Rate 2011 \$	Fixed Interest Rate 2011 \$	Non-Interest Bearing 2011 \$	Total 2011 \$
Financial Assets:				
Cash & cash equivalents	505,930	-	55	505,985
Receivables	-	-	1,012,873	1,012,873
Provision for impairment	-	-	-	-
Total Financial Assets	505,930	-	1,012,928	1,518,858
Financial Liabilities:				
Trade & other payables	-	-	650,503	650,503
Borrowings	-	-	982,445	982,445
Total Financial Liabilities	-	-	1,632,948	1,632,948
Group - 2010	2010 \$	2010 \$	2010 \$	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

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 21: FINANCIAL INSTRUMENTS (continued)

Cash and cash equivalents received interest at a weighted average rate of 1.0% (2010: 4.0%)

Interest on borrowings carried a weighted average interest rate of 13.0% (2010: 13.0%)

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

Group sensitivity

As at 30 June 2011, 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 \$5,055 higher / lower (2010: \$584).

(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, represent the economic entity's and the parent entity's maximum exposure to credit risk.

Concentration of credit risk is outlined in note 10.

(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
	\$	\$	\$	\$
2011				
Financial assets				
Cash & cash equivalents	505,985	-	-	505,985
Receivables	1,012,873	-	-	1,012,873
	1,518,858	-	-	1,518,858
Financial liabilities				
Payables	650,503	-	-	650,503
Borrowings	982,445	-	-	982,445
	1,632,948	-	-	1,632,948
Net cash outflow	114,090	-	-	114,090

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 21: FINANCIAL INSTRUMENTS (continued)

Group entity 2010	1 year or less \$	1 to 2 years \$	More than 2 years \$	Total \$
Financial assets				
Cash & cash equivalents	58,379	-	-	58,379
Receivables	7,829	-	-	7,829
	66,208	-	-	66,208
Financial liabilities				
Payables	2,108,120	-	-	2,108,120
Borrowings	14,145,061	-	-	14,145,061
	16,253,181	-	-	16,253,181
		-	-	
Net cash outflow	16,186,973	-	-	16,186,973

(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 directors' best estimate, based on the currently proposed sale transactions.

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.

No financial assets are recognised at fair value at balance date. The only financial assets recognised at fair value for the previous year are the amounts receivable from and investment in DiamonEx (Botswana) Limited. This was assessed as a level 2 hierarchy.

NOTE 22: 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. The Notes were restructured in the year, resulting in the indemnity terminating. Refer note 14.

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

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**Notes to the Financial Statements
for the financial year ended 30 June 2011****NOTE 22: CONTINGENT LIABILITIES (continued)**

failure by DiamonEx (Botswana) Limited to meet its obligations. With the sale of DBL the obligations of DiamonEx (Botswana) Limited have been assumed by Mantle Diamonds PLC.

Mantle Diamonds Plc. has lodged a claim for \$95,637 in relation to their acquisition of DBL. No assessment of the merit of the claim has been made.

Restructure Fee

The parent entity has entered into an agreement with Gray Corp Pty Ltd, an entity controlled with CEO Mark Gray whereby Mr Gray may earn a success fee of 1% of the market value of the DiamonEx Limited if it re-lists on the Australian Stock Exchange. The fee will be payable through the issue of new shares in the Company.

Director Fees

If the parent entity re-lists on the Australian Stock Exchange, fees will be paid to Directors in relation to meeting held since the restructuring plan was approved by shareholder at the general meeting held in March 2011. Fees payable will be calculated on the basis of \$3,000 per meeting for non-executive directors and \$5,000 for the Chairman. At the date of this report, the contingent liability is \$80,000.

NOTE 23: SHARE BASED PAYMENTS

The following share based transactions were completed during the current financial years.

On 23 April 2011, the Company issued 37,340,304 shares to Messrs O'Neill and Crawford in settlement of amounts owing to them. The issue of shares was approved by shareholders in General Meeting on 25 March 2011. (Refer note 15)

On 23 June 2011, the Company issued 317,852,078 shares to Bond holders in settlement of principal and interest amounts owing to them. The issue of shares was approved by shareholders in General Meeting on 25 March 2011. (Refer note 15)

On 23 June 2011, the Company issued 45,084,346 shares to a number of parties in settlement of trade creditor balances. The issue of shares was approved by shareholders in General Meeting on 25 March 2011. (Refer note 15)

In previous years, the following share based payments arrangements were transacted and remain in place at balance date:

In the 2007 financial year 1,000,000 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 2012. 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.

Consolidated Group	2011		2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	3,423,283	\$0.350	5,973,283	\$0.350
Granted	-	-	-	-
Forfeited	(2,423,283)	-	(2,550,000)	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	1,000,000	\$0.350	3,423,283	\$0.350
Exercisable at year-end	1,000,000	\$0.350	3,423,283	\$0.350

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**Notes to the Financial Statements
for the financial year ended 30 June 2011****NOTE 23: SHARE BASED PAYMENTS**

The options outstanding at 30 June 2011 had a weighted average exercise price of \$0.35 and a weighted average remaining contractual life of 1.4 years. Shares in the Company were suspended from trading at reporting date. Refer note 16 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 \$15,199 (2010: \$9,436), and relates, in full, to equity-settled share-based payment transactions relating to directors.

NOTE 24: 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 re-structuring of the economic entity. Key events since balance date have been:

- (i) Ongoing financial support from financiers pursuant to the recapitalisation of the Company.
- (ii) Mantle Diamonds Plc has lodged a claim for \$95,637 in relation to their acquisition of BDL. No assessment of the merit of the claim has been made.
- (iii) In November 2011, the Company entered into a binding terms sheet with Shumba Resources Limited to acquire all the shares in Sechaba Natural Resources (Pty) Limited for \$6,395,000, payable by the issue of 2,299,005,454 shares at an issue price of \$0.0028 per share.
- (iv) Mantle Diamonds Plc has agreed to allot the shares component of the sale consideration withheld. The cash component will be held pending settlement of warranty claim.
- (v) Following settlement of the Mantle warranty claim, the parent entity has agreed with parties funding the reconstruction that the balance of cash received will be held by the Company. The Company will seek shareholder approval to issue shares to the value of \$500,000 in lieu of the deferred cash consideration now to be retained by the parent entity.
- (vi) The security for the convertible capital notes (see note 14) was released.

(b) Financial report

This financial report was authorised for issue on 15 February 2012 by the Board of Directors.

NOTE 25: PARENT ENTITY INFORMATION

The following information relates to the parent entity, DiamonEx Limited at 30 June 2011. This information has been prepared using consistent accounting policies as presented in note 1.

	30 June 2011	30 June 2010
	\$	\$
Current assets	1,527,705	68,924
Non-current assets	563	9,556,811
Total assets	1,528,268	9,625,735
Current liabilities	1,513,212	16,134,137
Non-current liabilities	-	-
Total liabilities	1,513,212	16,134,137
Contributed equity	47,539,511	39,033,979
Reserves	260,999	245,800
Accumulated losses	(47,785,454)	(45,788,181)
Total equity	15,056	(6,508,402)
Loss for the year	(1,997,273)	(1,852,539)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,997,273)	(1,852,539)

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Notes to the Financial Statements
for the financial year ended 30 June 2011

NOTE 26: COMPANY DETAILS

The registered office and principal place of business is:

DiamonEx Limited
Level 9
105 St Georges Terrace
Perth WA 6000

NOTE 27: 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	
	2011	2010	2011	2010	2011	2010
	\$	\$			\$	\$
REVENUE						
Revenue	1,766,962	56,150	-	-	1,766,962	56,150
Total revenue from ordinary activities	1,766,962	56,150	-	-	1,766,962	56,150
RESULT						
Loss from ordinary activities before income tax expense	(1,997,273)	(1,852,539)	(25,873)	(12,794)	(2,023,146)	(1,865,333)
Income tax expense	-	-	-	-	-	-
Loss from ordinary activities after income tax expense	(1,997,273)	(1,852,539)	(25,873)	(12,794)	(2,023,146)	(1,865,333)
ASSETS						
Segment assets	1,527,708	9,625,175	1,247	1,560	1,528,955	9,626,735
LIABILITIES						
Segment liabilities	1,513,213	16,134,138	119,735	119,043	1,632,948	16,253,181

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.

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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 which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards; and
 - (b) give a true and fair view of the financial position as at 30 June 2011 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: 15th day of February 2012



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) and DiamonEx Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal controls as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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 that gives a true and fair view 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.

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

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)

Opinion

In our opinion:

- a. the financial report of DiamonEx Limited and DiamonEx Limited and Controlled Entities 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 2011 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.

Emphasis of Matter – Continuation as a Going Concern

Without 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. 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.

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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DIAMONEX LIMITED (continued)

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011 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: 17 February 2012

DIAMONEX LIMITED
ABN 26 091 951 978

ASX ADDITIONAL INFORMATION

Pursuant to the Listing Requirements of the Australian Securities Exchange Limited, the shareholder information set out below was applicable as at 30 April 2012.

Number of Shares

718,807,696 Ordinary Shares (DON)

Distribution of Equity Securities

Analysis of numbers of shareholders by size of holding:

Distribution	Number of Shareholders
1 – 1,000	1,579
1,001 – 5,000	938
5,001 – 10,000	312
10,001 – 100,000	822
More than 100,000	215
Total	3,866

Holders of Non Marketable Parcels

There were 2,870 holders of less than a marketable parcel of ordinary shares.

Substantial Shareholders

The following shareholders are recorded in the register of Substantial Shareholders

	Number	Percentage
STANBIC NOMINEES BOTSWANA (PTY) LTD	135,152,289	18.80
SCB NOMINEES BOTSWANA (PTY) LTD	131,655,198	18.32
FNB NOMINEES BOTSWANA (PTY) LTD	73,257,085	10.19
SCB NOMINEES BOTSWANA (PTY) LTD (Private Equity)	50,000,000	6.96

Voting Rights

In accordance with the Company's Constitution, voting rights in respect of ordinary shares are on a show of hands, whereby each member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

On-market buy back

There is currently no on-market buy back of the Company's securities.

Use of cash and assets

From the period of ASX Listing until the date of this report, the Company has used the cash and assets as declared on admission to the ASX, in a form consistent with the Company's business objectives.

DIAMONEX LIMITED
ABN 26 091 951 978

ASX ADDITIONAL INFORMATION

Twenty Largest Shareholders

The names of the twenty largest holders of shares are listed below

Rank	Name	Units	% of Issued Capital
1.	STANBIC NOMINEES BOTSWANA (PTY) LTD <SIMS - NPF 212/001 A/C>	102,855,623	14.31
2.	SCB NOMINEES BOTSWANA (PTY) LTD <FAM-BPOPF NO1 201/010 A/C>	67,816,141	9.44
3.	FNB NOMINEES BOTSWANA (PTY) LTD <SIMS - BPOPF 10001009 A/C>	50,025,428	6.96
4.	SCB NOMINEES BOTSWANA (PTY) LTD <FAM - BPOPF PRIVATE EQUITY A/C>	50,000,000	6.96
5.	SCB NOMINEES BOTSWANA (PTY) LTD <FAM-BPOPF NO2 3185938 A/C>	34,628,060	4.82
6.	GREGORY MARK KING	33,974,251	4.73
7.	STANBIC NOMINEES BOTSWANA (PTY) LTD <BFIM-LB LOCAL BOND A/C>	32,296,666	4.49
8.	SCB NOMINEES BOTSWANA (PTY) LTD <FAM-BPOPF NO1 3582376 A/C>	29,210,997	4.06
9.	MR PAUL ANTHONY CRAWFORD	28,004,875	3.90
10.	FNB NOMINEES BOTSWANA (PTY) LTD <SIMS - BPOPF 212/005 A/C>	23,231,657	3.23
11.	HARTCO NOMINEES PTY LTD	20,000,000	2.78
12.	SCB NOMINEES BOTSWANA (PTY) LTD <SIMS - STBMPF 207/002 A/C>	14,399,787	2.00
13.	J P MORGAN NOMINEES AUSTRALIA LIMITED	12,686,000	1.77
14.	LTHC PTY LIMITED	9,834,440	1.37
15.	DENNIS CHARLES O'NEILL	9,470,429	1.32
16.	CAPITAL CORPORATE FINANCE (PTY) LTD	8,750,000	1.22
17.	SCB NOMINEES BOTSWANA (PTY) LTD <BFIM-DEBS-DEBSWANA SEG PF AC>	7,885,598	1.10
18.	FNB NOMINEES BOTSWANA (PTY) LTD <AGRAY-BPOPF A/C>	7,405,605	1.03
19.	CORONATION FUND MANAGERS BOTSWANA (PTY) LTD	6,582,760	0.92
20.	COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C>	5,837,135	0.81