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CORRECTION TO ANNUAL REPORT

The Chairman's Report on page 1 of the Annual Report says, "At the time of writing we are expecting to have our first diamond sale toward the end October of some 20,000 carats...".

As advised in our market release of 21 October, the diamond sale is in process, but due to number of factors, the sale comprises approximately 10,000 carats of diamonds recovered during the commissioning and start up phase.

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chairman's report

Dear Shareholder

It is with much pleasure that I open this report secure in the knowledge that Diamonex has now joined the ranks of the worlds diamond producers. Our transition into a producer took longer than anticipated with construction of the plant slowed by a very prolonged wet season at the beginning of this year.

This transition is by no means a small achievement as the following statistics demonstrate.

In total there are less than twenty diamond mines in the world with four major companies Rio, BHP, Alosa and De beers accounting for 90% of production. The remaining 10% of production is accounted for by fifteen companies. In terms of number of carats produced at full production Diamonex will rank number three out of these fifteen, a statistic we can all be proud of.

Diamond production at Lerala started in August this year with a few small teething problems becoming evident during the initial phases of commissioning. This is normal for a new plant and problems are gradually being rectified as the plant heads towards its full operational capability of 200 tonnes per hour, or more importantly, 30,000 carats of diamonds per month.

At the time of writing we are expecting to have our first diamond sale toward the end of October of some 20,000 carats with diamond sales then to become a monthly activity.

As is to be expected with the company's expansion our staff numbers both in Australia, America and Botswana have grown significantly. In the Brisbane head office Mike Seed was appointed Exploration Manager, Mark Gray as Head of Corporate Development and Jean Cawthan as Accounts Clerk. Carl Brink was appointed General Manager in America to manage our activities.

In our Gaborone office Kokeletso Rantshadi was appointed Administration and Payroll Officer. All contributed greatly to the company since their employment and I take the opportunity to thank them all for their contributions as I do all of Diamonex's existing staff.

Of course the biggest expansion of staff has been on the mine site where we now have 240 employees with 96% of this workforce being Batswana. After visiting the mine site recently I would personally like to pay tribute to this team and their Plant Manager Felicity Itlhobogeng. I found the team to be highly skilled and motivated and keen to ensure that the Lerala Diamond Mine is an unqualified success.

Financial institutions and shareholders in Botswana also continue to lend great support the company with 76% of all Diamonex shareholders now resident in Botswana.

On a much sadder note I report the passing of one of our employees in the United States earlier in the year, Mr Kim Weeks. Kim was our Landman in the

States and was instrumental in negotiating the agreement over the Sloan Diamond Pipe. Kim's contribution to Diamonex in the short time he was in our employ was invaluable and we miss both him and his services greatly. Happily, his wife Nancy is a shareholder in Diamonex and continues to follow our activities and the work that Kim started.

Exploration both in Botswana and the States is gaining momentum and we now have a range of targets for follow up exploration including drilling. Our exploration activities along with a review of all operations is presented later in the annual report.

I wish to thank all our shareholders for their patience and look forward to their continuing support as Diamonex cements its place as a diamond producer and searches for new opportunities to expand the company.

And finally I would like once again to thank my fellow Directors. This past year has presented numerous challenges to the Board, which has very capably handled them with skill, diligence and honesty.



Greg King
Executive Chairman