managing director's report

The past year has been a truly signicant year for Diamonex with the completion of construction of the Lerala processing plant and ancilliary infrastructure, the commencement of mining and first diamond production.

While to date production through the plant has been limited (70,000 tonnes) it is pleasing to note that the current recovered grade of 30 carats per hundred tonnes (cpht) and cash operating costs of approximately US$10 per tonne are in line with the estimates made in the feasibility study.

The 100% owned Lerala diamond mine in eastern Botswana has an established 3.7 million carat diamond resource and is scheduled to produce an average of 330,000 carats per year for 10 years.

MINE CONSTRUCTION

Following the grant of a Mining Lease over the Lerala diamond deposit in September 2006 site construction activities commenced in December 2006 followed by plant commissioning in the second half of this year.

Plant construction delays were experienced due to the early arrival of the summer wet season in December 2007 and other delays caused by late delivery to site of some job lots and poor performance by some manufacturers/suppliers.

The commissioning phase for the Lerala processing plant commenced in April 2008. First diamonds will be processed and ready for sale in October 2008 through WWW International Diamond Consultants - one of the world's leading diamond marketing and valuation companies (WWW IDC).

Commissioning of the Mine marks the final phase of an 20-month construction project. The commissioning process has in general gone well with the exception of the final recovery unit where recovery issues have been experienced with the grease belt recovery section.

It has overrun in time due to some technical issues in plant operation but on the whole the plant has tested well. The Lerala mine has a brand new purpose built Dense Media Separation plant (DMS), with 200 tonne per hour front end through-put capacity that utilises state of the art HPGR crushing technology.

The grease belt diamond recovery unit has not performed as planned and is currently being bypassed with concentrate from the DMS being processed thru X-Ray machines to recover the diamonds.

As previously mentioned, the Company is preparing for its first diamond sale, now planned for the end of October. Under its mining lease covenants to the Botswana Government DiamonEx must offer its goods to Botswana registered cutters and polishers. Simultaneous with the Botswana offering, the Company will be offering its goods for sale internationally, in Antwerp, with the best price in a closed tender process securing the diamonds.

The installation of 12 synchronised 400 kVa generators (4.8 MW) ensures the Lerala Mine will be unaffected by electricity supply problems experienced in Southern Africa.

The economics of the Lerala Mine continue to look strong. Any drop in sales revenue from the weakening US dollar is offset by an even weaker Botswana pula resulting in lower operating costs. Since the company completed its feasibility study in 2005, there has been a constant increase in rough diamond prices with WWW IDC forecasting continuing long term growth taking into account the down turn in the US economy.

EXPLORATION

With the resources of the company having been focused on advancing the Lerala mine toward production exploration activities have continued although at a reduced pace to previous years.

Currenty the company has applications and granted Prospecting Licences covering some 25,000 km's in Botswana and is actively exploring the Lerala mine area, theTuli Block and the Jwaneng project areas.

LOOKING AHEAD

Activity over the coming year will be directed at optimising diamond production from the Lerala diamond mine.

The rate of exploration activity in Botswana, aimed at establishing new diamond resources, will be increased.

In addition the company will be actively seeking to increase its diamond production through the acquisition of other suitable projects.

Dan O'Neill
Managing Director