

**DIAMONEX LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

DIRECTORS' REPORT

Your directors present their report of the company and its controlled entities for the financial year ended 30 June, 2008.

Directors

The directors of the company at any time during or since the end of the year are listed below. During the year there were 8 meetings of the full board of directors. The meetings attended by each director were:

DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
G.M. King	8	8
D.C. O'Neill	8	8
P.A. Crawford	8	8
D. N. Magang	8	6
D. J. Duncan	8	6

Directors have been in office since the start of the financial year to the date of this report unless indicated otherwise.

The Company does not have an Audit Committee. The role of the Audit Committee has been assumed by the full Board. The size and nature of the Company's activities does not justify the establishment a committee at this time.

Company Secretary

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

Principal Activities

The principal activities of the economic entity in the course of the year were:

- mineral exploration;
- development of the Lerala Diamond Mine.

The development phase has completed on the Lerala Diamond Mine and the commissioning activity is under way with full production expected in calendar year 2008. There were no other changes in the principal activities during the year.

Review of Operations

The entity's consolidated operating loss for the financial year, after applicable income tax was \$4,378,669 (2007: \$2,129,881). Development, exploration and evaluation expenditure during the year totalled \$25,618,866 (2007: \$7,397,585).

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The major achievement during the year has been the development and construction work on the Lerala Diamond Mine, and moving into the commissioning phase of this mine.

While activity this year has largely centred on the Lerala Diamond Mine development, exploration can again focus on finding new diamond resources with exploration work continuing in Botswana, and the exploration of the Sloan kimberlite deposit in USA.

Financial Position

The net assets of the economic entity have increased by \$3,540,021 during the year to 30 June 2008 to \$16,180,439 including cash balances of \$1,673,696. This change is primarily attributable to:

- (i) Share issues raising \$12,762,073;
- (ii) Borrowings of \$16,479,639; and
- (iii) Exploration, evaluation and development expenditure in relation to the Lerala Diamond Mine project and other projects.

The directors believe that the Group is in a stable financial position and is completing funding options to expand and grow through the development of the Lerala Diamond Mine project and other opportunities.

Dividends

No dividend has been proposed or paid since the start of the year.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

- (i) In July 2007 the parent entity issued 9,758,212 shares for cash to raise \$3,025,046;
- (ii) In July 2007 the parent entity registered a new subsidiary Diamonex (USA) Limited in Wyoming, USA for the purposes of exploring for diamonds in Wyoming and Colorado;
- (iii) In August 2007 the parent entity issued 13,250,000 shares for cash to raise \$4,107,500;
- (iv) In September 2007 the parent entity was admitted for listing on the Alternative Investment Market (AIM) in London;
- (v) In September 2007 the parent entity completed funding arrangements with Fleming Advisors (Pty) Ltd and the placement of Botswana Pula 50 million (approximately \$9 million) unsecured fixed rate convertible capital notes facility with an interest rate of 13.2%;
- (vi) In October 2007 the parent entity issued 1,000,433 options to Fox-Davies Capital Limited exercisable at 31 cents on or before 22 October 2010;
- (vii) In October 2007 Diamonex Botswana Limited completed funding arrangements with European Investment Bank (EIB) for a funding facility of Euro 5 million (approximately \$8.4 million) to provide funding for the development of the Lerala Diamond Mine;
- (viii) In November 2007 the parent entity issued 1,000,000 options to RFC Corporate Finance Ltd exercisable at 30 cents on or before 1 November 2010;
- (ix) In November 2007 the group acquired the Sloan exploration tenement in Colorado, USA;
- (x) In December 2007 the parent entity issued 9,070,000 shares for cash to raise \$3,355,900;
- (xi) In January 2008 the parent entity issued 8,457,000 shares for cash to raise \$3,129,090;

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- (xii) In January 2008 the parent entity issued 422,850 options to Fox-Davies Capital Limited exercisable at 37 cents on or before 16 January 2008;
- (xiii) In April 2008 the parent entity issued 1,550,000 options for shares management and staff. The options are convertible to ordinary shares in the parent entity at a rate of 37 cents on or before 17 April 2013;
- (xiv) In May 2008 Diamonex Botswana Limited completed funding arrangements with Stanbic Bank - Botswana for a Pula 8.1 million (approx \$1.65 million) 3 year facility to provide funding for the high pressure roller crusher (HPGR) for the Lerala Diamond Mine;
- (xv) In June 2008 the parent entity received \$328,234 through a shareholder participation plan (SPP), the shares under this SPP were allotted in July 2008 (total raised was \$ 1,528,938); and
- (xvi) During the year development work continued and commissioning commenced on the Lerala Diamond Mine

Information on Directors

The company's Directors have a strong background in mineral exploration, mining engineering, mine management, finance and accounting, with considerable international experience including Australia, Argentina, China, South East Asia, South Africa, Botswana and Indonesia.

The names and qualifications of current directors are summarised as follows:

Gregory M King	Executive Chairman
Qualifications:	Bachelor of Applied Science – Applied Geology
Experience:	Appointed Chairman 2004. Board member since 2000, 28 years experience in exploration project management.
Interest in Shares:	Founding shareholder and currently holds 10,620,000 ordinary shares and 1,000,000 options.
Dennis C O'Neill	Managing Director (Executive)
Qualifications:	Bachelor of Science – Geology
Experience:	Board member since 2000, 30 years experience in exploration project and corporate management.
Interest in Shares:	Founding shareholder and currently holds 4,900,000 ordinary shares and 1,000,000 options.
Directorships in Other Listed Companies:	Orocobre Limited
Paul A Crawford	Director – Non-executive
Qualifications:	Bachelor of Business – Accountancy; CPA; Master of Financial Management; Graduate Diploma in Business Law; Graduate Diploma in Company Secretarial Practice.
Experience:	Board member since 2000, Director Oroplata Limited, 27 years experience in accounting and commercial management, Principal of corporate consultancy firm.
Interest in Shares:	Founding shareholder and currently holds 4,080,800 ordinary shares.
Directorships in Other Listed Companies:	ActivEX Limited, Orocobre Limited

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David N Magang	Director - Non-executive
Qualifications:	LLB (Honours), Barrister and Attorney
Experience:	Board member since April 2004, resident of Botswana, member of the Botswana Parliament for 23 years, including 4 years as Minister for Minerals, Energy and Water Affairs.
Interest in Shares:	Currently holds 516,100 ordinary shares.
Donald J Duncan	Director - Non-executive)
Qualifications:	Bachelor of Science (Honours)
Experience:	Appointed to the Board in June 2005. A geologist with over 27 years experience, worldwide in diamond exploration and development.
Interest in Shares :	Currently holds 500,000 ordinary shares.

Future Developments, Prospects and Business Strategies

To further improve the economic entity's asset base and maximise shareholder wealth, the following developments are being pursued:

(i) Shareholder matters

On 9 July 2008 the Company issued 6,506,121 shares under the SPP raising \$1,528,938.

On 21 August 2008 the Company raised \$3,600,000 through a placement of 18,000,000 shares.

(ii) Lerala Mine development

The company is well progressed with the commissioning phase of the Lerala Diamond Mine which is expected to commence production in calendar year 2008. Once full production is achieved the company will be in a stable financial position;

Since the end of the financial year the commissioning program continued. At 22 August, the Plant was operating at approximately 100 tonnes per hour, with a programme to get to the full production target of 200 tonnes per hour over the coming months..

Remuneration Report

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

The company's remuneration policy seeks to align director and executive objectives with those of shareholders and business, while at the same time, recognising the early 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:

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The remuneration policy, setting the terms and conditions for the executive directors was developed and approved by non-executive directors. Executive directors receive a base salary, superannuation and fringe benefits, and in the current year, equity based performance remuneration. Superannuation payments consist of the 9% superannuation guarantee contribution. Individuals may elect to salary sacrifice part of their salary to increased payments towards superannuation. No other form of retirement benefit is paid.

Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amount 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, 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 19 in the financial statements. The Company does not currently have any other performance based incentives component built into director and executive remuneration.

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

Formation of a remuneration committee is under review. Its role will be to review the company's remuneration policy, remuneration levels and performance of both executive and non-executive directors. Independent external advice will be sought when required.

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

2008 Key Management Personnel	Short term benefits		Post Employment	Equity Settled Options	Total	Performance Related (i)
	Salary & Fees	Non- Cash Benefits	Benefits Super - annuation			
	\$	\$	\$	\$	\$	%
Gregory M. King	183,486	75,121	16,514	10,160	285,281	3.56
Dennis C. O'Neill	167,656	38,208	20,000	10,160	236,024	4.29
Paul A. Crawford	-	-	22,000	-	22,000	-
David N. Magang	22,000	-	-	-	22,000	-
Donald J. Duncan	22,000	-	-	-	22,000	-
Mike Seed				787		
(appointed January 2008)	90,000	8,314	8,100		107,201	0.73
Mark Gray				787		
(appointed November 2007)	119,115	-	-		119,902	0.66
Mark Coetzee	176,028	-	-	787	176,815	0.45
Michael Whillier	150,000	10,471	13,500	787	174,758	0.45
	930,285	132,114	80,114	23,468	1,165,981	2.01

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2007 Key Management Personnel	Short term benefits		Post Employment	Equity Settled Options	Total	Performance Related (i)
	Salary & Fees	Non- Cash Benefits	Benefits Super - annuation			
	\$	\$	\$			
Gregory M. King	183,486	11,360	16,514	5,929	217,289	2.73
Dennis C. O'Neill	151,283	50,214	14,600	5,929	222,026	2.67
Paul A. Crawford	-	-	22,000	-	22,000	-
David N. Magang	22,000	-	-	-	22,000	-
Shay N. Shong (resigned March 2007)	14,297	-	1,287	-	15,584	-
Donald J. Duncan	22,000	-	-	-	22,000	-
Mark Coetzee	171,456	8,272	-	-	179,728	-
Michael Whillier (appointed February 2007)	21,585	3,920	4,631	-	30,136	-
	586,107	73,766	59,032	11,858	730,763	1.62

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

Options granted as remuneration

Key Management Personnel	Vested Number	Granted Number	Grant Date	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise price \$	First Exercise Date	Last Exercise Date
Mr M Seed	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
Mr M Whillier	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
Mr M Gray	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
Mr M Coetzee	200,000	200,000	18.04.2008	0.25 cents	37 cents	18.04.2008	17.04.2013
	800,000	800,000					

All options vested immediately and expire within 5 years of granting. All options were granted for nil consideration. No options have been exercised, nor did any of those options lapse, nor were any forfeited.

In the current year the company issued equity based performance remuneration to the executive management and staff, in the form of share options. This was approved by the shareholders at the 2007 Annual General Meeting. The grant of the options to the Directors is intended to act as a strong incentive to align the interests of the Directors' with the Company's strategic plan focusing on seeking improved performance, the growth of the Company and better returns for shareholders.

The employment conditions of the executive chairman, Mr King and the managing director, Mr O'Neill are formalised in contracts of employment. The company may terminate the contracts without cause at any time, but is required to payout the remaining term of the contract together with accrued entitlements, subject to a minimum payment of \$50,000. Termination payments are not payable on resignation or dismissal for serious misconduct. In the case of serious misconduct, the company can terminate employment at any time.

All other executives are employed on standard commercially based contracts. These agreements may be terminated by either party on 1 month notice. No termination payment is payable under the contracts.

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As outlined above, the company's remuneration policy seeks to align directors' and executives' objectives with shareholders and business, whilst recognising the developmental stage of the company. The following table shows some key performance data of the group.

	2005	2006	2007	2008
Mine development expenditure - including transfer from capitalised exploration (\$)	-	-	10,748,145	18,558,956
Exploration expenditure capitalised -net of transfer to development asset (\$)	3,769,875	1,066,890	(4,228,271)	929,641
Exploration tenements (number)	4	28	28	40
Net assets (\$)	4,734,734	5,678,606	12,640,418	16,180,439
Share price (\$)	0.24	0.20	0.34	0.25
Dividends paid	Nil	Nil	Nil	Nil

Subsequent Events

(a) Shareholder matters

On 9 July 2008 6,506,121 shares were issued under the Share Participation Plan at 23.5 cents each which raised \$1,528,938.

On 11 August 2008 shareholders ratified the issue of 9,070,000 shares issued in December 2007 at 37 cents and 8,457,000 shares issued in January 2008 at 37 cents each.

On 21 August 2008 18,000,000 shares were issued at 20 cents each for cash raising \$3,600,000.

(b) Lerala Mine development

Since the end of the financial year the commissioning program continued. At 22 August, the Plant was operating at approximately 100 tonnes per hour, with a programme to get to the full production target of 200 tonnes per hour over the coming months.

On 9 July 2008 the group made the final drawdown on the EIB facility amounting to \$1,353,000.

Environmental Regulations

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

Under the terms of the mining licence granted by the Botswana Government in relation to the proposed Lerala Mine, the economic entity will be required to operate in accordance with the Government approved Environmental Management Program.

The Directors monitor the economic entity's compliance with environmental regulation under the law of Botswana, in relation to its exploration activities. The Directors are not aware of any compliance breach arising during the year.

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Options

At the date of this report, there are unissued ordinary shares of the company under option as follows.

2,000,000 granted to Directors, these options have a grant date of 30 November 2006, expiry date of 30 November 2011 and an exercise price of \$0.35.

1,000,433 granted to Fox-Davies Capital Limited, these options have a grant date of 23 October 2007, expiry date of 22 October 2010 and an exercise price of \$0.31.

1,000,000 granted to RFC Corporate Finance Ltd, these options have a grant date of 1 November 2007, expiry date of 1 November 2010 and an exercise price of \$0.30.

422,850 granted to Fox-Davies Capital Limited, these options have a grant date of 17 January 2008, expiry date of 16 January 2011 and an exercise price of \$0.37.

1,550,000 to executive management and staff, these options have a grant date of 18 April 2008, expiry date of 17 April 2013 and an exercise price of \$0.37

No person entitled to exercise these options had or has any right by virtue of the option to participate in any share issue of any other body corporate. No options were exercised during the year, or to the date of this report.

Indemnifying Directors' and Auditors'

The economic entity has paid premiums to insure each of the directors of the company against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium was \$11,500.

The Company has not given an indemnity or entered into an 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.

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Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Non-audit services consist of fees paid to the company's auditor, for assurance services relating to the borrowing facilities and listings overseas. Non-audit services also consist of fees paid to the auditor of Diamonex (Botswana) Limited, a controlled entity, and relate to the provision of share registry services to the parent entity in relation to the trading of its shares on the Botswana Stock Exchange and services in relation to Botswana income taxation.

The directors are satisfied that the services disclosed below did not compromise the external auditors' independence for the following reasons:

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

The following fees were paid for non-audit services during the year ended 30 June 2008:

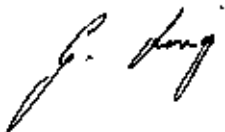
Share Registry and Taxation Services in Botswana \$25,497 paid to PriceWaterhouse Coopers Botswana

Compliance assurance services in Australia \$8,000 paid to Hayes Knight Audit (Qld) Pty Ltd.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2008 has been received and is attached to the directors' report.

Signed in accordance with a resolution of the Board of Directors.



G M King
Chairman



D C O'Neill
Managing Director

Signed: 29 September 2008
Brisbane, Queensland