

**DIAMONEX LIMITED  
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**Notes to the Financial Statements  
for the financial year ended 30 June 2008**

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**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, and DiamonEx Limited as an individual parent entity. 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.

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.

**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.

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

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

**Income Tax**

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

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

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

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

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

**Inventories**

Inventories are measured at the lower of cost and net realisable value.

The cost of mining stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

**Leases**

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

**Property, Plant and Equipment**

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

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

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

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

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

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

**Exploration and Evaluation Assets**

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

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

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

**Mine Development Asset**

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

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

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Restoration Costs**

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

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

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

**Impairment of Assets**

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

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.

*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.

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Classification and Subsequent Measurement*

*i. Loans and receivables*

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

*ii. Available-for-sale financial assets*

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

*iii. Financial Liabilities*

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

*Fair value*

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

*Impairment*

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

*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

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

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 income statement 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 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.

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 balance sheet.

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

**Revenue**

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

**Borrowing Costs**

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

**Goods and Services Tax (GST)**

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

Cash flows are presented in the cash flow statement 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.

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**Notes to the Financial Statements  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 – Impairment

The economic entity assess impairment at each reporting date by evaluating conditions specific to the economic entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment of assets has been identified for the year ended 30 June 2008.

Key Judgements – Carry-forward of Exploration and Evaluation Expenditure, and Mine Development Asset

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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**Notes to the Financial Statements  
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 2: REVENUE AND OTHER INCOME</b>				
<b>Other income:</b>				
Interest received from other persons	312,901	123,170	238,938	71,266
Interest received from wholly owned controlled entity	-	-	1,655,219	363,691
Profit on disposal of property, plant & equipment (a)	2,408	-	2,408	-
	<u>315,309</u>	<u>123,170</u>	<u>1,896,565</u>	<u>434,957</u>
(a) Proceeds on disposal	<u>2,408</u>	<u>-</u>	<u>2,408</u>	<u>-</u>

**NOTE 3: PROFIT/(LOSS) FOR THE YEAR**

Included in expenses are the following items:

Depreciation	193,636	101,841	51,572	57,042
Amortisation	65,471	9,223	-	-
Foreign currency translation losses/(gains)	(1,226,259)	10,969	85,411	10,580
Rental expense on operating leases				
- minimum lease payments	109,556	105,165	90,656	88,490
Finance costs:				
- external parties	1,076,216	7	924,519	7
- wholly owned entities	-	-	-	-
	<u>1,076,216</u>	<u>7</u>	<u>924,519</u>	<u>7</u>

**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% (2007: 30%).	(1,277,966)	(622,598)	(604,805)	(475,044)
<b>Adjust for tax effect of:</b>				
Tax losses and temporary differences not brought to account	1,076,091	597,712	598,646	470,531
Non-allowable items	208,465	60,482	124,943	59,067
Effects of different tax rates on foreign tax losses	112,194	18,958	-	-
Income tax expense/(benefit) attributable to entity	<u>118,784</u>	<u>54,554</u>	<u>118,784</u>	<u>54,554</u>

The economic entity has unrecouped unconfirmed carry forward tax losses of approximately \$42,532,000 (2007: \$13,923,000) comprising unrecouped unconfirmed losses arising in Australia of \$7,167,000 (2007: \$7,595,000), in Botswana of \$34,337,000 (2007: \$6,328,000) and in USA \$1,028,000 (2007: Nil). The Botswana carry forward losses are quarantined under Australian tax legislation and are only available to be offset against future taxable income derived in Botswana; the USA carry forward losses are quarantined under Australian tax legislation and are only available to be offset against future taxable income derived in USA.

**Deferred Tax**

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

Temporary differences (comprising exploration expenditure, provisions and other items)	6,903,649	3,445,686	211,557	955,272
Tax losses	(12,759,862)	(4,176,939)	(2,150,389)	(2,278,471)
Net unbooked deferred tax asset	<u>(5,856,213)</u>	<u>(731,253)</u>	<u>(1,938,832)</u>	<u>(1,323,199)</u>

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**Notes to the Financial Statements  
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		Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$

**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION & EQUITY**

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

Key Management Person	Position
Gregory M. King	Chairman - Executive
Dennis C. O'Neill	Managing Director - Executive
Paul A. Crawford	Director - Non-Executive
David N. Magang	Director - Non-Executive
Donald J. Duncan	Director - Non-Executive
Michael Whillier	Group Financial Controller
Mike Seed	Group Exploration Manager (appointed January 2008)
Mark Gray	Business Development Manager (appointed November 2007)
Mark Coetzee	Project Manager - DiamonEx (Botswana) Limited

**(b) Key management personnel compensation**

Short-term employee benefits	1,062,399	659,873	1,062,399	659,873
Post-employment benefits	80,114	59,032	80,114	59,032
Other long-term benefits	-	-	-	-
Share-based payments	23,468	11,858	23,468	11,858
	1,165,981	730,763	1,165,981	730,763

Detailed disclosures on compensation for key management personnel are set out in the Remuneration Report included in the Directors' Report.

**(c) Number of shares held by Key Management Personnel**

Key Management Personnel (i)	Balance 1 July 2007	Remun- eration (ii)	Purchased/ (Sold)	Balance 30 June 2008
Gregory M King	10,620,000	-	-	10,620,000
Dennis C O'Neill	5,000,000	-	(100,000)	4,900,000
Paul A Crawford	4,054,300	-	26,500	4,080,800
David N Magang	516,100	-	-	516,100
Donald J. Duncan	500,000	-	-	500,000
Michael Whillier	16,000	-	59,000	75,000
Michael Seed	-	-	-	-
Mark Gray	-	-	-	-
Mark Coetzee	-	-	-	-
Total	20,706,400	-	(14,500)	20,691,900

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

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

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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

**NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION & EQUITY (continued)**

**(d) Number of options held by Key Management Personnel**

Key Management Personnel (i)	Balance 1 July 2007	Remun- eration	Purchased/ (Sold)	Balance 30 June 2008
Gregory M King	1,000,000	-	-	1,000,000
Dennis C O'Neill	1,000,000	-	-	1,000,000
Paul A Crawford	-	-	-	-
David N Magang	-	-	-	-
Donald J. Duncan	-	-	-	-
Michael Whillier	-	200,000	-	200,000
Michael Seed	-	200,000	-	200,000
Mark Gray	-	200,000	-	200,000
Mark Coetzee	-	200,000	-	200,000
<b>Total</b>	<b>2,000,000</b>	<b>800,000</b>	<b>-</b>	<b>2,800,000</b>

(i) Represents options held directly or indirectly.

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

**NOTE 6: AUDITORS' REMUNERATION**

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial report	44,000	17,150	44,000	17,150
- other assurance services	8,000	-	8,000	-

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

- auditing or reviewing the financial report	16,435	7,960	-	-
- other compliance services	25,497	3,463	-	-

**NOTE 7: EARNINGS PER SHARE**

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

	No.	No.
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	137,707,533	88,506,439
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	<u>137,707,533</u>	<u>88,506,439</u>

Options (totalling 5,973,283 (2007: 2,000,000)) and convertible notes (totalling 50,000 (2007: Nil)) in the parent entity are the only securities considered as potential ordinary shares in determination of diluted EPS. These options and notes, are not presently dilutive and have been excluded from the calculation of diluted EPS.

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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<hr/>				
<b>NOTE 8: CASH AND CASH EQUIVALENTS</b>				
Cash at bank and on hand	1,603,507	305,016	236,594	118,203
Short-term bank deposits	70,189	575,874	70,189	571,164
Total cash	<u>1,673,696</u>	<u>880,890</u>	<u>306,783</u>	<u>689,367</u>

The effective interest rate on short-term bank deposits was 5.85% (2007: 6.2%). These deposits have an average maturity of 30 days.

**NOTE 9: TRADE AND OTHER RECEIVABLES**

**Current:**

Other Debtors	998,786	355,026	-	45,053
Total Current	<u>998,786</u>	<u>355,026</u>	<u>-</u>	<u>45,053</u>

**Non-Current:**

Amount receivable from wholly owned controlled entities	-	-	23,110,769	8,464,735
Total Non- Current	<u>-</u>	<u>-</u>	<u>23,110,769</u>	<u>8,464,735</u>
Total trade and other receivables	<u>998,786</u>	<u>355,026</u>	<u>23,110,769</u>	<u>8,509,788</u>

Advances to controlled entities are unsecured, interest bearing at differing rates, and repayable on demand. The receivable is classified as non-current as the parent entity is unlikely to demand repayment in the next 12 months.

There are no balances within other receivables that are impaired and past due. It is expected that these balances will be received when due. Impaired assets are provided for in full.

**NOTE 10: WORK IN PROGRESS**

**Current:**

Mining costs in advance (at cost)	593,312	-	-	-
	<u>593,312</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTE 11: OTHER ASSETS**

**Current:**

Prepayments	27,279	34,637	12,807	10,651
	<u>27,279</u>	<u>34,637</u>	<u>12,807</u>	<u>10,651</u>

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ABN 26 091 951 978

**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 12: PROPERTY, PLANT AND EQUIPMENT</b>				
<b>Plant and equipment</b>				
At cost	822,666	753,324	377,827	380,926
Accumulated depreciation	(464,308)	(327,220)	(282,340)	(262,779)
<b>Total Plant and equipment</b>	<b>358,358</b>	<b>426,104</b>	<b>95,487</b>	<b>118,147</b>
<b>Leasehold Improvements</b>				
At cost	561,948	549,801	-	-
Accumulated amortisation	(71,654)	(13,825)	-	-
<b>Total Leasehold Improvements</b>	<b>490,294</b>	<b>535,976</b>	<b>-</b>	<b>-</b>
<b>Total Property, Plant and Equipment</b>	<b>848,652</b>	<b>962,080</b>	<b>95,487</b>	<b>118,147</b>
<b>Reconciliation</b>				
Reconciliation of the carrying amounts for property, plant and equipment is set out below:				
	Economic Entity		Parent Entity	
	Plant and Equipment	Leasehold Improve.	Plant and Equipment	Leasehold Improve.
Balance at 1 July 2006	162,453	5,031	138,799	-
Additions	435,281	562,570	36,390	-
Disposals	-	-	-	-
Foreign currency translation movement	(69,789)	(22,402)	-	-
Depreciation and amortisation expense	(101,841)	(9,223)	(57,042)	-
<b>Carrying amount at 30 June 2007</b>	<b>426,104</b>	<b>535,976</b>	<b>118,147</b>	<b>-</b>
Balance at 1 July 2007	426,104	535,976	118,147	-
Additions	196,383	139,573	28,912	-
Disposals	-	-	-	-
Foreign currency translation movement	(70,493)	(119,784)	-	-
Depreciation and amortisation expense	(193,636)	(65,471)	(51,572)	-
<b>Carrying amount at 30 June 2008</b>	<b>358,358</b>	<b>490,294</b>	<b>95,487</b>	<b>-</b>

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**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<hr/>				
<b>NOTE 13: FINANCIAL ASSETS</b>				
<b>Non-current</b>				
<b>Available for sale investments</b>				
Shares in Unlisted Controlled Entities:				
Lake Exploration Pty Ltd, incorporated in Australia. The parent entity holds 100% (2007: 100%) of the ordinary shares of the entity, carried at recoverable amount	-	-	3	3
Diamonex (USA) Limited, incorporated in Wyoming, USA. The parent entity holds 100% (2007: 0%) of the ordinary shares of the entity, carried at cost	-	-	560	-
Diamonex (Botswana) Ltd, incorporated in Botswana. The parent entity holds 100% (2007: 100%) of the ordinary shares of the entity, carried at cost.	-	-	10,824,775	3,277,475
Total available for sale investments	-	-	10,825,338	3,277,478

Diamonex (USA) Limited was incorporated on 16 July 2007.

**NOTE 14: EXPLORATION AND EVALUATION ASSET**

Exploration and evaluation expenditure carried forward in respect of areas of interest are:

Exploration and evaluation phase - at cost	1,538,135	608,494	569,371	337,211
<hr/>				
<b>Movement in exploration and evaluation asset:</b>				
Opening balance - at cost	608,494	4,836,765	337,211	2,239,924
Capitalised exploration expenditure	1,439,012	546,076	491,736	274,793
Transferred to subsidiary companies	-	-	(259,576)	
Transferred to development asset	(272,183)	(4,774,347)	-	(2,177,506)
Foreign currency translation movement	(237,188)	-	-	-
Carrying amount at the end of year	1,538,135	608,494	569,371	337,211

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

**DIAMONEX LIMITED  
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for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 15: MINE DEVELOPMENT ASSET</b>				
Development expenditure carried forward in respect of areas of interest are:				
Mine development phase - at cost	29,307,101	10,748,145	-	2,790,414
<b>Movement in mine development asset:</b>				
Opening balance - at cost	10,748,145	-	2,790,414	-
Capitalised development expenditure	22,533,235	6,390,017	-	612,908
Transferred from exploration and evaluation asset	272,183	4,774,347	-	2,177,506
Transferred to Diamonex (Botswana) Limited	-	-	(2,790,414)	-
Foreign currency translation movement	(4,246,462)	(416,219)	-	-
Carrying amount at the end of year	29,307,101	10,748,145	-	2,790,414

During the financial year the Group continued with the development of the mine and transferred any appropriate costs from the Parent entity to Diamonex (Botswana) Limited.

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

**NOTE 16: TRADE AND OTHER PAYABLES**

**Current:**

Trade creditors	1,521,503	436,856	225,376	-
Sundry creditors and accrued expenses	256,993	358,523	94,735	340,209
Accrued employee benefits	220,153	153,475	220,153	153,475
Share application monies received (i)	328,234	-	328,234	-
Total trade & other payables (unsecured)	2,326,883	948,854	868,498	493,684

- (i) This comprises monies received in respect of the parent entity's Share Placement Plan.  
Shares were issued on 9 July 2008 - see note 28.

**NOTE 17: INTEREST BEARING LIABILITIES**

**Current:**

Secured loan European Investment Bank	41,052	-	-	-
Secured loan Stanbic Bank Limited - Botswana	475,461	-	-	-
	516,513	-	-	-
Convertible capital notes interest payable (unsecured)	334,387	-	334,387	-
	850,900	-	334,387	-

**DIAMONEX LIMITED  
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**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<hr/>				
<b>NOTE 17: INTEREST BEARING LIABILITIES (continued)</b>				
<b>Non Current:</b>				
Secured loan European Investment Bank	6,782,436	-	-	-
Secured loan Stanbic Bank Limited - Botswana	1,169,365	-	-	-
	7,951,801	-	-	-
Convertible capital notes (unsecured)	7,676,938	-	7,676,938	-
	15,628,739	-	7,676,938	-

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

**Secured loan European Investment Bank**

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

Covenants with EIB by Diamonex (Botswana) Limited are not to create any encumbrances to secure indebtedness ranking pari passu with or before the EIB security. Diamonex (Botswana) Limited is required to meet certain financial ratios for each financial year that the loan facility is utilised.

**DIAMONEX LIMITED  
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**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

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**NOTE 17: INTEREST BEARING LIABILITIES (continued)**

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

(i) not to allow indebtedness to exceed 55% of its equity; or

(ii) not to create any encumbrances to secure indebtedness unless such additional debt is subordinated to the notes and the EIB loan facility (see below); or

(iii) not to cause acts which would render Diamonex (Botswana) Limited in breach of the future EIB loan drawdown or to require DiamonEx Limited to fulfil its guarantee to EIB.

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

If the notes are redeemed on 20 August 2011, noteholders may convert up to 10% of the face value to shares at a price of Botswana Pula 1.83.

**Convertible capital notes**

	\$	\$	\$	\$
Balance at beginning	-	-	-	-
Issued during the year for cash	9,269,215	-	9,269,215	-
Allocated to equity	(93,062)	-	(93,062)	-
Foreign currency translation movement	(1,499,215)	-	(1,499,215)	-
Balance at reporting date	<u>7,676,938</u>	<u>-</u>	<u>7,676,938</u>	<u>-</u>
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Balance at beginning	-	-	-	-
Issued during the year for cash	50,000	-	50,000	-
Allocated to equity	(5,000)	-	(5,000)	-
Balance at reporting date	<u>45,000</u>	<u>-</u>	<u>45,000</u>	<u>-</u>

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**Notes to the Financial Statements  
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

**NOTE 17: INTEREST BEARING LIABILITIES (continued)**

The proceeds from the issue of the notes has been allocated to a liability element and a capital component in accordance with the substance of the contractual arrangement.

The interest charge brought to account is calculated on the combined liability and equity amounts of the notes.

Secured liabilities (comprising the EIB and Stanbic loan facilities) at reporting date total \$8,468,314 (2007: Nil) for the economic entity (parent entity nil). The carrying amounts of non-current assets pledged as security total \$29,307,101.

At balance date available borrowing facilities were approximately \$1.3 million.

**NOTE 18: ISSUED CAPITAL**

	\$	\$	\$	\$
148,648,075 (2007: 108,112,863) fully paid ordinary shares	32,080,041	19,411,030	32,080,041	19,411,030
5,000 (2007: Nil) convertible capital notes	93,062	-	93,062	-
	32,173,103	19,411,030	32,173,103	19,411,030

**Ordinary shares**

Balance at the beginning of the reporting period	19,411,030	9,340,389	19,411,030	9,340,389
Shares issued during the year for cash:				
Prior year issues	-	10,070,641	-	10,070,641
9,758,212 on 23 July 2007 at 31 cents each	3,025,046	-	3,025,046	-
13,250,000 on 20 August 2007 at 31 cents each	4,107,500	-	4,107,500	-
9,070,000 on 17 December 2007 at 37 cents each	3,355,900	-	3,355,900	-
8,457,000 on 17 January 2008 at 37 cents each	3,129,090	-	3,129,090	-
Transaction costs relating to share issues	(948,525)	-	(948,525)	-
Balance at reporting date	32,080,041	19,411,030	32,080,041	19,411,030
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Balance at the beginning of the reporting period	108,112,863	68,769,014	108,112,863	68,769,014
Shares issued during the year:				
Prior year issues	-	39,343,849	-	39,343,849
23 July 2007	9,758,212	-	9,758,212	-
20 August 2007	13,250,000	-	13,250,000	-
17 December 2007	9,070,000	-	9,070,000	-
17 January 2008	8,457,000	-	8,457,000	-
Balance at reporting date	148,648,075	108,112,863	148,648,075	108,112,863

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.

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**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

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**NOTE 18: ISSUED CAPITAL (continued)**

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

**Convertible capital notes**

Balance at the beginning of the reporting period	-	-	-	-
Issued during the year for cash	93,062	-	93,062	-
Balance at reporting date	93,062	-	93,062	-
	<b>No.</b>	<b>No.</b>	<b>No.</b>	<b>No.</b>
Balance at beginning	-	-	-	-
Issued during the year for cash	5,000	-	5,000	-
Balance at reporting date	5,000	-	5,000	-

The convertible capital notes contain a liability element and an equity element - see note 17 for details.

**Capital management policy**

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

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements other than borrowing covenants on the convertible notes.

No dividend will be paid at this stage.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

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**Notes to the Financial Statements  
for the year ended 30 June 2008**

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

**NOTE 18: ISSUED CAPITAL (continued)**

**Capital management policy (continued)**

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. The gearing ratio's for the year ended 30 June 2008 and 30 June 2007 are as follows:

	Note				
Total borrowings	17	16,479,639	-	8,011,325	-
Less cash and equivalents	8	1,673,696	880,890	306,783	689,367
Net debt		14,805,943	(880,890)	7,704,542	(689,367)
Total equity		16,180,439	12,640,418	26,040,732	15,239,372
Total capital		30,986,382	11,759,528	33,745,274	14,550,005
Gearing ratio		0.48	N/a	0.23	N/a

**NOTE 19: SHARE OPTIONS**

Options outstanding at reporting date	No.	No.	No.	No.
Balance at the beginning of the reporting period				
Exercisable at 35 cents on or before 31 December 2011	2,000,000	-	2,000,000	-
Issued during year				
Options issued during the prior reporting period	-	2,000,000	-	2,000,000
Exercisable at 31 cents on or before 22 October 2010	1,000,433	-	1,000,433	-
Exercisable at 30 cents on or before 1 November 2010	1,000,000	-	1,000,000	-
Exercisable at 37 cents on or before 16 January 2011	422,850	-	422,850	-
Exercisable at 37 cents on or before 17 April 2013	1,550,000	-	1,550,000	-
Total issued during the year	3,973,283	2,000,000	3,973,283	2,000,000
Balance at reporting date	5,973,283	2,000,000	5,973,283	2,000,000

During the year, the parent entity granted options as follows:

**Grant Date & Vesting**

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

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

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

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**Notes to the Financial Statements  
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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

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**NOTE 19: SHARE OPTIONS (continued)**

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

Number of options	1,000,000
Date of grant and vesting of options	1 November 2007
Fair value at grant date	\$ 50,000

The value of these options reflects the value of services performed.

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

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

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

To Management and Staff (excluding directors) for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting. The terms of the grant are as follows:

Number of options	1,550,000
Date of grant and vesting of options	18 April 2008
Fair value at grant date	9.71 cents
Share price	28.5 cents
Exercise price	37 cents
Expected volatility	35.00%
Option life	5 years
Expected dividends	nil
Risk-free interest rate	7.25%

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 26.

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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<hr/>				
<b>NOTE 20: RESERVES</b>				
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.				
<b>NOTE 21: CASH FLOW INFORMATION</b>				
<b>Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax:</b>				
Loss from ordinary activities after income tax	(4,378,669)	(2,129,881)	(2,134,799)	(1,638,034)
Non-cash flows in profit from ordinary activities:				
Depreciation/ Amortisation	259,107	111,064	51,572	57,042
Movement in employee benefits	66,678	56,275	66,678	56,275
Employee options expense	26,253	11,858	26,253	11,858
Gain on sale of fixed asset	(2,408)	-	(2,408)	-
Changes in operating assets and liabilities:				
(Increase)/Decrease in receivables	(763,954)	(553,193)	45,053	23,431
(Increase)/Decrease in prepayments	(587,535)	(49,901)	(2,156)	3,143
(Decrease)/Increase in creditors and accruals	1,011,694	368,209	314,287	117,180
Cash flows from operations	<u>(4,368,834)</u>	<u>(2,185,569)</u>	<u>(1,635,520)</u>	<u>(1,369,105)</u>

**Non-cash Financing and Investing Activities**

Included in transaction costs for shares issued in the year is \$147,833 (2007: Nil) relating to options issued in respect of broker services rendered.

During the previous financial year, 500,000 ordinary shares were issued to Mr D Magang, non-executive director, at a value of \$0.32 per share, being market price at the close of trading on the day of the AGM, in accordance with a shareholder resolution at the parent entity's Annual General Meeting, for professional services rendered.

These amounts have been excluded from cash flows from financing activities.

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Economic Entity		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

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**NOTE 22: 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 13.

Finance provided to the controlled entities is detailed in note 9, and interest income in note 2.

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

**Key management personnel transactions with the economic entity**

Key management personnel compensation and equity interests are detailed in Note 5.

During the year, the parent entity paid Cambridge Business & Corporate Services, an entity controlled by Mr Paul Crawford, a director of the company, professional fees of \$84,339 (2007: \$160,766) for accounting, company secretarial, financial management and other services provided to the entity. The amount owing by the company at 30 June is \$Nil (2007: \$44,400).

During the year Mr Crawford loaned to the company on an interest free, unsecured, short term basis \$149,000 (2007: \$Nil). No amount is owed by the company at 30 June 2008.

During the year, the parent entity paid Duncan Geological Services, an entity controlled by Mr Don Duncan, a director of the company, professional fees and expenses of \$31,349 (2007: \$15,961) for consulting geological and field services provided to the entity. No amount was owed by the company at 30 June (2007: nil).

The company was party to a tenancy agreement with Orocobre Limited, a company of which Dan O'Neill and Paul Crawford, director of the company, are also directors. The amount owing by Orocobre Limited at 30 June is \$15,000 (2007: nil). No amounts were paid during the year (2007: nil).

During the prior year, the parent entity paid Mr David Magang for professional services rendered to the entity, by the issue of 500,000 fully paid ordinary shares with a value of \$160,000.

**NOTE 23: COMMITMENTS**

**(a) Operating Lease Commitments**

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

Not later than 1 year	165,043	86,339	90,224	86,339
Later than 1 year but not later than 5 years	640,276	320,585	230,361	320,585
Greater than 5 years	10,585	-	-	-
<b>Total commitment</b>	<b>815,904</b>	<b>406,924</b>	<b>320,585</b>	<b>406,924</b>

Operating lease commitments relate to various premises of the economic entity of up to five year terms. Contingent rental provisions within the lease agreements require the minimum lease payments to be increased by the greater of CPI or 4.5% per annum.

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	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 23: COMMITMENTS (continued)</b>				
<b>(b) Exploration Commitments</b>				
The economic entity must meet minimum expenditure commitments in relation to granted exploration tenements to maintain those tenements in good standing.				
The following commitments exist at balance date but have not been brought to account. If the relevant mineral tenement is relinquished the expenditure commitment also ceases.				
Not later than 1 year	729,927	698,113	496,720	568,240
Later than 1 year but not later than 5 years	-	1,525,420	-	1,525,420
Total commitment	729,927	2,223,533	496,720	2,093,660
<b>(c) Capital Expenditure Commitments</b>				
The economic entity has placed purchase orders on suppliers for the supply of equipment and services for the construction of the mine at Lerala, Botswana. All of these amounts will be payable not later than 1 year. Outstanding purchase orders at reporting date amount to				
	661,435	12,600,000	-	-
<b>(d) Provision of supplies and services</b>				
The economic entity has commitments for the supply of services for the operation of the mine at Lerala, Botswana.				
Not later than 1 year	1,799,106	-	-	-
Later than 1 year but not later than 5 years	9,049,464	-	-	-
Greater than 5 years	1,019,114	-	-	-
Total commitment	11,867,684	-	-	-

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**Notes to the Financial Statements  
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**NOTE 24: SEGMENT REPORTING**

The economic entity operates both domestically and internationally, in the mineral exploration industry. The exploration focus is exclusively on diamonds. At balance date the economic entity undertakes exploration activity in Australia and Botswana through the parent entity, and mine development and exploration in Botswana, through the controlled entity.

**Primary Reporting: Geographical Segments**

	Australia		Botswana		USA		Economic Entity	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$			\$	\$
<b>REVENUE</b>								
Revenue	238,938	71,266	73,862	51,904	101	-	312,901	123,170
Total revenue from ordinary	<u>238,938</u>	<u>71,266</u>	<u>73,862</u>	<u>51,904</u>	<u>101</u>	<u>-</u>	<u>312,901</u>	<u>123,170</u>
<b>RESULT</b>								
Loss from ordinary activities before income tax expense	(2,746,716)	(2,059,827)	(1,369,681)	(15,500)	(143,488)	-	(4,259,885)	(2,075,327)
Income tax expense	(118,784)	(54,554)	-	-	-	-	(118,784)	(54,554)
Loss from ordinary activities after income tax expense	<u>(2,865,500)</u>	<u>(2,114,381)</u>	<u>(1,369,681)</u>	<u>(15,500)</u>	<u>(143,488)</u>	<u>-</u>	<u>(4,378,669)</u>	<u>(2,129,881)</u>
<b>ASSETS</b>								
Segment assets	<u>434,342</u>	<u>882,483</u>	<u>33,504,616</u>	<u>12,706,789</u>	<u>1,048,003</u>	<u>-</u>	<u>34,986,961</u>	<u>13,589,272</u>
<b>LIABILITIES</b>								
Segment liabilities	<u>868,498</u>	<u>493,684</u>	<u>17,878,127</u>	<u>455,170</u>	<u>59,897</u>	<u>-</u>	<u>18,806,522</u>	<u>948,854</u>
<b>OTHER</b>								
Acquisitions of non-current Segment assets	28,912	45,885	23,390,854	7,728,059	888,437	-	24,308,203	7,773,944
Depreciation & amortisation of Segment assets	51,572	57,042	206,917	54,022	618	-	259,107	111,064
Other non-cash Segment expenses	92,931	68,133	-	-	-	-	92,931	68,133

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.

**Secondary Reporting: Business Segments**

Business Segments	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisition of Non-Current Segment Assets	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Mineral Exploration	<u>312,901</u>	<u>123,170</u>	<u>34,986,961</u>	<u>13,589,272</u>	<u>24,308,203</u>	<u>7,773,944</u>

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**Notes to the Financial Statements  
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**NOTE 25: FINANCIAL INSTRUMENTS**

**Financial Risk Management**

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

The overall risk strategy seeks to assist the economic entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

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.

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 are managed through monitoring of forecast cashflows, interest rates, economic conditions and ensuring adequate funds are available.

At this point in the Group's activities, commodity price risk is not as issue as the Group is not yet in production; however, it will be a consideration for future years.

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.

The overall risk strategy seeks to assist the economic entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Financial instruments at carrying value are summarised as:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents	1,673,696	880,890	306,783	689,367
Trade and other receivables	998,786	355,026	23,110,769	8,509,788
Available for sale financial assets	-	-	10,825,338	3,277,478
	2,672,482	1,235,916	34,242,890	12,476,633
Financial liabilities				
Trade and other payables	2,326,883	948,854	868,498	493,684
Borrowings	16,479,639	-	8,011,325	-
	18,806,522	948,854	8,879,823	493,684

**(a) Market risk**

**(i) Foreign exchange risk**

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

These foreign exchange risks arise from

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

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**Notes to the Financial Statements  
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**NOTE 25: FINANCIAL INSTRUMENTS (continued)**

**(a) Market risk (continued)**

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

	US\$		BWP	
	2008	2007	2008	2007
Cash and cash equivalents	58,958	-	8,973,131	993,366
Receivables	8,100	-	6,372,922	1,607,742
Payables	(57,533)	-	(8,999,266)	(4,247,214)
Borrowings	(6,554,114)	-	(57,736,231)	-
Net	(6,544,589)	-	(51,389,444)	(1,646,106)

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 \$340,679 higher / lower (2007 nil).

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 \$399,296 higher / lower (2007 \$2,206).

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

	US\$		BWP	
	2008	2007	2008	2007
Cash and cash equivalents	-	-	572,083	-
Receivables	-	-	50,000,000	-
Payables	-	-	-	-
Borrowings	-	-	(57,736,231)	-
Net	-	-	(7,164,148)	-

Parent entity sensitivity

If the spot Australian Dollar rate weakened / strengthened by 5 percent against the Botswana Pula, with all other variables held constant, the Group's pre-tax loss for the year would have been \$55,665 higher / lower (2007 \$14,761).

(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 market conditions. Deposits are generally made to receive floating market rates at the time of the deposit.

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	Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial Assets:</b>								
Cash & cash equivalents	1,665,291	725,820	-	-	8,405	155,070	1,673,696	880,890
Receivables	-	-	-	-	998,786	355,026	998,786	355,026
Total Financial Assets	1,665,291	725,820	-	-	1,007,191	510,096	2,672,482	1,235,916
<b>Financial Liabilities:</b>								
Trade & other payables	-	-	-	-	2,326,883	948,854	2,326,883	948,854
Borrowings	6,823,488	-	9,656,151	-	-	-	16,479,639	-
Total Financial Liabilities	6,823,488	-	9,656,151	-	2,326,883	948,854	18,806,522	948,854

Cash and cash equivalents received interest at a weighted average rate of 5.85% (2007: 6.2%)

Interest on borrowings carried a weighted average interest rate of 10.2% (2007: Nil)

All other receivables and payables were non-interest bearing

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**Notes to the Financial Statements  
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**NOTE 25: FINANCIAL INSTRUMENTS (continued)**

**(a) Market risk (continued)**

Group sensitivity

As at 30 June 2008 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 \$2,601 higher / lower (2007: \$476).

Parent entity	Floating Interest Rate		Fixed Interest Rate		Non-Interest Bearing		Total	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
<b>Financial Assets:</b>								
Cash & cash equivalents	303,043	575,874	-	-	3,740	113,493	306,783	689,367
Receivables	-	-	22,086,958	8,464,735	1,023,811	45,053	23,110,769	8,509,788
Total Financial Assets	303,043	575,874	22,086,958	8,464,735	1,027,551	158,546	23,417,552	9,199,155
<b>Financial Liabilities:</b>								
Trade & other payables	-	-	-	-	868,498	493,684	868,498	493,684
Borrowings	-	-	8,011,325	-	-	-	8,011,325	-
Total Financial Liabilities	-	-	8,011,325	-	868,498	493,684	8,879,823	493,684

Cash and cash equivalents received interest at a weighted average rate of 5.85% (2007: 6.2%)

Interest bearing receivables carry interest at a weighted average rate of 10.6% (2007: 7%)

Interest on borrowings carried a weighted average interest rate of 13.2% (2007: Nil)

All other receivables and payables were non-interest bearing

Parent entity sensitivity

As at 30 June 2008 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 \$230 lower / higher (2007: \$435).

**(b) Credit risk**

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

The Group has no significant concentrations of credit risk. In respect of the parent entity, credit risk also incorporates exposure to amounts receivable from wholly owned entities.

**(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.

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 at the reporting date. The amounts disclosed are the contractual undiscounted cash flows.

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**Notes to the Financial Statements  
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**NOTE 25: FINANCIAL INSTRUMENTS (continued)**

**(c) Liquidity risk continued**

Group entity	1 year or less	1 to 2 years	More than 2 years	Total
	\$	\$	\$	\$
<b>2008</b>				
<b>Financial assets</b>				
Cash & cash equivalents	1,673,696	-	-	1,673,696
Receivables	998,786	-	-	998,786
	2,672,482	-	-	2,672,482
<b>Financial liabilities</b>				
Payables	2,326,883	-	-	2,326,883
Borrowings	1,942,556	4,713,352	15,790,238	22,446,146
	4,269,439	4,713,352	15,790,238	24,773,029
<b>2007</b>				
<b>Financial assets</b>				
Cash & cash equivalents	880,890	-	-	880,890
Receivables	355,026	-	-	355,026
	1,235,916	-	-	1,235,916
<b>Financial liabilities</b>				
Payables	948,854	-	-	948,854
Borrowings	-	-	-	-
	948,854	-	-	948,854
<b>Parent entity</b>				
	1 year or less	1 to 2 years	More than 2 years	Total
	\$	\$	\$	\$
<b>2008</b>				
<b>Financial assets</b>				
Cash & cash equivalents	306,783	-	-	306,783
Receivables	23,110,769	-	-	23,110,769
	23,417,552	-	-	23,417,552
<b>Financial liabilities</b>				
Payables	868,498	-	-	868,498
Borrowings	1,025,641	1,025,641	10,006,748	12,058,030
	1,894,139	1,025,641	10,006,748	12,926,528
<b>2007</b>				
<b>Financial assets</b>				
Cash & cash equivalents	689,367	-	-	689,367
Receivables	8,509,788	-	-	8,509,788
	9,199,155	-	-	9,199,155
<b>Financial liabilities</b>				
Payables	493,684	-	-	493,684
Borrowings	-	-	-	-
	493,684	-	-	493,684

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**Notes to the Financial Statements  
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**NOTE 25: FINANCIAL INSTRUMENTS (continued)**

**(d) Fair values**

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximate their carrying amounts, other than the convertible notes. Since listing the notes have not traded.

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 balance sheet and notes to 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, other than the convertible notes.

Financial assets where the carrying amount exceeds net fair values have not been written down, as the economic entity intends to hold these assets to maturity.

**NOTE 26: CONTINGENT LIABILITIES**

**Related party guarantees provided by the parent entity**

The parent entity has provided a guarantee to the European Investment Bank in relation to the performance and obligations of Diamonex (Botswana) Limited in respect of a finance facility. The guarantee is for the term of the facility. The period covered by the guarantee ranges up to eight years (Refer note 17).

**Indemnity to Trustee of Diamonex Note Trust**

Diamonex Limited has indemnified the Trustee for his acts as trustee provided the Trustee exercises due diligence and degree of care (Refer note 17).

**Guarantee to Botswana Government**

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

**NOTE 27: SHARE BASED PAYMENTS**

The following share based payments arrangements are in place at 30 June 2008:

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

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

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

On 18 April 2008, 422,850 share options were granted to Management and Staff (excluding directors) for services performed in respect of equity placements, pursuant to shareholder approval at the entity's Annual General Meeting to take up ordinary shares at an exercise price of \$0.37 each. The options are exercisable on or before 17 April 2013. The options hold no voting or dividend rights.

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

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

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**Notes to the Financial Statements  
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**NOTE 27: SHARE BASED PAYMENTS (continued)**

	Consolidated Group				Parent Entity			
	2008		2007		2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	2,000,000	\$ 0.35	-	-	2,000,000	\$ 0.35	-	-
Granted	3,973,283	\$ 0.34	2,000,000	\$ 0.35	3,973,283	\$ 0.34	2,000,000	\$ 0.35
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-end	<u>5,973,283</u>	<u>\$ 0.35</u>	<u>2,000,000</u>	<u>\$ 0.35</u>	<u>5,973,283</u>	<u>\$ 0.35</u>	<u>2,000,000</u>	<u>\$ 0.35</u>
Exerciseable at year-end	<u>5,973,283</u>	<u>\$ 0.35</u>	<u>2,000,000</u>	<u>\$ 0.35</u>	<u>5,973,283</u>	<u>\$ 0.35</u>	<u>2,000,000</u>	<u>\$ 0.35</u>

The options outstanding at 30 June 2008 had a weighted average exercise price of \$0.35 and a weighted average remaining contractual life of 3.38 years. Refer note 16 regarding assessment of fair value of options granted in the current year.

Included under employee benefits expense in the income statement is \$26,253 (2007: \$11,858), and relates, in full, to equity-settled share-based payment transactions relating to directors / employees. In respect of options issued for services rendered by other parties, an amount of \$147,833 (2007: Nil) has been charged to share broker commissions.

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Economic Entity		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

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**NOTE 28: EVENTS AFTER BALANCE SHEET DATE**

(a) Shareholder matters

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

On 11 August 2008 the 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 the Company raised \$3,600,000 through a placement of 18,000,000 shares.

(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 (refer note 17).

(c) Financial report

This financial report was authorised for issue on 29 September 2008 by the Board of Directors.

**NOTE 29: COMPANY DETAILS**

The registered office and principal place of business is:

Diamonex Limited  
Level 1  
349 Coronation Drive  
Milton Qld 4064

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**Notes to the Financial Statements  
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**Note 30: CHANGE IN ACCOUNTING POLICY**

The following Australian Accounting Standards have been issued or amended and are applicable to the company and the economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

<b>AASB</b>	<b>Affected standards</b>	<b>Outline of Amendment</b>	<b>Application</b>	<b>Application date</b>
AASB 2007-3 Amendments to Australian Accounting Standards	AASB 5 Non-current Assets Held for Sale and Discontinued Operations AASB 6 Exploration for and Evaluation of Mineral AASB 102 Inventories AASB 107 Cash Flow Statements AASB 119 Employee Benefits AASB 127 Consolidated and Separate Financial Statements AASB 134 Interim Financial Reporting AASB 136 Impairment of Assets AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report.	1 Jan 2007	1 July 2007
AASB 8 Operating Segments	AASB 114 Segment Reporting	As above	1 Jan 2007	1 July 2007
AASB 2007-6 Amendments to Australian Accounting Standards	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 107 Cash Flow Statements AASB 111 Construction Contracts AASB 116 Property, Plant and Equipment AASB 138 Intangible Assets	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will be a change for the group as presently all borrowing costs are expensed.	1 Jan 2007	1 July 2007
AASB 123 Borrowing Costs	AASB 123 Borrowing Costs	As above	1 Jan 2009	1 July 2009
AASB 2007-8 Amendments to Australian Accounting Standards	AASB 101 Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1 Jan 2007	1 July 2007
AASB 101	AASB 101 Presentation of Financial Statements	As above	1 Jan 2007	1 July 2007