BLINA DIAMONDS

2004 ANNUAL REPORT

BLINA DIAMONDS NL ABN 25 086 471 007

12 Walker Avenue West Perth 6005 Western Australia
T +61-8 9321 5887 F +61-8 9321 5884
E admin@blinadiamonds.com.au
www.blinadiamonds.com.au

DIRECTORS

Miles Kennedy – Non-executive Chairman
David Jones – Managing Director
Justin Clarke – Operations Director
Karl Simich – Non-Executive Director

SECRETARY

Jean Mathie

REGISTERED & PRINCIPAL OFFICE

12 Walker Avenue
West Perth 6005 Western Australia
Telephone: +61-8 9321 5887
Facsimile: +61-8 9321 5884
Email: admin@blinadiamonds.com.au
Website: www.blinadiamonds.com.au

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross 6153 Western Australia
Telephone: +61-8 9315 2333
Facsimile: +61-8 93155 2233

AUDITORS

KPMG
152-158 St Georges Terrace
Perth 6000 Western Australia

SOLICITORS

Smyth & Thomas
12 Walker Avenue
West Perth 6005 Western Australia

AUSTRALIAN STOCK EXCHANGE

2 The Esplanade
Perth 6000 Western Australia

ASX Code Ordinary Shares: BDI

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CHAIRMAN'S LETTER

Dear Investor

This is the first widely circulated annual report of Blina Diamonds NL (Blina) since its commenced trading on the Australian Stock Exchange (ASX) on 17 August 2004. The financial section of this report reflects the financial position of the Company prior to its raising $10.4 million via a prospectus, which was heavily oversubscribed.

In the time leading up to and since listing on ASX, Blina has:

- established a 25 person camp some 10 kilometres to the north of Kimberley Diamond Company's operations and infrastructure at Ellendale Pipe 9;
- refurbished and constructed a small Dense Media Separation (DMS) Diamond Recovery Plant which will be used to process and assess samples taken from many exploration targets;
- signed a contract to build a new 50 tonne per hour DMS plant with Mine Plant Constructions Pty Ltd, which will be used initially to bulk test and process some 40,000 tonnes of alluvial gravels mined from two locations in the Terrace 5 system;
- contracted with UTS Geophysical to fly in November 2004 a detailed aeromagnetic survey, which has the potential to identify previously unrecognised lamproite pipes over the south and western areas of the Blina tenements; and
- has completed a detailed Airborne Electromagnetic (AEM) survey covering $500km^2$ of the central portion of the Ellendale Field. Whilst final results of the AEM survey, conducted by Fugro Airborne Surveys, will not be available until the end of November 2004, preliminary data already supplied suggests a number of new discoveries will emerge from this technology.

So a great deal has already been achieved and the Company is confident that it will produce its first diamonds and announce its first new discoveries by year's end.

With over 50 pipes to explore, the Terrace 5 alluvials to mine and regional dominance covering some $1,800km^2$, I am sure we will see the emergence of a significant new diamond company in Australia.

Yours faithfully

MILES KENNEDY
CHAIRMAN

October 2004

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Blina Diamonds NL successfully listed on the Australian Stock Exchange on 17 August 2004, after raising A$10.4 million in a heavily oversubscribed Initial Public Offering (IPO). The funds raised will primarily be used to explore for diamonds within and around the highly prospective Ellendale Lamproite Field in Western Australia's Kimberley region.

Blina's tenements cover an area of about 1,800km^2 surrounding Kimberley Diamond Company's (**Kimberley**) Ellendale 9 mining operation (Figure 1). Kimberley has announced substantial lamproite-hosted diamond resources at the Ellendale 9, Ellendale 4 and Satellite Pipes and is mining at Ellendale 9 and undertaking a feasibility study on a proposed expansion of its operations that would include commencing mining at Ellendale 4.

Of particular significance to Blina, Kimberley has recently reported economic diamond grades in several smaller pipes (Kimberley 28 and Kimberley 33) in close proximity to the Ellendale 9 mining operation. Blina will be exploring for and evaluating both alluvial and lamproitic diamond deposits in tenements around these established diamondiferous resources.

In the areas held by Blina, previous exploration has identified approximately 50 lamproite pipes and a number of diamondiferous alluvial channels. A number of 'near mine' projects with excellent potential for development and early cash flow have already been identified, and it is anticipated that a re-evaluation of the entire Ellendale Field will generate many more targets.

To provide a base for exploration and support its long-term commitment to the Ellendale Field, Blina has constructed a 25-person camp on one of the recently granted Mining Leases in the Company's tenement area.

Blina's Prospectus outlined the Company's plan to carry out a number of regional geophysical surveys over the Ellendale area. The centrepiece of this regional program was a detailed Airborne Electromagnetic (AEM) survey covering 500km^2 of the central portion of the Ellendale Field (Central Reconnaissance Project - Figure 2).

This survey was flown by Fugro Airborne Surveys ("Fugro") in August 2004, and preliminary data has shown that a large number of geophysical targets, similar to known lamproite pipes, occur throughout the tenement area. Ground follow-up programs related to this survey will be undertaken after the final data is supplied by Fugro.

UTS Geophysics has been contracted to fly a detailed aeromagnetic survey over the southern section of the Blina tenement area during November 2004 (Southern Reconnaissance Project – Figure 2). An additional, highly detailed survey (based on 25m line spacing) will be flown over much of the western half of the Ellendale Lamproite Field. Kimberley has shown that the detailed information provided by this style of survey has the potential to identify many previously unrecognised lamproite pipes.

In addition to the regional surveys, Blina, in conjunction with Kimberley, has continued evaluation of the Terrace 5 alluvial project. Details of earlier work on this project were supplied in Blina's Prospectus.

Since the Prospectus was prepared, drilling and bulk sampling have extended the diamondiferous palaeo-gravels more than 2km to the east. Other highlights of this work included the recovery of gravels from Pit 81 that returned grades of 9.1 carats per hundred tonnes (cpht) and the recovery of an 8.44 carat diamond from Pit 82.

Blina will complete a major evaluation of the Terrace 5 gravels during 2005. To this end, Blina signed a contract in September 2004 to commence construction of a 50 tonne per hour (tph) Dense Media Separation (DMS) plant for this program, with delivery of the plant expected in April 2005.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

While the proposed program is essentially a large scale, bulk sampling exercise designed to provide enough carats for a "run-of-mine" valuation for the Terrace 5 diamonds, it is of a sufficiently large scale that regulating authorities have deemed it to be trial mining. As a consequence, a protracted environmental approval process has been required. Blina has contracted URS Australia Pty Ltd (**URS**) to handle the environmental aspects of the work. URS anticipates that all environmental approvals will be in place by March 2005.

Additional details of work undertaken by Blina since the Company listed are provided in subsequent sections of this report. A more complete and comprehensive review of the Company's projects is provided in the Prospectus.

Terrace 5 Project

The Terrace 5 Project encompasses a diamondiferous palaeo-channel identified by Kimberley in 1996. The palaeo-channel drains west from the Ellendale Lamproite Field and has been traced over a distance of more than 35km. Previous exploration has identified diamondiferous gravels throughout the palaeo-channel with grades of up to 9.8cpht recorded from small bulk samples. Diamonds from the Terrace 5 are characterised by their large average size (about 0.4 carats), a high gem content and predominantly white colour.

The Terrace 5 Project is the most advanced of Blina's alluvial programs, and is considered closest to becoming a commercial operation.

Initial work has also been completed to obtain an indicative valuation for diamonds in the Terrace 5 deposit. Small, non-representative parcels of diamonds from Terrace 5 have been tentatively valued at around US$150 a carat by Mr Nick Yiannopoulos of Independent Diamond Valuers.

Recent bulk sampling of extensions of the Terrace 5 gravels within the Ellendale Mining Lease[1] has shown that the diamond-rich gravels continue onto the Ellendale Mining Lease. Details of the recent sampling are presented in Table 1 with relative locations of the samples shown in Figure 3.

TABLE 1

RESULTS 2004 TERRACE 5 BULK SAMPLING PROGRAM

Sample	Gravel Processed	Size Distribution (mm)		Total Diamonds	Weight (ct)	Average Stone Size (ct)	Grade (cpht)	Largest Diamond (ct)
		+3.35	-3.35+1.2					
Pit 78	289*	3	5	8	3.30	0.41	4.00	1.03
Pit 79	60	-	-	-	-		-	-
Pit 80	167*	-	7	7	0.99	0.14	0.59	0.20
Pit 81	173	9	26	35	15.79	0.45	9.10	3.18
Pit 82b	230*#	4	3	7	10.62	1.52	4.62	8.44

Diamonds in the 1.2 to 14mm size range recovered
* Gravels include significant tonnages of overburden and bedrock
\# Approximate - estimated from amount trucked

Of particular interest is the high diamond grade recorded from Pit 81. The 9.1cpht grade is the second highest ever recorded from Terrace 5. The results confirm that high-grade diamondiferous gravels extend at least 2km eastwards from the Mining Lease boundary.

[1] Under the terms of Blina Joint Venture agreement, Blina has the right to explore for and mine alluvial diamonds within the Ellendale Mining Lease (M04/372) held by Kimberley. Kimberley retains all rights over lamproite-hosted diamonds in this tenement.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Blina is currently considering the possibility of using a wide diameter (Bauer) drilling rig – successfully employed at Kimberley's Ellendale Project – to test the Terrace 5 palaeo-channel within the Ellendale Mining Lease. If feasible, this program would be undertaken during 2005.

The 8.44 carat diamond recovered from Pit 82 was by far the largest diamond ever recovered from the Terrace 5 system[2]. This is one of the larger diamonds recorded in the Ellendale Field and augers well for the overall value of the diamonds in Terrace 5.

Blina will conduct large-scale bulk sampling of the Terrace 5 gravels during 2005 with plans in place to process nominal 20,000 tonne gravel samples from two locations. These samples will be excavated from across the entire palaeo-channel width at locations known as Pit 61 and Pit 66. To collect such large samples, Blina will excavate a trench 300m x 40m x 9m near Pit 66 and another 500m x 30m x 6m from near Pit 66 (Figure 3).

The main aim of the trenching will be to recover about 2,000 carats of diamonds for valuation purposes. The exposures provided by this trenching will also provide the Company's geologists with the first opportunity to examine the internal geological structure of what is believed to be a complex channel system, and determine how diamonds are distributed within the gravels.

Immediately after the wet season, Blina will establish a 50tph DMS plant adjacent to the Pit 61 sample site. The Company has reached an agreement with Mine Plant Constructions (MPC) for the supply and installation of this plant. MPC will refurbish the DMS module of the Bow River Pilot Plant including provision of an enlarged feed delivery, scrubbing and de-sliming circuit. Under the construction contract, this plant is scheduled to be handed over to Blina in the first half of April 2005.

Comprehensive environmental approvals will be required prior to the commencement of the bulk sampling program at Terrace 5. URS commenced the background work necessary for the environmental approvals immediately after Blina listed on ASX.

Kimberley 1 – Kimberley 2 Area

This project area is centred on a cluster of three small lamproite pipes (Kimberley 1 – K1, Kimberley 2 – K2, and Kimberley 15 – K15) located about 15 km to the south west of the Ellendale 9 mine (Figure 2). The lamproites are characterised by a high proportion of chromites with chemistry similar to chromites found as inclusions in diamonds.

While the three known pipes provide small but interesting targets in their own right, Blina believes that other lamproite pipes may be located in this area. The pipe cluster occurs in an area of strong laterite development where aeromagnetics is not an appropriate exploration tool. Blina has therefore initiated alternative exploration programs that are not affected by the laterite.

The AEM survey (described below) covers the project area and a number of distinct geophysical targets can be identified from the preliminary data. Follow-up of the AEM survey will be undertaken when the final dataset has been received and interpreted.

The Company has also commenced a regional termite-mound geochemical sampling program over the more magnetically noisy sections of the project area. Preliminary results have shown that the known lamproites can be readily identified from the geochemistry and the survey is now being extended to cover adjacent areas. The

[2] The previous largest stone was a 4.01 carat diamond recovered from Pit 66 (see Figure 3)

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

sampling program is currently underway and initial results are expected during the December 2004 Quarter.

Blina also plans to collect 200-300 tonne bulk samples from the Kimberley 1 and Kimberley 2 pipes. Truck access is currently being prepared and the bulk sampling should be completed during the December 2004 Quarter.

The Central Reconnaissance Project (CRP)

The CRP covers the central core of the Ellendale Lamproite Field and includes most of the known pipes and the headwaters of all known palaeo-channels. Late in August 2004, Fugro Airborne Services ("Fugro") flew a detailed Airborne Electromagnetic (AEM) survey over about 500km^2 of the CRP area. Preliminary gridded data from this survey has now been examined and all the larger known pipes in the field can be identified.

In addition, the data show that a large number of geophysical targets, similar to known lamproite pipes, occur throughout the tenement area. In addition to identifying pipes, the AEM data can be used to locate buried palaeo-channels and will be used to trace and define the Terrace 5 palaeo-gravels.

Fugro expect to have the final AEM data available in mid November. Blina will commence a concerted ground follow-up program to test these geophysical targets as soon as an interpretation of the final data is completed. The follow-up program will involve ground EM, drilling, sampling and bulk testing of any lamproites identified. It is anticipated that the EM follow-up will continue throughout 2005.

Blina has contracted UTS Geophysics to fly a detailed aeromagnetic survey over the central-western and central parts of the CRP. Weather permitting, this survey is due to be flown in mid November 2004 with a flight line spacing of 25m and a nominal ground clearance of 20m. It will incorporate areas previously flown with wider-spaced aeromagnetic programs.

Recent work by Kimberley has shown that the detailed information provided by this style of survey has the potential to locate many previously unrecognized lamproite pipes. The discovery of the high-grade Kimberley 28 and Kimberley 33 pipes was a direct result of using the highly detailed aeromagnetics.

Blina is planning to focus heavily on the CRP Project Area as recent experience suggests many lamproite pipes have yet to be detected.

Northern Reconnaissance Project (NRP)

The NRP comprises a 275km^2 rectangular area centred on the Fairfield Valley north of the Ellendale 9 mining operation (Figure 2). This area was targeted by Diamond Mines Australia Pty Ltd ("DMA") as the initial area in the Ellendale Field to trial the Falcon™ differential gravity system.

In July 2003, Blina signed an agreement with DMA to fly the Falcon™ technology over an area with the potential to host large undetected lamproites. This airborne programme was fully funded by DMA for a 50% participation interest in each new discovery on Blina-held tenements.

Thirty anomalies were recognised from the initial interpretation and nine of these were drill tested prior to Blina's listing on the ASX. From those targets tested, two lamproite pipes and a new palaeo-channel were identified.

Since listing, Blina has drilled an additional seven Falcon™ targets and, while no additional lamproites have been identified, the drilling has located several buried gravel

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

horizons. These gravels have been sampled for lamproitic indicator minerals and diamonds, with future work to be planned based on the results of this sampling.

The two lamproites identified from the 2003 drilling have very high micro-diamond counts (2 to 5 times higher than the average results from the Ellendale 9 mining area) and Blina is planning to bulk test these during the current field season. Preparatory work for the bulk sampling is well underway.

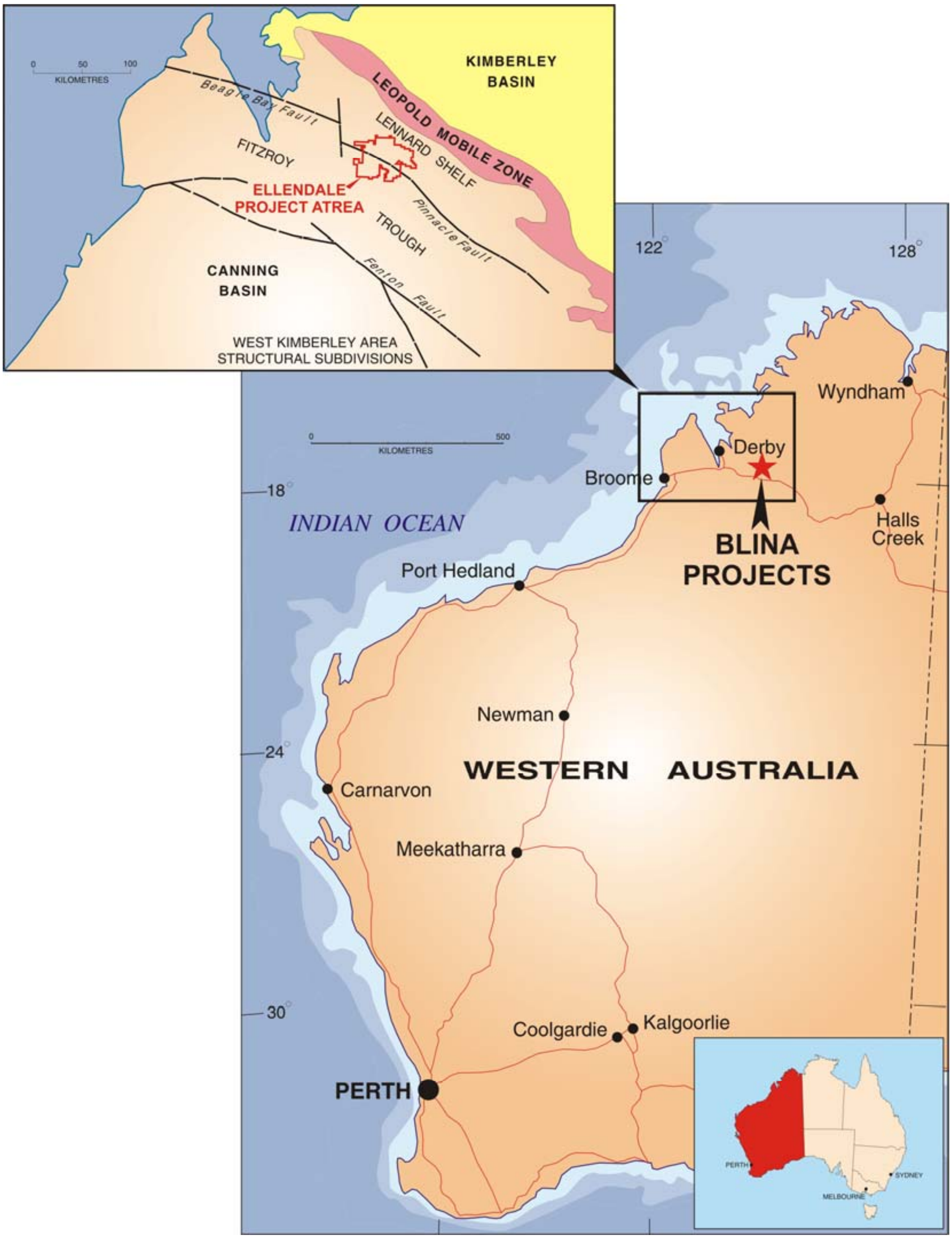
TABLE 2
SCHEDULE OF MINING TENEMENTS - SEPTEMBER 2004

Tenement	*Notes*	*Area km²*	*Date of Grant*
E04/726	*1*	95	21/01/1993
E04/1186	*1*	228	16/08/2002
E04/1254	*1*	147	06/12/2002
E04/1231	*1*	75	13/03/2003
E04/993	*2*	20	17/08/1995
E04/1006	*2*	39	06/02/1996
E04/1052	*2*	59	29/10/1996
E04/1075	*2*	26	14/10/1997
E04/1105	*2*	36	19/07/1999
E04/1212	*2*	62	23/07/2003
ELA04/1098	*2*	176	Application
MLA04/346	*2*	10	Application
MLA04/355	*2*	10	Application
MLA04/356	*2*	10	Application
MLA04/358	*2*	10	Application
M04/389	*2*	10	Application
M04/390	*2*	10	Application
M04/392	*2*	10	Application
M04/393	*2*	10	Application
P04/204	*2*	1.8	Application
P04/205	*2*	1.6	Application
P04/206	*2*	1.3	Application
E04/819	*3*	59	08/09/1993
E04/820	*3*	26	13/09/1993
E04/821	*3*	86	13/09/1993
E04/801	*4*	124	15/01/1993
E04/911	*4*	18	23/05/1994
E04/1062	*4*	115	24/03/1997
E04/1092	*4*	78	25/11/1999
E04/1093	*4*	72	04/07/2001
MLA04/410	*4*	10	Application
MLA04/411	*4*	10	Application
MLA04/412	*4*	10	Application
E04/813	*5*	72	09/08/1993

NOTES:
1. Blina registered tenement
2. Leases registered to Kimberley – transfers awaiting State Revenue Office stamping.
3. Leases registered to Bazco Pty Ltd – transfers awaiting State Revenue Office stamping.
4. Leases registered to Ellendale Resources NL or Sunderland Pty Ltd – transfers awaiting State Revenue Office stamping.
5. Joint Venture with Diamond Ventures Exploration Pty Ltd – Diamond Ventures control 54% of the lease and are managers of the Joint Venture.

MANAGING DIRECTOR'S REVIEW OF OPERATIONS

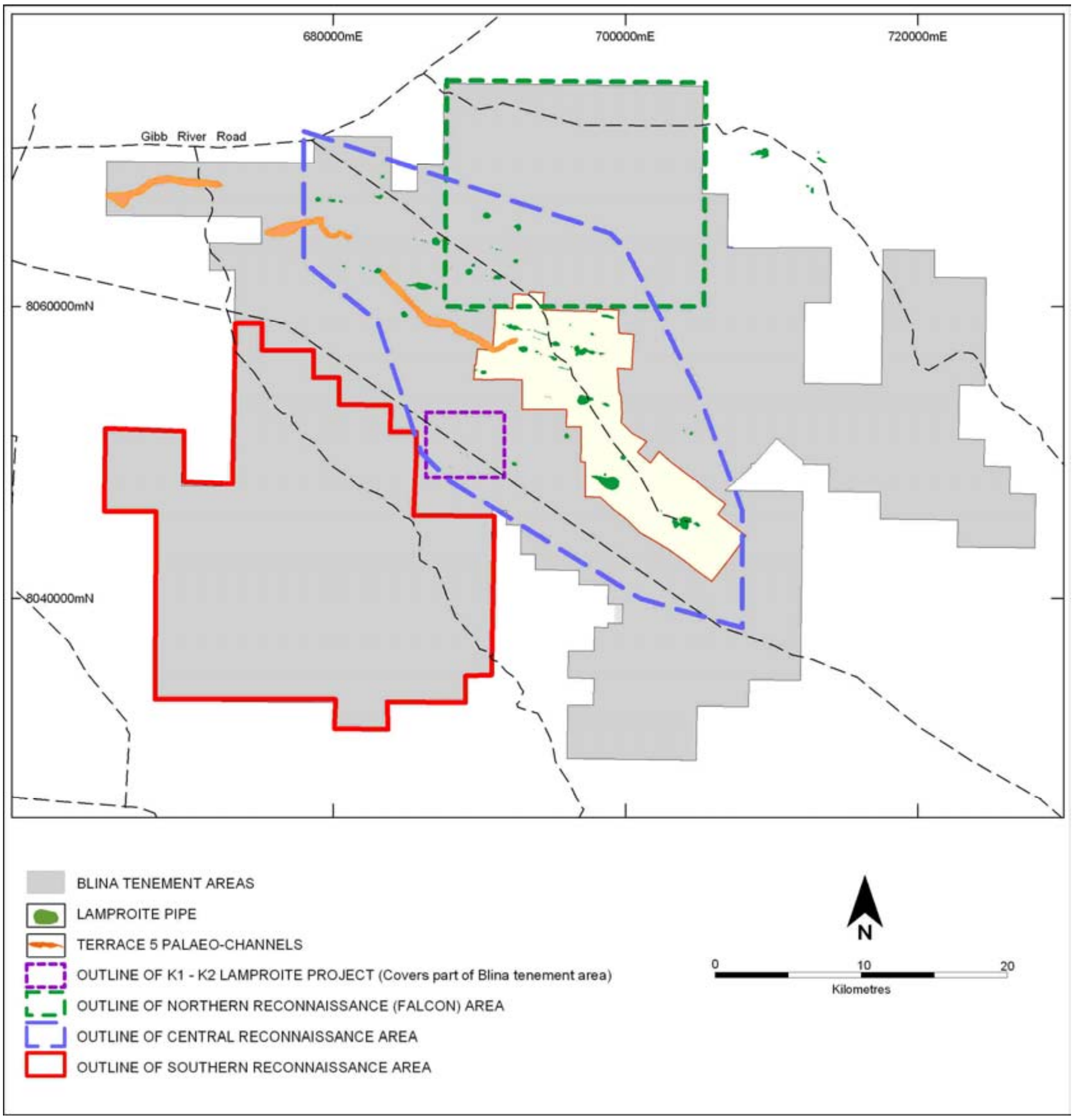
Figure 1
GREATER ELLENDALE PROJECT AREA



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

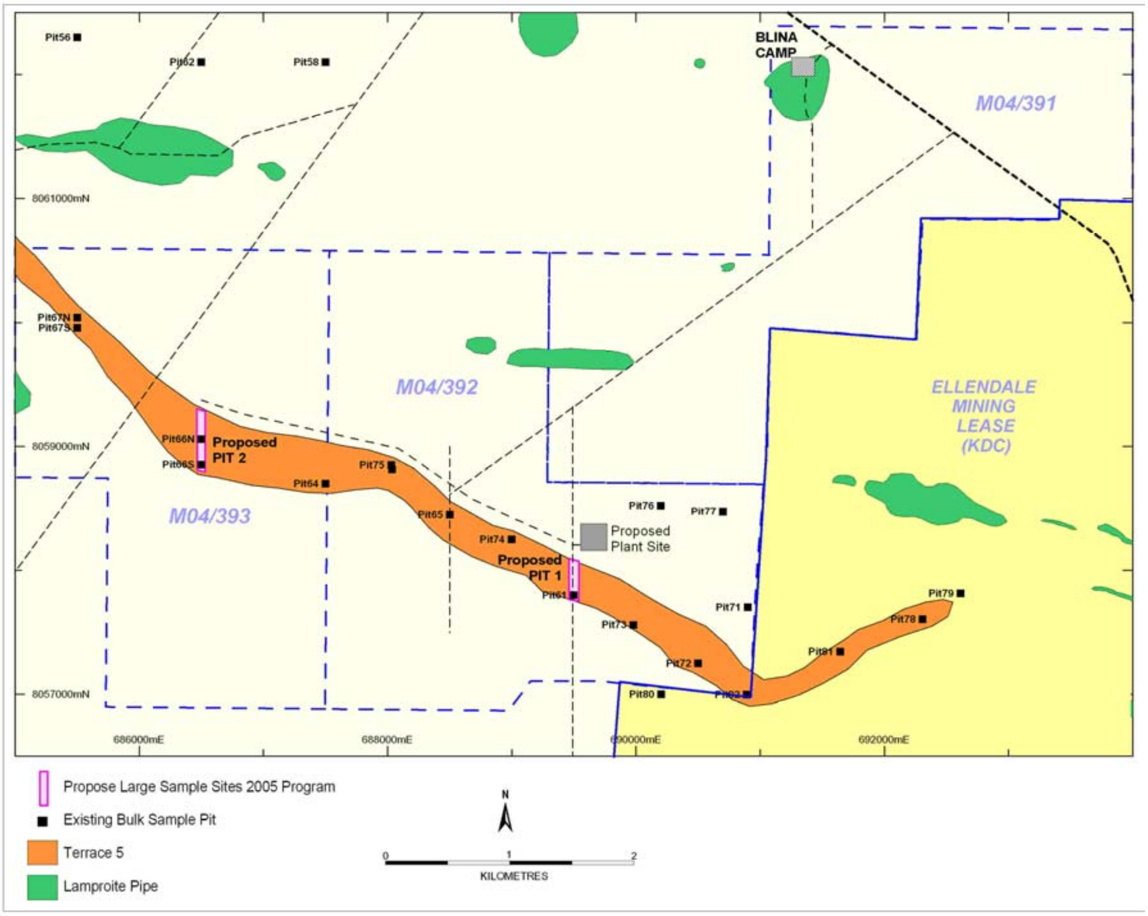
Figure 2

ELLENDALE PROJECT AREAS



MANAGING DIRECTOR'S REVIEW OF OPERATIONS

Figure 3
BLINA TERRACE 5 PROGRAM - 2005



SHAREHOLDER INFORMATION
AS AT 5 OCTOBER 2004

1. CAPITAL STRUCTURE

Ordinary Share Capital

153,351,082 ordinary fully paid shares held by 7,455 shareholders.
Restricted ordinary shares: 11,871,331 until 31 May 2005
349,619 until 8 August 2005
84,235,680 until 16 August 2006
All issued ordinary shares carry one vote per share and carry the right to receive dividends when declared.

Options

3,500,000 unlisted option expiring 30 April 2007 exercisable at $0.40 restricted until 16 August 2006.
Unlisted Options do not entitle the holders to a vote in respect of that option nor participate in dividends until such time as the options are exercised and subsequently registered as an ordinary share.

2. SUBSTANTIAL SHAREHOLDERS

Shareholder Name	Number of Securities	Percentage (%)
Kimberley Diamond Company NL	83,745,575	54.61
Bazco Pty Ltd	10,090,631	6.57

3. DISTRIBUTION OF SHAREHOLDERS AND OPTION HOLDERS AS AT 5 OCTOBER 2004

Distribution Analysis	Ordinary Fully Paid Shares
1 - 1,000	4,544
1,001 - 5,000	1,746
5,001 - 10,000	506
10,001 - 100,000	584
100,001 and over	75
Total holders	**7,455**

As at 5 October 2004, there are 5,110 fully paid ordinary shareholders holding less than a marketable parcel.

SHAREHOLDER INFORMATION
AS AT 5 OCTOBER 2004

4. TWENTY LARGEST HOLDERS OF QUOTED SECURITIES AS AT 5 OCTOBER 2004

Fully Paid Ordinary Shares	Number	Percentage
Kimberley Diamond Company NL	83,745,575	54.61
Westpac Custodian Nominees Limited	10,458,089	6.82
Bazco Pty Ltd	10,090,631	6.58
National Nominees Limited	2,101,058	1.37
Mr George Francis Lee	1,780,700	1.16
All-State Finance Pty Ltd	1,653,527	1.08
Merrill Lynch (Australia) Nominees Ltd	1,579,492	1.03
JP Morgan Nominees Australia Limited	833,878	0.54
Queensland Investment Corporation	687,211	0.45
Resource Development Company Pty Ltd	642,045	0.42
Lost Ark Nominees Pty Limited	600,000	0.39
ANZ Nominees Limited	592,130	0.39
Vailimo Pty Ltd (Amber A/c)	500,000	0.33
Vailimo Pty Ltd (Warrumbungle A/c)	500,000	0.33
Pentry Pty Ltd	470,029	0.31
GEO Holdings Corp	446,302	0.29
Mr Samuel GE Cash	423,765	0.28
BB Nominees Pty Ltd	297,680	0.26
Stanley Nominees Pty Ltd	363,487	0.24
Mr Peter Vanderspuy	308,641	0.20
	118,074,240	77.08

5. ON-MARKET BUY-BACK

There is no current on-market buy-back.

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Company including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. The functions reserved to the Board and those delegated to senior management have not, at the date of this report, been formally documented.

The Board has delegated responsibility for operation and administration of the Company to the Managing Director and executive management.

Board processes

The Board has established a framework for the management of the Company including a system of internal control, a business risk management process and appropriate ethical standards.

The full Board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of separate Board committees, including a Nomination Committee, Remuneration Committee or an Audit Committee. Accordingly, all matters that may be considered by such committees are dealt with by the full Board. Details of the Board's procedures in respect to each of these areas are further outlined within the Corporate Governance Statement below - see Nomination of new Directors, Remuneration of Directors and Audit functions respectively.

Director education

The Company educates new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. Directors also have the opportunity to visit Company facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must

CORPORATE GOVERNANCE STATEMENT

consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report of this Annual Report.

The composition of the Board is determined using the following principles.

- A minimum of three Directors, with a broad range of expertise both nationally and internationally.
- Directors having extensive knowledge of the Company's industries, and those who do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of public companies.
- The roles of Chairman and Managing Director are not to be exercised by the same individual.

Board members have experience in the management of public companies. The Board does not have a majority of Independent Directors as recommended by the ASX Corporate Governance Council. The Directors consider that the current number of Independent Directors in the Company is appropriate for the effective execution of the Board's responsibilities. The Directors periodically monitor the need to appoint additional Independent Directors.

Nomination of new directors

The Board considers that a formally constituted Nomination Committee is not appropriate as the Board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the Company's executive officers. The Board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Board determines the selection criteria based on the skills deemed necessary. The Board identifies potential candidates and may take advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The Chairman of the Board continually reviews the effectiveness of the Board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the Board, which votes on them. Directors displaying unsatisfactory performance are required to retire.

Remuneration of directors

The Board considered that a formally constituted Remuneration Committee is not appropriate as the Board, as part of its usual role, oversees the appointment and remuneration of Directors and the Company's executive officers. Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

CORPORATE GOVERNANCE STATEMENT

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the Company's profitability. The remuneration structures take into account:

- overall level of remuneration for each director and executive;
- the executive's ability to control the performance of the relevant area;
- the amount of incentives within each executive's remuneration.

Shares and options can only be issued to Company Directors under a resolution at a general meeting of shareholders.

Non-executive Directors may receive a base fee and can be remunerated by way of share and option issues approved under a resolution at a general meeting of shareholders. Non-executive Directors do not receive performance based bonuses.

The Board has no established retirement or redundancy schemes.

Audit functions

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the Company does not have a formally constituted Audit Committee, the Board, as part of its usual role, undertakes audit related responsibilities including:

- reviewing the annual and interim financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholders needs;
- assessing corporate risk assessment processes;
- reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;
- reviewing the nomination and performance of the external auditor. The external auditors were appointed in 2003 and the external audit engagement partner will be rotated every five years;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements;
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions.

CORPORATE GOVERNANCE STATEMENT

The Executive Directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- discuss the external audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the annual and half-year reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- finalise annual and half-year reporting to:
    - review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
    - review the draft financial report and recommend Board approval of the financial report;

  as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

The Board monitors the need to form an Audit Committee on a periodic basis.

The Managing Director and the appropriate persons responsible for preparing the financial report have declared to the Board that the Company's financial reports for the year ended 30 June 2004 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

RISK MANAGEMENT

Overview of the risk management system

The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the Company. The Company is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for financial reporting, risk management and associated compliance and controls. Instead, the Managing Director, in accordance with company policy, approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the Directors at the Directors' meetings. The Managing Director has declared to the Board, that the aforementioned system is working efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the entire financial year and the period up to the signing of the annual financial report for all material operations in the Company.

Risk profile

The Company is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Company's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Major risks arise from such matters as actions by competitors, government policy changes, difficulties in sourcing raw materials, the robustness of the technologies being developed to

CORPORATE GOVERNANCE STATEMENT

commercially cultivate the prawns and fish, environment, occupational health and safety, financial reporting and the purchase, development and use of information systems.

Risk management, compliance and control

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities.

Practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- financial exposures are controlled, including the potential use of derivatives;
- occupational health & safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below);
- environmental regulation compliance (see below).

Quality and integrity of personnel

The Company conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals are conducted regularly with continuous feedback and on the job monitoring and training for all employees. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

Financial reporting

The Managing Director has declared, to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Following the reporting period, monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly. During the current reporting period the level of activity did not warrant such a formal system and instead regular progress reports and Directors' meetings were considered sufficient to achieve control of finances.

Convergence with International Financial Reporting Standards (IFRS) is a key current financial reporting project, and the Board will establish procedures to ensure a smooth transition to IFRS reporting, beginning with the half-year ended 31 December 2005. One of the first tasks will be to prepare an opening statement of financial position, under IFRS, as at 1 July 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.

The broad IFRS convergence procedures will include:

- identification of likely significant changes in accounting policies;
- calculation of the opening IFRS-based statement of financial position as at 24 months prior to the first full IFRS year end (to facilitate first year IFRS comparatives);

CORPORATE GOVERNANCE STATEMENT

- calculation of an IFRS-based statement of financial performance in the lead-up year to the first full year of IFRS-based reporting, in addition to the non-IFRS financial reporting, (to facilitate first year IFRS comparatives);
- IFRS-only complete financial reporting in the first full year of IFRS financial reporting which commences from 1 January 2005 (for the Company this is the year ending 30 June 2006).

Environmental regulation

The Company's operations are subject to significant environmental regulation under both Commonwealth and State legislation in relation to its operational activities.

The Company is committed to achieving a high standard of environmental performance. The Board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

Internal audit

The Company does not have a formally established internal audit function. The Board ensures compliance with the internal controls and risk management procedures previously mentioned.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. Every employee has a nominated supervisor to whom he or she may refer issues arising from their employment.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and Consolidated Entity are set out in Note 21.

Code of conduct

The Company is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of a formalised Code of Conduct. The Company has adopted certain induction procedures to inform newly appointed Directors, managers and employees of their rights and their duty to act with utmost integrity and objectivity.

Trading in Company securities by directors and employees

The Constitution permits Directors to acquire shares in the Company. Company policy prohibits Directors from dealing in shares whilst in possession of price sensitive information. Directors must notify the Company Secretary once they have bought or sold shares in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the Directors must

CORPORATE GOVERNANCE STATEMENT

advise the Australian Stock Exchange of any transactions conducted by them in shares and / or options in the Company.

Communication with shareholders

Whilst the Board has not formally documented the Company's continuous disclosure procedures, the Board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX and issuing media releases.

In summary, the continuous disclosure processes operate as follows.

- The Chairman and the Managing Director are responsible for all communications with the ASX. Matters that may have an effect on the price of the Company's securities are advised to the ASX on the day they are discovered. Senior executives monitor all areas of the group's internal and external environment.
- The full annual financial report is made available to all shareholders, and includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the Company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market, and related information (including information provided to analysts and the media) are released to the ASX.
- Transcripts of the Chairman's address to shareholders at the Company's Annual General Meeting are lodged with the ASX.
- The external auditor attends the Annual General Meeting to answer any questions concerning the audit and the content of the Auditor's Report.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

BLINA DIAMONDS

2004 FINANCIAL REPORT

The directors present their report together with the financial report of Blina Diamonds NL ("Company"), for the year ended 30 June 2004 and the independent auditor's report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Mr Miles A Kennedy - full year (appointed 15 November 2002).

Mr David R Jones - full year (appointed 15 November 2002).

Mr Justin A Clarke - partial year (appointed 15 March 2004).

Mr Karl M Simich - full year (appointed 15 November 2002).

Mr Graeme J Hutton - partial year (appointed 15 November 2002; resigned 12 March 2004).

DIRECTORS – QUALIFICATIONS, EXPERIENCE AND RESPONSIBILITIES

Miles A Kennedy, Non-Executive Chairman (55 years)
B.Juris

Mr Kennedy has held directorships of Australian listed resource companies for the past 21 years. He is the Executive Chairman of Kimberley Diamond Company NL (KDC) and has been a director of KDC for the past eleven years. He was the founding Chairman of Macraes Mining Company Ltd (now known as Oceana Gold Ltd). Mr Kennedy has extensive experience in the management of public companies with specific emphasis in the resources industry. He is a Barrister and Solicitor of the Supreme Court of Western Australia and the High Court of Australia. Mr Kennedy is also an Attorney of the Supreme Court of South Africa. He brings to the Board his considerable leadership and entrepreneurial skills, corporate vision, extensive international business experience and knowledge of the resources industry.

David R Jones, Managing Director (54 years)
B.Sc (Hons), M.Sc., MAusIMM

Mr Jones is considered one of Australia's most experienced and successful diamond exploration geologists. He brings to Blina a wealth of experience in diamond exploration and exploration management, and possesses an intimate knowledge of the Ellendale Field and the Tenement Area. Mr Jones commenced his diamond exploration career in 1976 as part of the Ashton Joint Venture team conducting regional exploration programmes in the Kimberley region. For the past 10 years, Mr Jones has led Kimberley Diamond Company's successful exploration programmes in the Ellendale Field as Exploration Manager. Mr Jones has also held senior exploration and management positions with a number of other diamond exploration companies, including Ashton Mining Limited, Cluff Resources Pacific NL and the companies formerly known as Gem Exploration and Minerals Limited, Metana Minerals NL and Western Reefs Limited.

Justin A Clarke, Operations Director (34 years)
B.Bus

Mr Clarke has a degree in Business Studies from Massey University in New Zealand. For most of the last ten years, he has been closely involved with Kimberley Diamond Company's (KDC) exploration programmes and has undertaken a variety of operational and management roles. Mr Clarke has an impressive practical background and brings to Blina considerable knowledge and experience in a wide variety of diamond exploration and evaluation techniques. During the recent successful commissioning of KDC's new 2.2 million tonne per year plant, he was Construction Operations Manager.

Karl M Simich, Non-Executive Director (40 years)
B.Comm, CA, ASIA

Mr Simich has over 16 years experience in the management and administration of publicly listed companies, specialising in resource financing and corporate management, with experience in the international business area. Mr Simich is an Executive Director of Kimberley Diamond Company NL, Executive Chairman of Namakwa Diamond Company NL, and a Non-Executive Director of Tiger International Limited. Mr Simich is a Chartered Accountant and a member of Securities Institute of Australia and has completed post-graduate studies in business and finance. Mr Simich brings valuable executive experience and considerable financial acumen to the Board.

DIRECTORS' MEETINGS

The number of directors' meetings held and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board Meetings A	Board Meetings B
Mr M A Kennedy	1	1
Mr D R Jones	1	1
Mr J A Clarke (Appointed 15 March 2004)	1	1
Mr K M Simich	1	1
Mr G J Hutton (Resigned 12 March 2004)	-	-

A Number of meetings attended

B Number of meetings held during the time the director held office during the year

Issues relating to the Company have also been tabled at the directors' meeting of the ultimate parent entity, Kimberley Diamond Company NL (KDC).

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Remuneration

No director of the Company received any remuneration from the Company for the year ended 30 June 2004.

The Company did not have any executive officers appointed at the date of this report.

Further details of transactions with directors and director-related entities and the remuneration of directors are set out in Note 19 of the Financial Report.

OPTIONS GRANTED TO DIRECTORS' AND SENIOR EXECUTIVES

Since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares of the Company to the following directors:

Director	Number of Options Granted	Exercise Price	Expiry Date
Mr D R Jones	500,000	$0.40	30 April 2007
Mr J A Clarke	500,000	$0.40	30 April 2007

The options were granted to the directors as part consideration for the directors advancing loan funds of up to $200,000 each prior to the Company listing on ASX. The options were granted subsequent to the end of the financial year and none have been exercised. The options do not entitle the holder to participate in any share issue of the Company or any other body corporate. No options were granted during the financial year.

DIRECTORS' INTERESTS IN SECURITIES

The relevant interest of each director in the securities of the Company at the date of this report, as notified by the directors to ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows.

Director	Ordinary Fully Paid Shares	Options over Ordinary Shares Expiring 30 April 2007
Mr M A Kennedy	642,309	-
Mr D R Jones	183,074	500,000
Mr J A Clarke	-	500,000
Mr K M Simich	677,045	-

REVIEW AND RESULTS OF OPERATIONS

The Company's Statement of Financial Performance shows a net loss from ordinary activities after tax for the year ended 30 June 2004 of $52,926 (2003: profit of $75,929). A detailed review of the Company's operations is contained in the Annual Report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows.

- On 12 March 2004, Mr Graeme J Hutton resigned as a director of the Company.
- On 15 March 2004, Mr Justin A Clarke was appointed as a director of the Company.
- On 1 April 2004, the Company undertook a share split on a 5.98:1 basis, following which Kimberley Diamond Company NL ("KDC") held an interest in 94,870,650 shares (all of the Company's issued share capital).
- On 16 April 2004, the Company entered into an agreement with Kimberley Diamond Company NL to purchase all KDC's right, title and interest in the KDC exploration tenements in consideration for the issue to KDC of 8,937,812 Blina ordinary fully paid shares.
- On 7 May 2004, the Company entered into an agreement with Ellendale Resources NL ("Ellendale") to purchase all Ellendale's right, title and interest in the Ellendale exploration tenements in consideration for the issue to Ellendale of 11,871,331 Blina ordinary fully paid shares.
- On 21 May 2004, KDC undertook a pro rata in-specie distribution by KDC of 11,125,818 shares on a 1:20 basis.
- On 27 May 2004, undertaking the corporate initiatives required to list the Company on ASX, including undertaking an initial public offer to raise sufficient funds to continue.
- On 27 May 2004, the Company changed type from a "limited" company to a "NL" company.
- On 31 May 2004, the Company issued 11,871,331 Blina Diamonds NL ordinary fully paid shares as consideration payable by the Company under the Deed of Settlement and Release, entered into on 12 February 2003, to purchase all Bazco's right, title and interest in the Bazco exploration tenements.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year consisted of diamond exploration within the commercially proven but under-explored Ellendale diamond field located in the north of Western Australia.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Company issued 11,871,331 Blina Diamonds NL ordinary fully paid shares, at fair value of $1,781,700, as consideration payable by the Company under the Ellendale Resources Agreement, entered into on 7 May 2004, to purchase all Ellendale Resources NL's right, title and interest in the Ellendale exploration tenements.

Subsequent to balance date, the Company announced the issue of 3,500,000 unlisted options expiring on 30 April 2007 exercisable at $0.40, issued to various consultants and directors of the Company as proposed in the Blina Diamonds NL IPO Prospectus dated 22 June 2004.

Subsequent to balance date, the Company announced the successful completion of the Initial Public Offer (IPO) to issue 34,737,771 shares at 30 cents each to raise up to $10,421,331. The Company was admitted to the official list of Australian Stock Exchange Limited on Thursday, 12 August 2004, with official quotation of the Company's securities commencing on Tuesday, 17 August 2004.

Subsequent to balance date, the Company announced that it has signed a contract with Mine Plant Construction Pty Ltd ("MPC") for construction of a new Dense Media Separation ("DMS") plant for processing exploration bulk samples, initially from its Terrace 5 exploration project in Western Australia. Under the terms of the contract, Blina Diamonds NL will pay $320,000 in cash and issue 200,000 fully paid Blina shares to MPC for the new DMS plant.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

LIKELY DEVELOPMENTS

The Company will continue to pursue exploration projects within the commercially proven but under-explored Ellendale diamond field in the north of Western Australia.

ENVIRONMENTAL ISSUES

The Company's operations are subject to particular and significant environmental regulation under the laws of the Commonwealth and State. During the financial year, there were no non-compliance issues brought to the attention of the Company.

DIVIDENDS

The directors have not recommended the declaration of a dividend. No dividends were paid or declared during the period.

EXPLORATION

The Company has now commenced active field operations within the Blina Project tenements. The Company recently completed a detailed Airborne Electromagnetic survey covering an area of 500km^2 of the Ellendale Lamproite Field. This is expected to provide critical information which could assist in unravelling both the distribution of the Terrace 5 gravels and the source of the contained diamonds. Work has also commenced on a major bulk sampling program planned for the diamondiferous Terrace 5 gravels.

The contract to construct and install a 50 tonne per hour Dense Media Separation Plant has been awarded to Mine Plant Construction and this plant should be operational by 1 April 2005. The Company intends to process about 40,000 tonnes of Terrace 5 gravel with the intention of recovering 2,000 to 3,000 carats of diamonds for valuation purposes.

Exploration programs to test a number of lamproite bodies and palaeo-gravels will commence as soon as all environmental approvals have been received. These targets include the K1 and K2 lamproites; pipes identified from the Falcon differential gravity survey; the A Channel and the J Channel.

A detailed review of the Company's exploration activities is contained in the Annual Report.

SHARE OPTIONS

Unissued Shares Under Option

As at the date of this report, the unissued ordinary shares of the Company under options are as follows:

Expiry Date	Exercise Price $	Number of Options
30 April 2007	$0.40	3,500,000

The options were granted subsequent to the end of the financial year and none have been exercised. The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Share Options Issued

The following options over unissued ordinary shares of the Company were issued during or since the end of the financial year:

Expiry Date	Exercise Price $	Number of Options
30 April 2007	$0.40	3,500,000

Shares Issued on Exercise of Options

No options over unissued ordinary shares of the Company have been exercised during and since the end of the financial year.

Share Options Expired or Cancelled

No options over unissued ordinary shares of the Company expired during the financial year or since the end of the financial year.

The following options over unissued ordinary shares of the Company were cancelled during the financial year:

Expiry Date	Exercise Price $	Number of Options
31 December 2005	$0.25	6,928,000

The options were cancelled on 25 March 2004.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

Indemnification

The Company has entered into deeds of indemnity and access ("Deeds") with each of its directors and the company secretary. Under these Deeds, the Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties (unless the liability arises out of conduct involving lack of good faith), and in successfully defending legal and administrative proceedings and applications for such proceedings. The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of a conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavour to insure a director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

The Company has not entered into any agreement with their current auditors indemnifying them against any claims by third parties arising from their report on the financial report.

Insurance Premiums

Insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries are borne by the Company's ultimate parent entity, Kimberley Diamond Company NL.

Dated at West Perth this 30 day of September 2004.

Signed in accordance with a resolution of the directors

DAVID R JONES
MANAGING DIRECTOR

KARL M SIMICH
NON-EXECUTIVE DIRECTOR

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

		The Company		Consolidated
		2004	2003	2003
	Note	$	$	$
Revenue from ordinary activities	3	631	361,479	362,702
Professional fee expenses		(28,140)	(7,000)	(7,000)
Costs of capital raising		-	(272,337)	(272,337)
Borrowing costs		(2,877)	-	-
Other expenses from ordinary activities		(22,540)	(7,465)	(7,436)
(Loss)/Profit from ordinary activities before related income tax expense	4	(52,926)	74,677	75,929
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-
Net (loss)/profit	**18**	**(52,926)**	**74,677**	**75,929**
Increase in asset revaluation reserve arising on revaluation of non-current assets		-	387,558	387,558
Total changes in equity from non-owner related transactions attributable to the members of the entity		(52,926)	462,235	463,487
Basic loss per share	7	$0.002		

The statements of financial performance are to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

		The Company	
		2004	2003
	Note	$	$
Current Assets			
Cash assets	9	104,818	28
Receivables	10	44,110	-
Other	11	231,311	-
Total Current Assets		380,239	28
Non Current Assets			
Property, plant and equipment	12	194,009	552
Exploration and evaluation expenditure	13	1,093,128	414,939
Total Non Current Assets		1,287,137	415,491
Total Assets		1,667,376	415,519
Current Liabilities			
Payables	14	438,923	36,283
Interest bearing liabilities	15	302,877	-
Total Current Liabilities		741,800	36,283
Total Liabilities		741,800	36,283
Net Assets		**925,576**	**379,236**
Equity			
Contributed equity	16	2,215,268	1,616,002
Reserves	17	387,558	387,558
Accumulated losses	18	(1,677,250)	(1,624,324)
Total Equity		**925,576**	**379,236**

The statements of financial position are to be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

		The Company		Consolidated
		2004	2003	2003
	Note	$	$	$
Cash flows from operating activities				
Cash receipts in the course of operations		-	17,544	17,544
Cash payments in the course of operations		(89,576)	(62,080)	(62,336)
Interest paid		-	-	-
Interest received		631	19	19
Net cash inflow/(outflow) from operating activities	23(b)	(88,945)	(44,517)	(44,773)
Cash flows from investing activities				
Payments for exploration and evaluation expenditure		(58,126)	(300)	(300)
Payments for property, plant & equipment		(124,682)	-	-
Net cash outflow from investing activities		(182,808)	(300)	(300)
Cash flows from financing activities				
Proceeds from borrowings		382,743	-	-
Share issue expenses		(6,200)	-	-
Net cash inflow from financing activities		376,543	-	-
Net (decrease)/increase in cash held		104,790	(44,817)	(45,073)
Cash at the beginning of the year		28	44,845	45,101
Cash at the end of the year	23(a)	104,818	28	28

The statements of cash flows are to be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by the Company and are consistent with those of the previous year.

(b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense

Receivables and payables are stated with the amount of GST included.

The net amount of the GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Borrowing costs

Borrowing costs include interest and establishment costs on loans, trade creditors and finance leases and are expensed as incurred.

(f) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax benefit is calculated on the operating loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain.

(g) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the entity for the reporting period by the weighted average number of ordinary shares of the Company.

(h) Acquisition of assets

All assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Costs relating to the acquisition of new areas of interest are classified as either exploration expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition.

(i) Receivables

Receivables are carried at normal amounts due. Amounts are settled on performance of certain rehabilitation and conditions. The collectability of debts is assessed at balance date and specific provision is made for any doubtful debts.

(j) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(k) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred by the Company is accumulated separately for each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and commercial exploitation of the area of interest, or, where exploration and evaluation activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and active operations in, or relating to, the area are continuing.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward values in relation to that area of interest. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made. When expenditure carried forward no longer contributes to the Company's ability to successfully develop or exploit an area of interest, such costs are written off in the financial period the decision is made.

Revenue from the sale of diamonds recovered as a result of bulk sampling from identified areas of interest is offset against exploration and evaluation expenditure.

(l) Recoverable amount of non-current assets

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (see Note 1(k)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

(m) Depreciation

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Assets are depreciated from the date of acquisition. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed. The depreciation rates used for each class of asset are as follows.

	2004	2003
Office furniture and equipment	11%	11%
Plant and equipment	10%	-
Buildings and Infrastructure	10%	-
Motor Vehicles	33.3%	-

(n) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. Trade liabilities are normally settled in accordance with the terms of the relevant supplier.

(o) Interest-bearing liabilities

Loans are recognised at their principal amount. Interest expense is accrued at the contracted rate and included in Note 15 "Interest-bearing liabilities".

(p) Equity – Ordinary Shares

Ordinary share capital is recognised at the amount paid up. Details of shares issued are set out in Note 16.

(q) Currency

All amounts are stated in Australian dollars unless otherwise stated.

2. SUBSEQUENT EVENTS

Subsequent to balance date, the Company issued 11,871,331 Blina Diamonds NL ordinary fully paid shares, at fair value of $1,781,700, as consideration payable by the Company under the Ellendale Resources Agreement, entered into on 7 May 2004, to purchase all Ellendale Resources NL's right, title and interest in the Ellendale exploration tenements.

Subsequent to balance date, the Company announced the issue of 3,500,000 unlisted options expiring on 30 April 2007 exercisable at $0.40, issued to various consultants and directors of the Company as proposed in the Blina Diamonds NL IPO Prospectus dated 22 June 2004.

Subsequent to balance date, the Company announced the successful completion of the Initial Public Offer (IPO) to issue 34,737,771 shares at 30 cents each to raise up to $10,421,331. The Company was admitted to the official list of Australian Stock Exchange Limited on Thursday, 12 August 2004, with official quotation of the Company's securities commencing on Tuesday, 17 August 2004.

Subsequent to balance date, the Company announced that it has signed a contract with Mine Plant Construction Pty Ltd ("MPC") for construction of a new Dense Media Separation ("DMS") plant for processing exploration bulk samples, initially from its Terrace 5 exploration project in Western Australia. Under the terms of the contract, Blina Diamonds NL will pay $320,000 in cash and issue 200,000 fully paid Blina shares to MPC for the new DMS plant.

The financial effects of the above transactions have not been reflected in this financial report.

	The Company		Consolidated
	2004	2003	2003
	$	$	$
3. REVENUE FROM ORDINARY ACTIVITIES			
Revenues from ordinary activities:			
From operating activities			
Recovery of receivables previously provided against – related entity	-	361,450	-
Forgiveness of debt by parent entity	-	-	362,683
Interest received	631	19	19
From outside operating activities			
Proceeds from sale of investment	-	10	-
Total revenue from ordinary activities	631	361,479	362,702
4. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX			
Loss from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:			
Borrowing costs:			
Interest on borrowings – related parties	2,877	-	-
	2,877	-	-
Depreciation of:			
Office furniture and equipment	61	5	5
Motor Vehicles	2,536	-	-
Total depreciation	2,597	5	5
Depreciation capitalised to exploration expenditure	(2,536)	-	-
Total Depreciation	61	5	5
Amortisation of formation expenses	-	45	45
Formation expenses written off	-	745	745
Exploration expenses written off	-	290	290

5. TAXATION

As the entity formed part of a tax consolidated group with its ultimate parent entity, Kimberley Diamond Company NL ("KDC"), the tax effect of permanent and timing differences has been reflected in the head entity.

	The Company		Consolidated
	2004	2003	2003
	$	$	$
6. AUDITOR'S REMUNERATION			
Audit services:			
Auditors of the company – KPMG	15,600	-	-
Previous auditors of the consolidated entity and company – Deloitte Touche Tomatsu	-	7,500	7,500
Other services – Investigating Accountant's Report			
Auditors of the company - KPMG	12,000	-	-
	27,600	7,500	7,500

7. LOSS PER SHARE

The basic loss per share for the period ended 30 June 2004 was 0.18 cents per share.

Classification of securities as ordinary shares
The following securities have been classified as ordinary shares and included in basic earnings per share:
(a) Ordinary shares
Further details of these securities are contained in Note 16.

	The Company 2004 $'000
Loss reconciliation	
Net loss	(52,926)
Basic loss	(52,926)
Allocation of loss to category of ordinary share:	
Basic	(52,926)
Weighted average number of shares used as the denominator for basic loss per share:	
Ordinary shares	29,588,216

The Company does not have any potential ordinary shares that are dilutive outstanding as at 30 June 2004. The Company was not required to disclose earnings per share in the prior year.

8. SEGMENT REPORTNG

The Company is principally engaged in diamond exploration activities in the Kimberley region of Western Australia.

		The Company	
		2004	2003
		$	$
9. CASH ASSETS			
Cash at bank		104,818	28
10. RECEIVABLES			
Current:	GST receivable	29,918	-
	Other receivables	14,192	-
		44,110	-

11. OTHER CURRENT ASSETS

Deferred share issue expenses (i)	231,311	-
	231,311	-

(i) As at 30 June 2004, the Company had incurred an amount of $231,311, representing transaction costs arising on the issue of equity instruments relating to the Initial Public Offer (IPO). The recognition of the transactions costs in equity has been deferred to the date the Company officially lists on the Australian Stock Exchange. Subsequent to period end, the Company announced the successful completion of the IPO on 28 July 2004, with official quotation of the Company's securities commencing on 17 August 2004, at which time the Company recognised the transactions costs directly in equity.

12. PROPERTY, PLANT AND EQUIPMENT

	The Company 2004 $	2003 $
Office furniture and equipment – at cost	557	557
Accumulated depreciation	(66)	(5)
	491	552
Plant and equipment – at cost	8,043	-
Accumulated depreciation	-	-
	8,043	-
Buildings and infrastructure – at cost	142,346	-
Accumulated depreciation	-	-
	142,346	-
Motor vehicles – at cost	45,665	-
Accumulated depreciation	(2,536)	-
	43,129	-
Total property, plant and equipment net book value	194,009	552

Reconciliation

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	2004 $	2003 $
Office furniture and equipment		
Carrying amount at the beginning of the year	552	-
Additions	-	557
Disposals	-	-
Depreciation	(61)	(5)
Carrying amount at the end of year	491	552
Plant and equipment		
Carrying amount at the beginning of the year	-	-
Additions	8,043	-
Disposals	-	-
Depreciation	-	-
Carrying amount at the end of the year	8,043	-
Buildings and infrastructure		
Carrying amount at the beginning of the year	-	-
Additions	142,346	-
Disposals	-	-
Depreciation	-	-
Carrying amount at the end of the year	142,346	-
Motor vehicles		
Carrying amount at the beginning of the year	-	-
Additions	45,665	-
Disposals	-	-
Depreciation	(2,536)	-
Carrying amount at the end of the year	43,129	-

	Note	The Company 2004 $	2003 $
13. EXPLORATION AND EVALUATION EXPENDITURE			
Costs carried forward in respect of areas of interest in the exploration and/or evaluation phase		1,093,128	414,939
Reconciliation			
A reconciliation of the carried forward exploration and evaluation amount is set out below:			
Carrying amount at the beginning of the year		414,939	-
Expenditure during the period		78,923	27,661
Exploration tenements acquired - KDC	(a)	500,000	10
Exploration tenements acquired – Bazco & Lee	(b)	99,266	-
Exploration expenditure written off		-	(290)
Revaluation of exploration expenditure		-	387,558
Carrying amount at the end of the year		1,093,128	414,939

(a) The Company entered into an agreement with Kimberley Diamond Company ("KDC"), the ultimate parent entity, to acquire the right, title and interest in a number of exploration tenements. Pursuant to an agreement, the Kimberley Diamond Company (KDC) NL Asset Sale Agreement, consideration payable by the Company was satisfied by the issue of 8,937,812 Blina Diamonds NL ordinary fully paid shares to KDC. Fair value of the consideration equated to $500,000.

(b) The Company entered into an agreement with Bazco Pty Ltd ("Bazco") and Mr George Francis Lee ("Lee") to acquire a 100% interest in and possession of a number of exploration tenements referred to as the Bazco tenements. Pursuant to an agreement, the Bazco and Lee Agreement, consideration payable by the Company was satisfied by the issue of 11,871,331 Blina Diamonds NL ordinary fully paid shares to Bazco and Lee. Fair value of the consideration equated to $99,266.

The ultimate recovery of mineral exploration evaluation and development expenditure carried forward is primarily dependant upon successful development and commercial exploitation, or alternatively the sale of the respective areas of interest.

	Note	2004 $	2003 $
14. PAYABLES			
Current:			
Trade creditors		53,344	7,000
Loans – Kimberley Diamond Company NL	20	385,579	29,283
		438,923	36,283
15. INTEREST BEARING LIABILITIES			
Current:			
Loans – Directors[i]	20	302,877	-
		302,877	-

[i]The Company received a total of $150,000 in loaned funds under an agreement with Farfel Pty Ltd, associated with Mr DR Jones, and a further $150,000 in loaned funds under an agreement with Mr JA Clarke. Both loans accrued interest at 9.5% per annum. As at 30 June 2004, $2,877 interest has been accrued and disclosed as part of interest bearing liabilities.

	The Company 2004 $	The Company 2003 $
16. CONTRIBUTED EQUITY		
(a) Issued and paid up capital		
106,741,981 (2003: 6,928,002) ordinary fully paid shares	2,215,268	1,616,002

(b) Movement in issued capital during the year

	The Company 2004 No of shares	The Company 2004 $	The Company 2003 No of shares	The Company 2003 $
Balance at beginning of the financial year	6,928,002	1,616,002	6,928,002	1,616,002
Share split on 5.98:1 basis	79,004,836	-	-	-
Shares Issued				
8,937,812 (2003: 0) ordinary shares fully paid issued at 5.6 cents per share to Kimberley Diamond Company NL for acquisition of tenements	8,937,812	500,000	-	-
11,871,331 (2003: 0) ordinary shares fully paid issued at 0.84 cents per share for acquisition of tenements	11,871,331	99,266	-	-
Balance at end of financial year	106,741,981	2,215,268	6,928,002	1,616,002

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Shares issued subsequent to year end

The following shares have been issued subsequent to the end of the period:

- 34,737,771 fully paid ordinary shares at $0.30 per share, raising a total of $10,421,331, pursuant to the Company's Initial Public Offer (IPO). Refer to Note 2 'Subsequent Events' for details.
- 11,871,331 fully paid ordinary shares at $0.15 per share, for consideration to gain the right, title and interest in the Ellendale Tenements from Ellendale Resources NL. Refer to Note 2 'Subsequent Events' for details.

(c) Options over shares

The following options have been issued since the end of the period:

- 3,500,000 options at an exercise price of $0.40 expiring on 30 April 2007.

The following options were cancelled during the period:

- 6,928,000 options at an exercise price of $0.25 expiring on 31 December 2005.

	The Company 2004 $	2003 $
17. RESERVES		
Asset revaluation reserve	387,558	387,558
No movement in the asset revaluation reserve has been evidenced during the financial period.		

Nature and purpose of asset revaluation reserve
The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets.

18. ACCUMULATED LOSSES

	2004 $	2003 $
Accumulated losses at the beginning of year	(1,624,324)	(1,699,001)
Net (loss)/profit for the period	(52,926)	74,677
Accumulated losses at the end of year	(1,677,250)	(1,624,324)

19. DIRECTOR AND EXECUTIVE DISCLOSURES FOR DISCLOSING ENTITES

Remuneration of specified directors by the Company

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board of Directors obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

No director of the Company received any remuneration from the Company for the year ended 30 June 2004.

The Company did not have any specified executives appointed at the date of this report. All operational and strategic matters are dealt with by the full Board.

Options and rights over equity instruments granted as remuneration

No options were granted as remuneration to directors of the Company for the year ended 30 June 2004.

Exercise of options granted as remuneration

No options over ordinary shares, previously granted as remuneration, were exercised by any specified director of the Company during the current financial year.

Option Holdings

No specified director of the Company held, received or disposed of any options over unissued ordinary shares in Blina Diamonds NL during the current financial period.

Equity Holdings and Transactions

The movement during the reporting period in the number of ordinary shares of Blina Diamonds NL held, directly, indirectly or beneficially, by each specified director, including their personally-related entities as follows.

Directors	Held at 1 July 2003	Purchases	Received on exercise of options	Sales	Other Changes (A)	Held at 30 June 2004
Specified directors						
Mr M A Kennedy	-	-	-	-	183,516	183,516
Mr D R Jones	-	-	-	-	41,775	41,775
Mr J A Clarke	-	-	-	-	-	-
Mr K M Simich	-	-	-	-	193,441	193,441

(A) Directors of the Company received ordinary shares in the issued capital of Blina Diamonds NL through their ownership interest in Kimberley Diamond Company NL ("KDC"), the ultimate parent entity. The issue represents the 1:20 non-renounceable pro rata distribution of shares of Blina Diamonds NL to Kimberley Diamond Company (KDC) shareholders for no cash consideration that occurred on 21 May 2004. The distribution was approved by KDC shareholders at a general meeting held on 14 May 2004.

Other transactions with the Company

A number of specified directors or their personally-related entities, hold positions in other entities that result them in having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, on similar transactions, to unrelated entities on an arm's length basis. Details of the transactions are as follows.

	Transaction	Note	$
Specified directors			
Mr D R Jones	Loan	(i)	150,000
Mr J A Clarke	Loan	(i)	150,000

(i) During May 2004, the Company received a total of $150,000 in loaned funds under agreement with Farfel Pty Ltd, associated with Mr D R Jones, and a further $150,000 in loaned funds under agreement with Mr J A Clarke. Both loans accrued interest at 9.5% per annum. As at 30 June 2004, $2,877 interest has been accrued and disclosed as part of Note 14, 'Interest Bearing Liabilities'.

20. NON-DIRECTOR RELATED PARTIES

Ultimate parent entity

The ultimate parent entity of Blina Diamonds NL is Kimberley Diamond Company NL, a company incorporated in Western Australia.

Transactions with the ultimate parent entity

During the period a total of $286,246 (2003: $29,283) was paid on behalf of the Company through a non-interest bearing loan agreement with the Company's parent entity, Kimberley Diamond Company NL ("KDC"), for various corporate and site expenses. A further $70,050 was advanced under the loan agreement to provide working capital to the Company. Subsequent to period end, the Company has repaid $385,579, representing the full outstanding loan balance.

The Company entered into an agreement with KDC to acquire all of KDC's right, title and interest in and to certain exploration and mining tenements, KDC's applications for tenements and any tenement resulting from the grant of those applications. The Company has also assumed responsibility for, and agreed to indemnify KDC against any claims relating to, all royalties payable in respect of minerals or metals produced by or on behalf of the Company and its successors. The consideration payable by the Company was $500,000, which was satisfied by the issue of 8,937,812 fully paid ordinary shares in the Company, at a fair value of 5.6 cents per share.

21. PARTICULARS IN RELATION TO CONTROLLED ENTITIES

City Link Pty Ltd (and its controlled entity Auridium Botswana Pty Ltd) was sold to Auridium Resources NL on 15 November 2002. City Link Pty Ltd had no identifiable assets or liabilities at the time of the sale.

22. CONTINGENT LIABILITIES

The Company's Exploration and Mining tenements are subject to Native Title Claims. At this stage it is not possible to quantify the impact (if any) that Native Title may have on the operations of the Company. However, the Company has executed an agreement with Bunuba people relating to all exploration, mining and other tenements, and all ancillary rights and interests.

As part of the agreement with the Bunuba people, the Company, subject to certain conditions, has agreed to issue 100,000 Blina Diamonds NL shares credited as fully paid and 5 million options over Blina Diamonds NL ordinary shares exercisable within five years from the date of official quotation of the Company's shares on Australian Stock Exchange Limited at $0.60 each.

23. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	The Company 2004 $	The Company 2003 $	Consolidated 2003 $
Cash	104,818	28	28

(b) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash outflow from operating activities

	The Company 2004 $	The Company 2003 $	Consolidated 2003 $
Profit/(loss) from ordinary activities after income tax	(52,926)	74,677	75,929
Add/(less) items classified as investing/financing activities:			
(Profit) on disposal of controlled entities	-	(10)	-
Forgiveness of debt by parent entity	-	-	(362,683)
Recovery of receivables from related entity previously provided against	-	(361,450)	-
Costs of capital raising paid by ultimate parent entity	-	267,337	267,337
Add/(less) non-cash items:			
Exploration expenditure written off	-	290	290
Depreciation	61	5	5
Amortisation	-	45	45
Formation expenses written off	-	745	745
Borrowing costs	2,877	-	-
Net cash provided by operating activities before change in assets and liabilities	(49,988)	(18,361)	(18,332)
Changes in operating assets and liabilities:			
Decrease/(increase) in receivables	(44,110)	17,544	17,544
(Decrease)/increase in creditors	5,153	(43,700)	(43,985)
Net cash (outflow) from operating activities	(88,945)	(44,517)	(44,773)

	The Company 2004 $	The Company 2003 $
24. COMMITMENTS		
Mineral Tenement Leases		
In order to maintain current rights of tenure to both mining and exploration tenements, the consolidated entity is required to outlay lease rentals and to meet the minimum expenditure requirements of the West Australian Department of Minerals & Energy. These obligations are not provided for in the financial statements and are payable:		
not later than 1 year	1,013,616	201,000
later than 1 year but not later than 5 years	3,860,362	343,000
Later than 5 years	934,323	-
	5,808,301	544,000

The commitment for this expenditure reduces if the tenements are relinquished by the Company.

25. FINANCIAL INSTRUMENTS

(a) Interest rate

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2004	Note	Weighted average interest rate	Floating interest rate $	Fixed Interest 1 year or less $	Fixed Interest 1 to 5 years $	Non interest bearing $	Total $
Financial assets							
Cash assets	9	3.5%	104,818	-	-	-	104,818
Receivables	10	-	-	-	-	44,110	44,110
			104,818	-	-	44,110	148,928
Financial liabilities							
Trade creditors & accruals	14	-	-	-	-	438,923	438,923
Interest bearing liabilities	15	9.5%	-	302,877	-	-	302,877
			-	302,877	-	438,923	741,800

2003	Note	Weighted average interest rate	Floating interest rate $	Fixed Interest 1 year or less $	Fixed Interest 1 to 5 years $	Non interest bearing $	Total $
Financial assets							
Cash assets	9	3.5%	28	-	-	-	28
Receivables	10	-	-	-	-	-	-
			28	-	-	-	28
Financial liabilities							
Trade creditors & accruals	14	-	-	-	-	36,283	36,283

26. FINANCIAL INSTRUMENTS (CONTD)

(b) Net fair values

The aggregate net fair value of financial assets and financial liabilities, both recognised and unrecognised, at balance date, are as follows:

	The Company 2004	
	Carrying Amount $	Net Fair Value (*) $
Financial assets		
Cash	104,818	104,818
Receivables	44,110	44,110
Total financial assets	148,928	148,928
Financial liabilities		
Trade creditors and accruals	438,923	438.923
Interest bearing liabilities	302,877	302,877
Total financial liabilities	741,800	741,800

(*) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash and cash equivalents: the carrying amount approximates fair value because of their short-term maturity.

Receivables and payables: the carrying amount approximates fair value.

Interest bearing liabilities: the carrying amount approximates the committed value.

(c) Credit risk exposures

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets.

26. INTEREST IN JOINT VENTURES

Included in the assets of the Company are the following items, which represent the Company's interest in the assets, employed in the joint venture:

	The Company	
	2004 $'000	2003 $'000
Non Current Assets		
Exploration expenditure carried forward in respect of areas of interest in:		
Ellendale East Project (Exploration licences E04/801, E04/911, E04/1062, E04/1092, E04/1093)	91,989	-
	91,989	-

27. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Management has established a project to achieve transition to IFRS reporting, beginning with the half-year ended 31 December 2005. The plan aims to produce a high level overview of the impacts of conversion to IFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. The broad IFRS convergence plan is as follows.

- High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS.
- Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes.
- Evaluation of the implications for staff, for example training requirements.
- Preparation of a high level conversion plan.
- Prepare an opening statement of financial position, under IFRS, as at 1 July 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.
- Calculation of an IFRS-based statement of financial performance in the lead-up year to the first full year of IFRS-based reporting, in addition to the non-IFRS financial reporting, to facilitate first year IFRS comparatives.

The Company has commenced its IFRS transition project, with work progressing in each of the areas described above. The Company expects the project to be substantially completed by 30 June 2005.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the Consolidated Entity's financial performance and financial positions are summarised below. The summary should not be taken as an exhaustive list if all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The Consolidated Entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the Consolidated Entity's financial report in the future. The potential impacts on the Consolidated Entity's financial performance and financial positions of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short time frame between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Income tax will be calculated based on the "balance sheet: approach, which will result in more deferred tax asses and liabilities and, as tax effect follows the underlying transaction, some tax effects will be recognised in equity. Under IFRS, recognition of tax losses as a deferred tax asset is made when utilisation is probable as opposed to the strict current test under Australian GAAP which is 'virtually certain'".
- Equity based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

Capitalised exploration and development expenditure

Given that the International Accounting Standards Board ("IASB") is not expected to release an IFRS based on Exposure Draft 6 "Exploration for the Evaluation of Mineral Resources" until late 2004, the potential impacts and implications of adoption of this IFRS cannot be identified. Based on the content of Exposure Draft 6 as it currently stands, however, it may be likely that exploration and development costs would not qualify for capitalisation.

DIRECTORS' DECLARATION

In the opinion of the directors of Blina Diamonds NL:

(a) the financial statements and notes, set out on pages 6 to 22 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at West Perth this 30 day of September 2004.

Signed in accordance with a resolution of the directors.

DAVID R JONES **MANAGING DIRECTOR**	**KARL M SIMICH** **NON-EXECUTIVE DIRECTOR**

KPMG

Independent audit report to members of Blina Diamonds NL

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Blina Diamonds NL (the "Company"), for the year ended 30 June 2004.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

KPMG

Audit opinion

In our opinion, the financial report of Blina Diamonds NL is in accordance with:

a) the Corporations Act 2001, including:

   i giving a true and fair view of the Company's financial position as at 30 June 2004 and of its performance for the financial year ended on that date; and

   ii complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

T R HART
Partner

Perth
30 September 2004