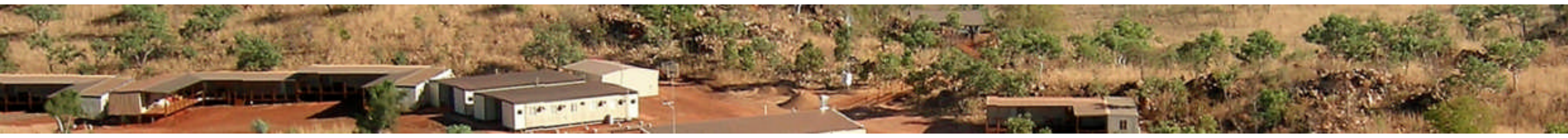
ACN 25 086 471 007

2010 ANNUAL REPORT



CORPORATE DIRECTORY

DIRECTORS
Brett Fraser – Non-Executive Chairman
Alistair Croll – Executive Director
Lee-Anne de Bruin – Executive Director

COMPANY SECRETARY
Peter Webse

REGISTERED OFFICE
Level 3, 52 Kings Park Road
West Perth Western Australia 6005
Telephone: +61 8 9426 9888
Facsimile: +61 8 9426 9899
Email: general@blinadiamonds.com.au
Website: www.blinadiamonds.com.au

SHARE REGISTRY
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross Western Australia 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233
Email: registrar@securitytransfer.com.au
Website: www.securitytransfer.com.au

AUDITORS
MGI
Level 7, The Quadrant
1 William Street
Perth Western Australia 6000
Telephone: +61 8 9463 2463
Facsimile: +61 8 9463 2499

SOLICITORS
Freehills
QV1 Building
250 St Georges Terrace
Perth Western Australia 6000
Telephone: +61 8 9211 7777
Facsimile: +61 8 9211 7878

AUSTRALIAN SECURITIES EXCHANGE
2 The Esplanade
Perth Western Australia 6000
ASX Code Ordinary Shares: BDI

REVIEW OF OPERATIONS

Blina Diamonds NL (Blina) was placed on care and maintenance in September 2009 as a result of the global financial crisis and its impact on prevailing diamond prices. In order to minimise expenditure, Blina entered into an agreement with Kimberley Diamond Company (KDC) to oversee the plant and camp of Blina during the care and maintenance period.

During 2010 diamond prices began to recover and at the end of the financial year planning on the recommencement of the exploration programme commenced.

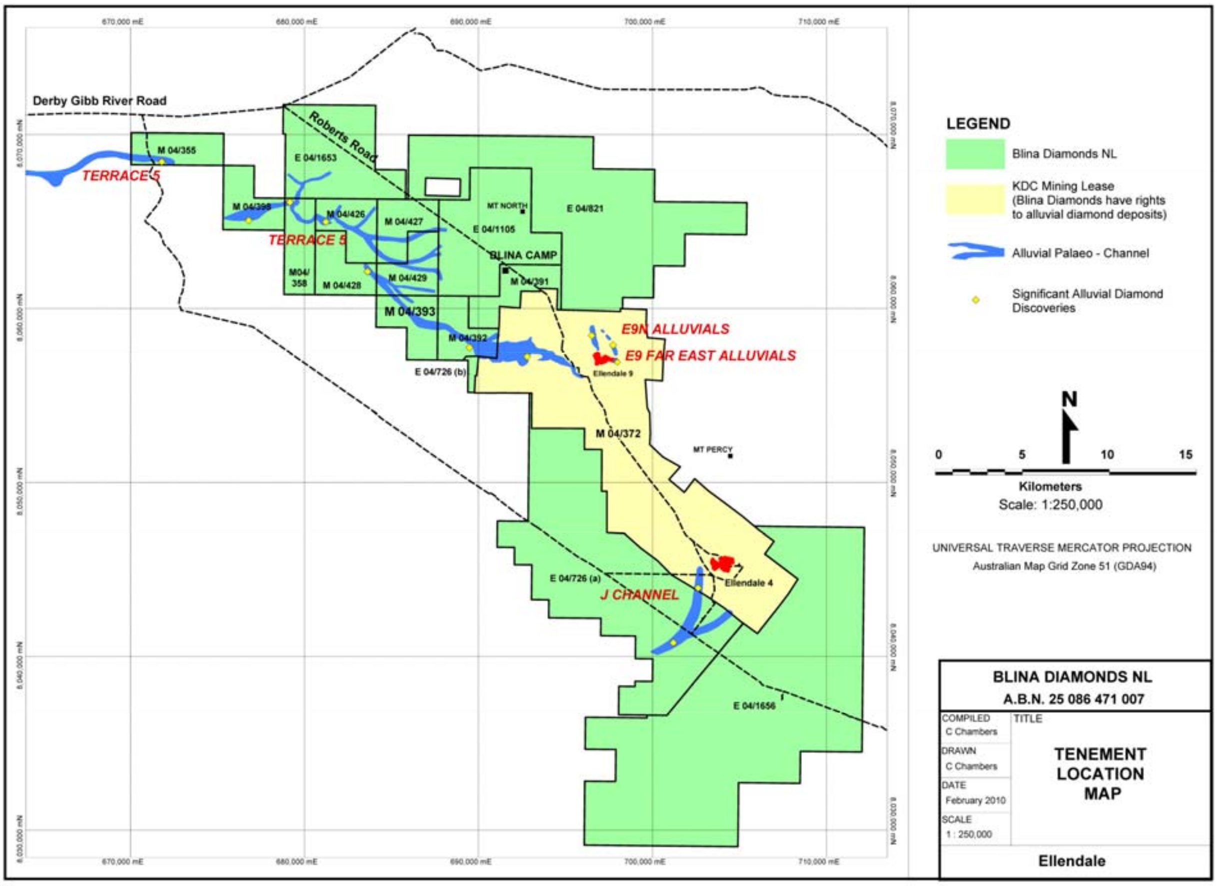
This period of low activity was well utilised in that the tailings storage facility was upgraded to cater for the wet season rain and bring the dam into a position where, should exploration activities recommence, the dam is capable of meeting the required compliance standards.

In addition to this, work continued on the review of the geophysical studies done earlier in the life of Blina and, as such, a number of targets were identified as having potential as a primary target. One of these targets was drilled before the onset of the 2009-2010 wet season and returned a negative result.

As part of the strategy to develop Blina, investigations into other opportunities were initiated and, post the end of the 2010 financial year, various announcements were made to the effect that Blina had signed a non-binding Memorandum of Understanding on a prospective project. The Company was successful with two capital raising initiatives during the year – one in November 2009 and the other in February 2010 to raise a total of $1,776,391 before share issue costs.

Blina has continued to benefit from high quality facilities to service their bulk sampling and exploration operations.

Figure 1
Tenement Location Map



TENEMENT ADMINISTRATION

Blina's tenement holding as at the end of June 2010 is presented below. Blina owns 100 per cent of 525 square kilometres of mining and exploration leases, and through Joint Venture agreements has access to an additional 124 square kilometres of mining lease owned by KDC.

Table 2
Schedule of Mining Tenements – 30 June 2010

Tenement	Notes	Area (km^2)	Date of Grant
E 04/0726	1	95	21/01/1993
E 04/0821	1	86	13/09/1993
E 04/1105	1	36	19/07/1999
E 04/1653	1	33	30/01/2008
E 04/1656	1	176	07/08/2008
M 04/355	1	10	11/01/2005
M 04/358	1	10	11/01/2005
M 04/391	1	10	10/06/2004
M 04/392	1	9	10/06/2004
M 04/393	1	10	10/06/2004
M 04/398	1	10	11/01/2005
M 04/426	1	10	19/02/2007
M 04/427	1	10	19/02/2007
M 04/428	1	10	19/02/2007
M 04/429	1	10	19/02/2007
TOTAL BLINA		525	
M 04/372	2	124	23/11/1999

Notes:
1. Blina registered tenement – 100% Blina
2. KDC registered Mining Lease

COMPETENT PERSON'S STATEMENT

The information in the Review of Operations set out on pages 1 and 2 of this annual report that relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Alistair Croll (B.Sc. Mining Engineering, GDE Mineral Economics), the Managing Director of Blina Diamonds NL and a full time employee of Kimberley Diamond Company NL, the Company's major shareholder. Mr Croll is a Member of The Australasian Institute of Mining and Metallurgy, included in a list promulgated by the ASX from time to time and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves. Mr Croll consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Blina Diamonds NL (Blina) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Blina on behalf of the shareholders by whom they are elected and to whom they are accountable.

The principal features of Blina's corporate governance regime and compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations are set out in this Corporate Governance Statement. For further information on corporate governance matters adopted by Blina, refer to our web site www.blinadiamonds.com.au.

Board of Directors

The Board is accountable to shareholders for the performance of Blina.

Roles and functions of the Board and senior management
(ASX Corporate Governance Principles and Recommendations: 1.1, 1.3, 2.3)

The Board has adopted a charter that sets out the functions and responsibilities of the Board within the governance structure of Blina. The conduct of the Board is also governed by the Company's Constitution.

The primary responsibilities of the Board are to:

- validate and approve corporate strategy, the annual budget and financial plans;
- appoint and assess the performance of the Managing Director;
- establish appropriate levels of delegation to the Managing Director;
- monitor the performance of the Managing Director, implementation of strategy and to ensure that appropriate resources are available;
- approve key executive appointments and review and approve executive remuneration;
- monitor Board composition, director selection and Board processes and performance;
- oversee the Company including review and ratification of systems of risk management, internal compliance and control, codes of conduct and legal compliance;
- approve and monitor financial and other reporting;
- monitor and influence the culture, reputation and ethical standards of the Company; and
- report to and communicate with shareholders.

The Managing Director's responsibilities include the overall operational, business management and financial performance of Blina whilst also managing the Company in accordance with the strategy, plans and policies approved by the Board to achieve agreed goals.

Senior executives reporting to the Managing Director have their roles and responsibilities defined in position descriptions. Blina's Board Charter is available on its website.

Board composition and size
(ASX Corporate Governance Principles and Recommendations: 2.1, 2.2, 2.3, 2.6)

During the financial year ended 30 June 2010, the Blina Board comprised the following directors:

Name	Position	Appointed
Brett Fraser	Independent Non-Executive Chairman	26/09/2008
Alistair Croll	Managing Director	17/03/2008
Lee-Anne de Bruin	Executive Director/Chief Financial Officer	18/06/2009

The directors determine the size of the Board, with reference to the Constitution and Blina's Board Charter, which provides there will be a minimum of three directors and a maximum of ten directors. However, it is the present intention of the Board to limit the maximum number of directors to no more than five.

Information on the skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and term of office are detailed in the Directors' Report.

Details of the number of Board meetings and the attendance of directors are detailed earlier in this Directors' Report.

During the financial year the Company did not comply with *Recommendation 2.1: A majority of the Board should be independent directors* for the reasons set out below.

The Company has one independent director, the Non-Executive Chairman, Mr Brett Fraser. The Board considers Mr Fraser to be independent as he is not a member of management and is free of any business or other relationships that could materially interfere with, or could reasonably be perceived to interfere with the independent exercise of his judgement. Mr Alistair Croll and Ms Lee-Anne de Bruin are not considered to be independent as they are the Managing Director and Chief Financial Officer of the Company's major shareholder Kimberley Diamond Company NL (KDC), respectively.

The directors are satisfied that the structure of the Board is appropriate for the size of the Company, the nature of its operations and its current financial standing. The structure and composition of the Board is subject to ongoing review.

No member of the Board, other than the Managing Director, may serve for more than three years or past the third annual general meeting following their appointment, whichever is the longer, without being re-elected by the shareholders. Prior to the Board proposing re-election of Non-Executive Directors, their performance will be evaluated by the Board ensuring that they continue to contribute effectively to the Board. Nominations for appointment to the Board are considered by the directors as a whole and with the objective to ensure that the Board comprises directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

Independence of Directors
(ASX Corporate Governance Principles and Recommendation: 2.1)

As stated above, the Company has one independent director, the Non-Executive Chairman, Mr Brett Fraser.

In assessing the independence of directors, the Board considers whether the director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is employed, or has previously been employed in an executive capacity by the Company and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a principal of a material professional adviser or a material consultant to the Company or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or an officer of, or otherwise associated directly or indirectly with, a material supplier or customer; and
- has a material contractual relationship with the Company or another Group member other than as a director of the Company.

The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant director's specific circumstances, rather than referring to a general materiality threshold.

Access to information
(ASX Corporate Governance Principles and Recommendation: 2.6)

Directors are encouraged to have direct communications with management and other employees within the Company to facilitate the carrying out of their duties.

The Board, Board Committees (where applicable) or individual directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior approval from the Chairman. A copy of any such advice received is made available to all members of the Board.

Remuneration and performance

Board remuneration and performance review
(ASX Corporate Governance Principles and Recommendations: 2.5, 2.6, 8.2, 8.3)

The Board conducts an annual review of the role of the Board, assessing its performance over the previous 12 months and examining ways of assisting the Board in performing its duties more effectively.

The annual review includes consideration of the following measures:

- comparing the performance of the Board against the requirements of its Charter;
- assessing the performance of the Board over the previous 12 months having regard to the corporate strategies, operating plans and the annual budget;
- reviewing the Board's interaction with management;
- reviewing the type and timing of information provided to the Board by management;
- reviewing management's performance in assisting the Board to meet its objectives; and
- identifying any necessary or desirable improvements to the Board Charter.

The method and scope of the performance evaluation will be set by the Board and may include a Board self-assessment checklist to be completed by each director. The Board may also use an independent adviser to assist in the review.

The Chairman has primary responsibility for conducting performance appraisals of Non-Executive Directors, in conjunction with them, having particular regard to:

- contribution to Board discussion and function;
- degree of independence including relevance of any conflicts of interest;
- availability for and attendance at Board meetings and other relevant events;
- contribution to Company strategy;
- membership of and contribution to any Board committees; and
- suitability to Board structure and composition.

There was no formal performance review of the Board during the financial year. A performance review of the Board will be deferred until such time as the Company's status becomes more active.

Non-Executive Directors receive fees (including statutory superannuation) for their services, the reimbursement of reasonable expenses and, in certain circumstances, options. They do not receive any termination or retirement benefits, other than statutory superannuation.

The maximum aggregate remuneration approved by shareholders for Non-Executive Directors is $250,000 per annum. The directors set the individual Non-Executive Directors' fees within the limit approved by shareholders. The total fees paid to Non-Executive Directors during the reporting period was $40,000.

The Company does not have a nomination committee as the directors consider the Company to be too small to warrant one. However, matters typically dealt with by such a committee are dealt with by the full Board.

The process for evaluating the performance of the Board and individual directors is set out in the Performance Evaluation Policy, which is available on the Company's website.

Executive remuneration and performance
(ASX Corporate Governance Principles and Recommendations: 1.2, 1.3, 8.2)

The executive of the Company, comprising the Managing Director and the Chief Financial Officer, are employed by the Company's major shareholder, KDC. KDC provides the services of the Managing Director and the Chief Financial Officer by way of a monthly management services charge, details of which are set out in the Related Party Transactions note to the attached financial statements. The Managing Director and the Chief Financial Officer have forgone their directors' fees. The monthly management services charge also covers the cost of the provision of office space and administrative support.

The Board annually reviews the performance of the Managing Director and other Executive Directors. At the commencement of each financial year, the Board and the Managing Director agree a set of generally company specific performance measures to be used in the review of the forthcoming year.

These will include:

(a) financial measures of the Company's performance;

(b) the extent to which key operational goals and strategic objectives are achieved;

(c) development of management and staff;

(d) compliance with legal and Company policy requirements; and

(e) achievement of key performance indicators.

The Managing Director assesses the performance of the senior executives within the Company which directly report to him. This is performed through a formal performance appraisal process and measured against key performance indicators, including the business performance of the Company, and agreed at the beginning of each financial year.

An evaluation of senior executives took place during the financial year in accordance with the Performance Evaluation Policy.

A formal evaluation of the performance of the Managing Director was not conducted during the financial year. However, the Managing Director was mandated to search and identify other commercial opportunities for the Company, which was completed to the satisfaction of the Board.

Board committees
(ASX Corporate Governance Principles and Recommendations: 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1, 8.3)

The current size and composition of the Board, with a Non-Executive Chairman and two Executive Directors, and the operations of the Company, are not sufficient to establish Committees to assist the Board in fulfilling its duties and that would meet the requirements of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. However, in the future, should the size and composition of the Board and the operations of the Company warrant it, the Board will give consideration to the establishment of the following committees:

(i) Nomination Committee;

(ii) Audit Committee; and

(iii) Remuneration Committee.

During the financial year the Company did not comply with *Recommendation 2.4: The Board should establish a nomination committee, Recommendation 4.1: The Board should establish an audit committee, Recommendation 4.2: Structure the audit committee so that it consists of only non-executive directors, consists of a majority of independent directors, is chaired by an independent director who is not chairperson of the Board and has at least three members, Recommendation 4.3: The audit committee should have a formal charter* and *Recommendation 8.1: The Board should establish a remuneration committee*, for the reasons set out above.

However, matters typically dealt with by the abovementioned committees and the functions of those committees are dealt with by the full Board.

The Board meets with the external auditor at least twice a year to review the adequacy of the existing external audit arrangements, with particular emphasis on scope, quality and independence of the audit. The external auditor will be required to report to the Board on its findings in relation to annual audits and half-yearly audit reviews as part of the process of the review and sign-off by the Board. The auditor will be rotated as is statutorily required.

Code of Ethics and Conduct
(ASX Corporate Governance Principles and Recommendations: 3.1, 3.3)

The Company has a Directors' Code of Conduct and a Corporate Code of Conduct which promote ethical and responsible decision-making by directors and employees.

The Codes of Conduct set out the:

- practices necessary to maintain confidence in the Company's integrity;
- practices necessary to take into account legal obligations and expectations of stakeholders; and
- responsibility and accountability of individuals for reporting and investigating unethical practices.

The Company's Directors' Code of Conduct and Corporate Code of Conduct are available on its website.

Securities Dealing Policy
(ASX Corporate Governance Principles and Recommendations: 3.2, 3.3, 8.3)

The Company has a Securities Dealing Policy regarding directors, employees and consultants trading in its securities. The policy restricts directors, employees and consultants from acting on material information until it has been released to the market and adequate time has been given for the information to be reflected in the security's prices.

The time for any director, employee, consultant or their associates to buy or sell the Company's securities is limited to the four (4) week period from the:

1. date of the Annual General Meeting;
2. release of the quarterly results announcement to the Australian Securities Exchange (ASX);
3. release of the half-yearly results announcement to the ASX;
4. release of the preliminary final results announcement to the ASX; and
5. release of the disclosure document offering securities in the Company.

Directors, employees, consultants and their associates must not trade in the Company's securities without advising the Chairman (or other person designated for this purpose) in advance and must receive written clearance before any dealing in the Company's securities. Clearance will not be given during a closed period.

The Company's directors and executives who are participating in an equity based incentive scheme are prohibited from entering into any transaction that would have the effect of hedging or otherwise transferring the risk of any fluctuation in the value of any unvested entitlement in the Company's securities to any other person.

The Company's Securities Dealing Policy is available on its website.

Continuous Disclosure
(ASX Corporate Governance Principles and Recommendations: 5.1, 5.2)

The Company's Continuous Disclosure Policy sets out the obligations under the ASX Listing Rules and Corporations Act for all directors and employees in relation to continuous disclosure and the type of information that requires disclosure. The Policy also provides procedures for internal notification and external disclosure, as well as procedures promoting understanding of compliance with the disclosure requirements and for monitoring compliance.

In addition, the Board considers whether there are any matters requiring disclosure in respect of each and every item of business that it considers in its meetings. Individual directors are required to make such a consideration when they become aware of information in the course of their duties as a director of the Company.

The Managing Director is the person primarily responsible for ensuring that the Company complies with its continuous disclosure obligations.

The Company's Continuous Disclosure Policy is available on its website.

Communications with Shareholders
(ASX Corporate Governance Principles and Recommendations: 6.1, 6.2)

The Company has a Shareholder Communications Policy which has been designed to promote effective communication with shareholders and encourage shareholder participation at annual general meetings.

The Company's Policy requires that shareholders are informed of all major developments that impact on the Company. The Managing Director has primary responsibility for communication with shareholders.

Information is communicated to shareholders through:

- distribution of the half-yearly and annual reports (in hardcopy when requested) via the Company's website;
- disclosures and announcements made to the ASX, which are placed on the Company's website;
- notices and explanatory memoranda of annual general meetings and general meetings;
- occasional letters from the Chairman to specifically inform shareholders of key matters of interest; and
- the Company's website where all reports, ASX announcements and media releases are posted.

The Company recognises the importance of shareholder participation in general meetings and supports and encourages that participation.

The Shareholder Communications Policy also provides that the Company's external auditor is required to attend each Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company's Shareholder Communications Policy is available on its website.

Recognise and Manage Risk
(ASX Corporate Governance Principles and Recommendations: 7.1, 7.2, 7.3, 7.4)

The Company has established policies for the oversight and management of material business risks.

The Board is responsible for approving and reviewing the Company's risk management policy. The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks.

The policy identifies potential risks by means of a comprehensive list of events across the elements of the business structure. Potential risks are assessed according to the likelihood of the risk event and the impact on the organisation. Risks with low likelihood and low impact have been excluded from the policy.

The Board has required and management has reported to the Board on the effectiveness of the management of the Company's material business risks. When considering its review of the financial reports, the Board receives a written statement from the Managing Director and the Chief Financial Officer, that the Company's financial reports give a true and fair view, in all material respects, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial statements are founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Management has reported to the Board as to the effectiveness of the Company's management of its material business risks.

The Board reviews the effectiveness of risk management and internal compliance and control on an annual basis.
A summary of the policies on risk management is available on the Company's website.

2010 FINANCIAL STATEMENTS

The directors present their report together with the financial report of Blina Diamonds NL (the Company), for the year ended 30 June 2010 and the independent auditor's report thereon.

1. DIRECTORS

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

Name	Period of directorship
Mr Brett F Fraser	Appointed 26 September 2008
Mr Alistair M Croll	Appointed 17 March 2008
Ms Lee-Anne De Bruin	Appointed 18 June 2009

The qualifications, experience, interests in shares and options and other directorships of the directors in office at the date of this report are:

Mr Brett F Fraser	Independent Non-Executive Chairman
Qualifications	FCPA, FFIN, B.Bus
Age	47 years
Experience	Appointed 26 September 2008. He has worked in the finance and securities industry for over 25 years, is a former owner of Redwave Media Limited and has owned and operated businesses across wine, health, finance, media and mining.
Interest in Shares and Options	15,000,000 unlisted options
Directorships held in other listed entities	Non-executive Chairman of Aura Energy Limited since August 2005, Drake Resources Limited since March 2004, Doray Minerals Limited since August 2009 and non-executive director of Gage Roads Brewing Co Limited from November 2007 to September 2008.
Mr Alistair M Croll	Executive Director
Qualifications	B.Sc Mining Engineering, GDE Mineral Economics
Age	51 years
Experience	Appointed 17 March 2008. He is the Managing Director of Kimberley Diamond Company NL (KDC), the Company's major shareholder. Previously held positions with the De Beers Group of Companies for 17 years including General Manager - Projects, Anglo Platinum for 3 years as General Manager - Mechanisation and joined Consolidated Minerals in 2005 as its General Manager - Underground and later as its Chief Operating Officer.
Interest in Shares and Options	20,000,000 unlisted options
Directorships held in other listed entities	Non-Executive Director of Jabiru Metals Limited from February 2006 to February 2008.
Ms Lee-Anne de Bruin	Executive Director
Qualifications	B.Comm, B.Acc, CA (SA)
Age	36 years
Experience	Appointed 18 June 2009. She is the Chief Financial Officer of KDC and has over 10 years financial experience, including 3 years in the diamond industry.
Interest in Shares and Options	15,000,000 unlisted options
Directorships held in other listed entities	No directorships in any other listed entities as at the reporting date or in the past three years.

2. COMPANY SECRETARY

Mr Peter Webse – FCIS, FCPA, MAICD, B.Bus was appointed to the position of Company Secretary on 30 May 2008. Mr Webse has over 20 years experience in similar company secretarial roles with listed companies. He holds the position of Company Secretary for the Company's major shareholder, KDC, and is also the Company Secretary for other listed entities.

3. 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:

	Board Meetings	
Director	A	B
Mr B F Fraser	10	10
Mr A M Croll	10	10
Ms L De Bruin	10	10

A Number of meetings attended.

B Number of meetings held during the time the director held office during the year that the respective director was eligible to attend as a member.

4. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year consisted of diamond exploration within the Ellendale diamond field located in the north of Western Australia.

5. OPERATING AND FINANCIAL REVIEW

The Company's net loss from ordinary activities after tax for the year ended 30 June 2010 was $1,291,338 (2009: $20,779,821).

5.1 Review of operations

Blina Diamonds NL (Blina) was placed on care and maintenance in September 2009 as a result of the global financial crisis and its impact on prevailing diamond prices. In order to minimise expenditure, Blina entered into an agreement with KDC to oversee the plant and camp of Blina during the care and maintenance period.

During 2010 diamond prices began to recover and at the end of the financial year planning on the recommencement of the exploration programme commenced.

This period of low activity was well utilised in that the Tailings Storage Facility was upgraded to cater for the wet season rain and bring the dam into a position where, should exploration activities recommence, the dam is capable of meeting the required compliance standards.

In addition to this, work continued on the review of the geophysical studies done earlier in the life of Blina and as such a number of targets were identified as having potential as a primary target. One of these targets was drilled before the onset of the 2009-2010 wet season and returned a negative result.

As part of the strategy to develop Blina, investigations into other opportunities for Blina were initiated and post the end of the 2010 financial year end, various announcements were made to the effect that Blina had signed a non-binding Memorandum of Understanding on a prospective project. The Company was successful with two capital raising initiatives during the year - one in November 2009 and the other in February 2010 to raise a total of $1,776,391 before share issue costs.

Blina has continued to benefit from high quality facilities to service their bulk sampling and exploration operations.

5.2 Review of financial condition

The Company had a working capital surplus of $1,104,129 as at 30 June 2010 (2009: $289,526) and reported a loss of $1,291,338 for the year then ended (2009: $20,779,821).

For the 12 months commencing from 30 June 2010, the Company is required to spend a minimum amount of $1,217,900 on exploration expenditure in order to maintain its right to tenure of exploration tenements. If necessary, the Company has the option to relinquish tenements in order to maintain its cash funds at an appropriate level. This will not have a financial effect as the exploration and evaluation assets have been fully impaired. On 8 September 2010, the Company raised $1,500,000 less fees from a share placement. Based on these facts, the Board considers the going concern basis of preparation to be appropriate for this financial report.

The Company will continue to keep the market informed of all material matters including, but not limited to, the Company's financial position.

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The only significant change in the state of affairs of the Company during the financial year was during September 2009 when it was decided by the Board that the plant be placed on care and maintenance.

7. ENVIRONMENTAL REGULATION

The Company's operations are subject to significant environmental regulations 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.

8. DIVIDENDS

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

9. LIKELY DEVELOPMENTS

The Company will continue to pursue exploration projects within the Ellendale Diamond Field in the north of Western Australia at a point in time when diamond prices recover to levels sufficient to support the activities.

10. SHARE OPTIONS

10.1 Options granted to directors and officers of the Company

There were no options granted during the financial year ended 30 June 2010. Subsequent to the end of the financial year 65,000,000 unlisted options were issued to the directors or their nominees with an exercise price of $0.02 and an expiry date of 27 August 2012.

10.2 Unissued shares under option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price ($)	Number of options
27 August 2012	0.02	65,000,000
26 June 2011	0.60	500,000
1 November 2010	0.25	5,800,000
		71,300,000

These options do not entitle the holder to participate in any share issues of the Company.

10.3 Shares issued on exercise of options

No ordinary shares were issued by the Company as a result of the exercise of options during or since the end of the financial year.

10.4 Share options expired

There were no options that expired during or since the end of financial year.

11. REMUNERATION REPORT - AUDITED

11.1 Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel comprise the directors of the Company.

The Company did not have any executive officers, other than executive directors, appointed at any time during the financial year.

11. REMUNERATION REPORT – AUDITED (CONT)

11.1 Principles of compensation (cont)

Compensation levels for key management personnel and the secretary of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Board may seek independent advice on the appropriateness of compensation packages, given trends in comparative companies both locally and internationally and the objectives of the Company's compensation strategy.

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. Compensation packages include a mix of fixed compensation, equity-based compensation, as well as employer contributions to superannuation funds.

Shares and options may only be issued to directors subject to approval by shareholders in a general meeting. The Board has no established retirement or redundancy schemes.

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board through a process that considers individual and overall performance of the Company. In addition, external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

11.1.1 Equity-based compensation (long-term incentive bonus)

The Board has an established Employee Option Plan, an equity-based long-term incentive (LTI), to promote continuity of employment and to provide additional incentive to increase shareholder wealth. LTIs are provided as options over ordinary shares of the Company and provided to key management personnel and staff based on their level of seniority and position within the Company (executive directors, executives, senior management and employees), details of which are listed below.

Blina Diamonds NL Employee Option Plan (employee option plan)

Blina has an employee option plan which provides for selected employees (including executives) and contractors to be offered the opportunity to subscribe for options over ordinary fully paid shares each year for no consideration. The number of options on issue at any time under the plan may not exceed 5% of the Company's issued capital. Each option carries the right to subscribe for one fully paid ordinary share. There are no voting or dividend rights attached to the options. The directors have the rights under the employee option plan to issue any new options on terms and conditions they determine appropriate.

As a result of the above plan the Company has, in prior financial periods and the current financial period, announced a number of option issues to the Company's employees, including certain contractors.

The terms and conditions of the grants made under the plan are as follows:

Grant date	Number of options	Vesting conditions	Expiry date
23 Nov 2007	5,000,000	None	1 Nov 2010
30 Nov 2007	800,000	None	1 Nov 2010

The 5,800,000 options issued in November 2007 were not subject to clause 5(a) of the Employee Option Plan vesting conditions.

The movement of options over ordinary shares in the Company held by employees, including certain contractors, as at 30 June 2010 under the plan are detailed below.

Grant date	Granted	Exercised	Forfeited	Cancelled	Expiry date
23 Nov 2007	5,000,000	-	-	-	1 Nov 2010
30 Nov 2007	800,000	-	-	-	1 Nov 2010

Short-term and long-term incentive structure

Given the Company's principal activity during the course of the financial year consisted of diamond exploration and for a period was on care and maintenance, the Board has given more significance to service criteria instead of market related criteria in setting the Company's incentive schemes. Accordingly, at this stage the Board does not consider the Company's earnings or earnings related measures to be an appropriate key performance indicator (KPI). In considering the relationship between the Company's remuneration policy and the consequences for the Company's shareholder wealth, changes in share price are analysed.

11. REMUNERATION REPORT – AUDITED (CONT)

11.1 Principles of compensation (cont)

Consequences of performance on shareholders' wealth

In considering the group's performance and benefits for shareholders' wealth, the directors had regard to the following in respect of the current financial year and the previous four financial years.

	2010	2009	2008	2007	2006
Net profit/(loss) attributable to equity holders of the parent	($1,291,338)	($20,779,821)	($1,904,704)	($2,802,412)	$316,025
Change in share price	($0.02)	($0.06)	($0.36)	($0.35)	($0.56)

11.1.2 Service contracts

Compensation and other terms of employment for the directors, key management personnel and the company secretary are formalised in contracts of employment.

11.1.3 Non-executive directors

Total compensation for all non-executive directors is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Non-executive directors' fees are presently limited to an aggregate of $250,000 per annum.

Non-executive directors do not receive performance related compensation. Directors' fees cover all main Board activities and membership of any committee. The Board has no established retirement or redundancy schemes in relation to non-executive directors.

11.2 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company are listed below. The Company did not have any executive officers, other than executive directors, appointed at any time during the financial year.

		Short-rerm		Post-employment	Share-based payments		Value of option as a proportion of remuneration %
		Salary & dees ($)	Manage-ment contract ($)	Super-annuation ($)	Options and rights ($)	Total ($)	
Directors							
Executive							
Mr J A Clarke, Operations Director	2010	-	-	-	-	-	
	2009	36,697	-	3,303	-	40,000	-
(resigned 18 June 2009)							-
Mr A M Croll[(A)]	2010	-	-	-	-	-	-
	2009	-	-	-	-	-	-
Ms L de Bruin[(A)] *(appointed 18 June 2009)*	2010	-	-	-	-	-	-
	2009	-	-	-	-	-	-
Mr F T Hoare *(resigned 3 April 2009)*[(A)]	2009	-	-	-	-	-	-
Non-executive							
Mr B F Fraser	2010	40,000	-	-	-	40,000	-
	2009	30,000	-	-	-	30,000	-
Total compensation: key management personnel	2010	40,000	-	-	-	40,000	
	2009	66,697	-	3,303	-	70,000	

11. REMUNERATION REPORT – AUDITED (CONT)

11.2 Directors' and executive officers' remuneration (cont)

Notes in relation to the table of directors' and executive officers' remuneration

(A) Ms L de Bruin, Mr A M Croll and Mr F Hoare forgave their remuneration entitlements as directors.

11.3 Equity instruments

All options refer to options over ordinary shares of Blina, which are exercisable on a one-for-one basis.

11.3.1 Options over equity instruments granted as compensation

There were no options granted as remuneration during the end of the financial year. For further details refer to 11.2 of the Directors' Report. Subsequent to the end of the financial year 65,000,000 options (comprising 50,000,000 to directors and 15,000,000 to a nominee) were granted.

11.3.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

11.3.3 Exercise of options granted as compensation

No options over ordinary shares previously granted as compensation were exercised by key management personnel during the reporting period or the prior period.

11.3.4 Analysis of options over equity instruments granted as compensation

There were no options granted as remuneration during the financial year.

11.3.5 Directors' interests

The relevant interest of each director in the shares and options over such instruments issued by the Company, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares Fully Paid	Options
Mr B F Fraser	-	15,000,000
Mr A M Croll	-	20,000,000
Ms L de Bruin	-	15,000,000

12. INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

12.1 Indemnification

The Company indemnifies each of its directors, officers and company secretary. The Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties, except where the liability arises out of conduct involving lack of good faith, and in 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 its current auditors indemnifying them against any claims by third parties arising from their report on the financial report.

12.2 Insurance premiums

Insurance premiums in respect of directors' and officers' liability and legal expenses' insurance contracts, for current directors and officers, including executive officers of the Company and secretaries are borne by the Company's majority shareholder's ultimate parent entity, GEM Diamonds Limited (GEM).

13. NON-AUDIT SERVICES

During the year KPMG, the Company's previous auditor, did not perform any services other than their statutory audits. Subsequent to the end of the financial year MGI was appointed as auditor by way of a General Meeting of shareholders. MGI conducted the audit for the 2010 financial year.

In the event that non-audit services are provided by MGI, the Board has established certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- non-audit services will be subject to the corporate governance procedures adopted by the Company and will be reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and

- ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of amounts paid to the auditors and previous auditors of the company, and its related practices for audit services provided during the year are set out below:

	2010 $	2009 $
Audit Services:		
Current Auditors	14,000	-
Previous Auditors of the Company:		
Audit and review of financial reports	15,338	38,826

14. EVENTS SUBSEQUENT TO REPORTING DATE

On 30 August 2010, shareholders approved the issue of 65,000,000 unlisted options (comprising 50,000,000 to directors and 15,000,000 to a nominee) at an exercise price of $0.02 each and with an expiry date of 27 August 2012.

Approval was also granted for the future placement of up to 600,000,000 shares at an issue price of not less than 80% of the average market price on the ASX for the Company's shares over the last 5 trading days on which sales in the shares were recorded before the date of issue.

On 8 September 2010, the Company announced the placement of 136,363,636 ordinary fully paid shares at $0.011 per share, raising $1,500,000 before costs. The shares were issued to sophisticated investors.

On 10 August 2010, the Company announced it had entered into a non-binding Memorandum of Understanding with a foreign entity to exclusively conduct due diligence on mineral exploration assets in Asia. The due diligence is to be completed to the satisfaction of the Company before 30 September 2010. If the results of the due diligence enquiries are satisfactory, the Company will seek to enter into a binding Option Agreement to acquire 100% of the issued capital of the Asian entity.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

15. LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 8 and forms part of the directors' report for the financial year ended 30 June 2010.

Dated at West Perth this 29th day of September 2010.

Signed in accordance with a resolution of the directors:

ALISTAIR M CROLL
EXECUTIVE DIRECTOR

LEE-ANNE DE BRUIN
EXECUTIVE DIRECTOR

mgi
BUSINESS SOLUTIONS
WORLDWIDE

MGI Perth Audit Services
ABN 14 105 426 064
Level 7, The Quadrant,
1 William Street,
GPO Box 2570,
Perth, Western Australia 6001

T: +61 8 9463 2463
F: +61 8 9463 2499

E: audit@mgiperth.com.au

Lead auditor's independent declaration under section 307C of the Corporations Act 2001

To the directors of Blina Diamonds NL

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

(i) no contraventions of the auditors independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

MGIPAS

MGI Perth Audit Services

Amar Nathwani

Amar Nathwani B.Eng, CA
Director

Perth
29 September 2010

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Revenue from sale of product		676,075	2,465,609
Cost of product sold			
Site expenses		(630,692)	(2,659,192)
Royalties	*7*	(53,293)	(201,749)
Commission on sales		(6,761)	(24,655)
Depreciation	*7*	-	(268,000)
Inventory movement		(591,783)	591,783
Total cost of product sold		(1,282,529)	(2,561,813)
Gross Profit/(loss)		(606,454)	(96,204)
Other income	*6*	117,121	1,486,725
Impairment expense	*7*	(321,753)	(21,832,145)
Administrative expenses		(464,443	(434,929)
Loss from operating activities		(1,275,529)	(20,876,553)
Financial income		30,048	100,754
Financial expenses		(45,857)	(4,022)
Net financing income/(expense)	*9*	(15,809)	96,732
Loss before tax		(1,291,338)	(20,779,821)
Income tax benefit	*11*	-	-
Loss after tax		(1,291,338)	(20,779,821)
Other comprehensive income/(loss) for the year, net of tax		-	-
Total comprehensive loss for the year		(1,291,338)	(20,779,821)
Basic loss per share	*12*	$0.005	$0.113
Diluted loss per share	*12*	$0.005	$0.113

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Current Assets			
Cash and cash equivalents	*13*	1,360,963	45,073
Trade and other receivables	*14*	150,197	596,729
Inventories	*15*	10,647	608,259
Total Current Assets		1,521,807	1,250,061
Non-Current Assets			
Other receivables	*14*	344,000	440,000
Investments	*16*	-	1,534
Property, plant and equipment	*17*	1,243,514	1,424,126
Exploration and evaluation assets	*18*	-	-
Total Non-Current Assets		1,587,514	1,865,660
Total Assets		3,109,321	3,115,721
Current Liabilities			
Trade and other payables	*20*	397,678	940,535
Provisions	*21*	20,000	20,000
Total Current Liabilities		417,678	960,535
Non-Current Liabilities			
Provisions	*21*	1,537,650	1,417,746
Total Non-Current Liabilities		1,537,650	1,417,746
Total Liabilities		1,955,328	2,378,281
Net Assets		1,153,993	737,440
Equity			
Issued capital	*22*	28,702,076	26,994,185
Reserves	*22*	728,796	728,796
Accumulated losses		(28,276,879)	(26,985,541)
Total Equity		1,153,993	737,440

The statement of financial position is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2010

	Issued capital $	Accum. losses $	Asset revaluation reserve $	Fair value reserve $	Share-based payments reserve $	Total equity $
Balance at 1 July 2008	26,994,185	(6,205,720)	387,558	-	728,796	21,904,819
Income and expense recognised directly in equity	-	-	(387,558)	-	-	(387,558)
Loss for the year	-	(20,779,821)	-	-	-	(20,779,821)
Other comprehensive loss for the year	-	-	-	-	-	-
Total comprehensive loss for the year	-	(20,779,821)	-	-	-	(20,779,821)
Closing balance at 30 June 2009	26,994,185	(26,985,541)	-	-	728,796	737,440
Balance at 1 July 2009	26,994,185	(26,985,541)	-	-	728,796	737,440
Loss for the year	-	(1,291,338)	-	-	-	(1,291,338)
Other comprehensive loss for the year	-	-	-	-	-	-
Total comprehensive loss for the year	-	(1,291,338)	-	-	-	(1,291,338)
Transactions with owners in their capacity as owners:						
Shares issued	1,776,391	-	-	-	-	1,776,391
Transaction costs on share issue	(68,500)	-	-	-	-	(68,500)
Closing balance at 30 June 2010	28,702,076	(28,276,879)	-	-	728,796	1,153,993

The statement of changes in equity is to be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Cash receipts from customers		640,810	2,465,609
Cash receipts from provision of processing and stemming services		-	971,921
Cash paid to suppliers and employees		(1,088,832)	(3,286,388)
Cash generated from operations		(448,022)	151,142
Interest received		25,487	70,621
Interest paid		(3,229)	(1,567)
Net cash (outflow)/inflow from operating activities	*26*	(425,764)	220,196
Cash flows from investing activities			
Cash receipts from Environmental Bonds		56,000	-
Cash receipts from Bank Guarantees		40,000	-
Payments for exploration and evaluation expenditure		-	(2,393,176)
Receipts recovered during the exploration and evaluation phase		-	770,811
Payments for property, plant and equipment		(63,771)	(36,368)
Proceeds on disposal of investments		1,534	-
Net cash (outflow)/inflow from investing activities		33,763	(1,658,733)
Cash flows from financing activities			
Proceeds from share issue		1,776,391	-
Share issue cost		(68,500)	-
Proceeds from Forward Sales Agreement		-	700,000
Net cash inflow from financing activities		1,707,891	700,000
Net increase/(decrease) in cash and cash equivalents		1,315,890	(738,537)
Cash and cash equivalents at the beginning of the period		45,073	783,610
Cash and cash equivalents at the end of the period	*13*	1,360,963	45,073

The statement of cash flows is to be read in conjunction with the accompanying notes.

1. REPORTING ENTITY

Blina Diamonds NL (the Company) is a company domiciled in Australia. The address of the Company's registered office is Level 3, 52 Kings Park Road, West Perth Western Australia 6005. The Company is primarily involved in the exploration of diamonds.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standard Board (AASB) and the Corporations Act 2001. The financial report of the Company also complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 28 September 2010.

(b) Financial position

The Company had a working capital surplus of $1,104,129 as at 30 June 2010 (2009: $289,526) and reported a loss of $1,291,338 for the year then ended (2009: $20,779,821).

For the 12 months commencing from 30 June 2010, the Company is required to spend a minimum amount of $1,217,900 on exploration expenditure in order to maintain its right to tenure of exploration tenements. If necessary, the Company has the option to relinquish tenements in order to maintain its cash funds at an appropriate level. This will not have a financial effect as the exploration and evaluation assets have been fully impaired. On 8 September 2010, the Company raised $1,500,000 less fees from a share placement. Based on these facts, the Board considers the going concern basis of preparation to be appropriate for this financial report.

(c) Basis of measurement

The financial report has been prepared on the historical cost basis except for financial instruments classified as available-for-sale, property plant and equipment and exploration and evaluation assets which are stated at fair value.

(d) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Company's functional currency.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various 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.

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 and in any future periods affected.

Judgements made by management in the application of Australian Accounting Standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3(t).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in this financial report.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(a) Foreign currency

(i) Foreign currency transactions and balances

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on retranslation are recognised in the income statement.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified on the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Trade and other receivables

Trade and other receivables are stated at amortised cost. Receivables are usually settled within 60 days.

Collectability of trade and other debtors is reviewed on an ongoing basis. An impairment loss is recognised for debts which are known to be uncollectible. An impairment provision is raised for any doubtful amounts.

Available-for-sale financial assets

Listed equity securities held by the Company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss recognised directly in equity, except for impairment losses (see note 3(f)). Where these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of listed equity securities classified as available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised/(derecognised) by the Company on the date it commits to purchase/(sell) the investments.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid and stated at their amortised cost. The amounts are unsecured and are generally settled on 30 day terms.

(ii) Share capital

Ordinary issued capital is recorded at the consideration received. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit. Ordinary issued capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of mining inventories is determined using a weighted average basis. Cost includes direct materials, direct labour, mining costs, related transportation costs to the point of sale and other fixed and variable overhead costs directly related to mining activities.

The cost of other inventories is based on a weighted average basis. The cost of other inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(d) Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Company has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation costs are recognised as an asset if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment accounting policy 3(f)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash-generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation assets to mine properties within property, plant and equipment.

Proceeds from the sale of diamonds recovered as a result of bulk sampling from identified areas of interest are offset against exploration and evaluation costs.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 3(f) and note 3(d) for exploration and evaluation assets).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(e) Property, plant and equipment (cont)

(iii) Depreciation

With the exception of exploration and evaluation assets, depreciation is charged to the income statement on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

Depreciation rates and methods are reviewed annually for appropriateness. The depreciation rates used for the current and comparative period are:

	2010	2009
Office furniture and equipment	11%	11%
Plant and equipment	10%	10%
Buildings and infrastructure	10%	10%
Motor vehicles	33%	33%
Restoration and rehabilitation asset	10%	10%

The residual value, if significant, is reassessed annually.

(iv) Mine properties

Mine properties are the result of exploration and evaluation expenditure that have been reclassified. The carrying value of mine properties is to be depreciated in line with depletion of reserves.

(f) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Financial assets are tested for impairment on an individual basis.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories (see accounting policy 3(c)), and deferred tax assets (see accounting policy 3(o)) and exploration and evaluation assets (see accounting policy 3 (d)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(f) Impairment (cont)

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions onto a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the income statement as incurred.

(ii) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are taken by the employees.

For the period ending 30 June 2010, no amount for short term benefits has been recognised in the financial statements as the company has no employees.

(iii) Other long-term benefits

The Company's obligation in respect of long-term employee benefits other than definite benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the Reserve Bank of Australia's cash rate at the report date that have maturity dates approximating the terms of the Company's obligations. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

For the period ending 30 June 2010, no amount for long term benefits has been recognised in the financial statements as the company has no employees.

(iv) Share-based payment transactions – equity settled

Share-based compensation benefits are provided to employees via the Company's various share option plans. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market conditions not being met.

(h) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(h) Provisions (cont)

(i) Site restoration and rehabilitation

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration and rehabilitation in respect of disturbed land is recognised when the land is disturbed.

The provision is the best estimate of the present value of the expenditure required to settle the restoration and rehabilitation obligation at the reporting date, based on current legal requirements and technology. Future restoration and rehabilitation costs are reviewed annually and any changes are reflected in the present value of the restoration and rehabilitation provision at the end of the reporting period.

The amount of the provision for future restoration and rehabilitation costs is capitalised and depreciated in accordance with the policy set out in note 3(e). The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(i) Advance from GEM

This amount represents the obligations to deliver diamonds to the forward sales agreement which has been drawndown.

(j) Asset revaluation reserve

The revaluation reserve relates to exploration assets measured at fair value in accordance with applicable Australian Accounting Standards.

(k) Revenue

(i) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or there is a risk of return of goods or there is continuing management involvement with the goods.

(l) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(m) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Financial expenses comprise interest expense on borrowings calculated using the effective interest method, unwinding of discounts on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(n) Loss per share

(i) Basic loss per share

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

(ii) Diluted loss per share

Diluted earnings/(loss) per share adjusts the figures used in the determination of basic earnings/(loss) per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(o) Income tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Goods and services tax

Revenue, 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

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.

(q) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are regularly reviewed by the Company's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(r) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

- AASB 2009-10 *Amendments to Australian Accounting Standard – Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Company's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Company's 30 June 2011 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT)

(s) Fair value estimation

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Information about the assumptions made in determining fair values of assets and liabilities are disclosed in the notes specific to that asset or liability.

(t) Accounting estimates and judgements

Management discusses with the Board the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Site restoration and rehabilitation provision

The Company assesses its site restoration and rehabilitation provision at each balance date in accordance with accounting policy 3(h). Significant judgement is required in determining the provision for site restoration and rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate and restore the mine sites and related assets. Factors that will affect this liability include future development, changes in technology, price increases and changes in interest rates. When these factors change or become known in the future, such differences will impact the site restoration and rehabilitation provision and asset in the period in which they change or become known.

(ii) Share-based payments

The Company measures the fair value of options at grant date using an option pricing model. Significant judgement is required in determining the volatility to be used in the model.

(iii) Impairment of mine properties

The ultimate recoupment of the value of mine properties is dependent on successful development and commercial exploitation or alternatively, sale, of the underlying mineral exploration properties. The Company undertakes at least on an annual basis, a comprehensive review for indicators of impairment of these assets. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The key areas of estimation and judgment that are considered in this review include:

- recent drilling results and reserves and resource estimates;
- environmental issues that may impact the underlying tenements;
- the estimated market value of assets at the review date;
- independent valuations of underlying assets that may be available;
- fundamental economic factors such as diamond prices, exchange rates and current and anticipated operating costs in the industry; and
- the Company's market capitalisation compared to its net assets.

Information used in the review process is rigorously tested to externally available information as appropriate.

(iv) Impairment of property plant and equipment and buildings and infrastructure

In determining any impairment of property plant and equipment an estimate is determined of the fair value less cost to sale of the assets. The fair value of an asset is the best estimate of the price reasonably attainable in the market at the reporting date.

4. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and procedures for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of directors has overall responsibility for the establishment and oversight of the risk management framework. 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 risks for the Company and setting appropriate risk limits and controls. The Company is not of a size nor is its affairs of such complexity to justify the establishment of a formal system for risk management and associated controls. Instead, the Managing Director approves all expenditure, is intimately acquainted with all operations and reports all relevant issues to the directors at the Board meetings. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively.

Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and related parties.

Trade and other receivables

The Company's exposure to credit risk is influenced by the individual characteristics of each customer. Trade and other receivable balances as at 30 June 2010 do not represent receivables arising from sales. The Company's sales are of such a nature that it does not transfer ownership of its product until relevant sales funds are receipted. Accordingly, the Company does not have customer specific or geographic concentration of credit risk arising from the sale of goods.

The Company's trade and other receivables relate to the provision of processing services for its related entity ore insurance prepayments, and a claim for the ATO diesel fuel rebate. The Company therefore does not have a formal credit risk policy however counterparties are analysed for their creditworthiness before transacting with them. The Company does not require collateral in respect of trade and other receivables.

The Company continually monitors customer credit risk on an individual basis and has not allowed for impairment losses as at 30 June 2010 as it has determined each of its receivable balances to be current and collectable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The Company does not maintain any lines of credit. Please refer to the financial position note 2(b) for more details surrounding the Company's financial position and related liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4. FINANCIAL RISK MANAGEMENT (CONT)

Interest rate risk

The Company is not exposed to significant interest rate risk exposures and does not enter into interest rate swap contracts.

Capital management

The Company's policy is to maintain a capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the availability of liquid funds in order to meet its short term commitments. It does this by ensuring that its current ratio (current assets divided by current liabilities) remains in excess of 1:10.

Current ratio for this financial year and previous is as follows:

	2010	2009
Current ratio	3.64	1.30

The Company is not subject to externally imposed capital requirements.

5. SEGMENT REPORTING

This is the first year the Company has adopted AASB 8 *Operating Segments*. The accounting policies used by the Company in reporting segments are in accordance with the measurement principles of Australian Accounting Standards.

The Company has identified its operating segments based on the internal reports that are provided to the Board of Directors. There are a number of exploration projects located in Western Australia at various stages of development. According to AASB 8 *Operating Segments*, two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- the nature of the products and services;
- the nature of the production processes;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- if applicable, the nature of the regulatory environment, for example; banking, insurance and public utilities.

Management has identified that all projects in Western Australia have similar economic characteristics and are similar in nature taking into account each of the abovementioned aspects. The principal activity for all projects is exploration of diamonds. Each project has the same production services, class of customers, most likely the same methods to distribute the diamonds in future and the nature of the regulatory environment which is Australia, is the same for each project. Hence, Management has identified one operating segment based on the location of the projects, being Western Australia.

As only one operating segment has been identified, no segmental information has been disclosed as the information presented in the financial statements represents the segmental information for Australia.

6. OTHER INCOME

	2010 $	2009 $
Sale of Stemming	-	290,550
Processing of Ore	88,000	1,143,216
Other	29,121	52,959
	117,121	1,486,725

		2010 $	2009 $
7.	**EXPENSES**		
	Included in income statement		
	Impairment expenses:		
	Impairment of exploration assets on existing tenements	-	15,419,899
	Impairment of exploration assets on relinquishment of tenements	-	4,389,504
	Impairment of property, plant and equipment	321,753	2,022,742
		321,753	21,832,145
	Depreciation of:		
	Office furniture and equipment	-	3,688
	Plant and equipment	-	222,545
	Buildings and infrastructure	-	125,419
	Motor vehicles	-	34,320
	Restoration and rehabilitation assets	-	148,929
		-	534,901
	Depreciation capitalised to exploration and evaluation assets	-	(266,901)
	Depreciation included in income statement	-	268,000
	Royalties:		
	Government	33,804	161,821
	Vendors – related entity	19,489	97,093
	Other parties	-	4,500
		53,293	263,414
	Royalty expenses capitalised to exploration and evaluation assets	-	(61,665)
	Royalties included in income statement	53,293	201,749
8.	**PERSONNEL EXPENSES**		
	Wages and salaries	97,159	1,459,193
	Other associated personnel expenses	24,924	99,502
	Superannuation costs	8,744	131,327
	Increase/(decrease) in liability for annual leave	-	(42,490)
	Total personnel expenses	130,827	1,647,532
	Personnel expenses capitalised to exploration and evaluation assets	-	(494,260)
		130,827	1,153,272
9.	**NET FINANCING INCOME**		
	Interest income	30,048	100,754
	Financial income	30,048	100,754
	Interest expense	(3,323)	(1,568)
	Impairment loss on available for sale investments	-	(2,454)
	Mine rehabilitation and site restoration discount unwind	(42,534)	(64,231)
	Less: capitalised finance expenses	-	64,231
	Financial expense	(45,857)	(4,022)
	Net financing income	(15,809)	96,732

	2010 $	2009 $
10. AUDITOR'S REMUNERATION		
Audit services:		
Auditors of the Company – MGI	14,000	-
Previous auditors of the Company – KPMG	15,338	38,826
	29,338	38,826
11. INCOME TAX EXPENSE/BENEFIT		
Current tax expense/benefit		
Current period	-	-
	-	-
Recognised in the income statement		
Deferred tax expense		
Origination and reversal of temporary differences	-	(1,333)
Under/(over) provision for prior periods	-	1,333
Total income tax expense/(benefit) in income statement	-	-
Numerical reconciliation between tax expense/(benefit) and pre-tax net profit/(loss)		
Loss before tax	(1,291,338)	(20,779,821)
Income tax expense/(benefit) using the domestic corporation tax rate of 30% (2009: 30%)	(387,401)	(6,233,946)
Increase in income tax due to:		
Non-deductible expenses	132	378
Effect of unrecognised temporary difference	(45,077)	294,826
Under provision for prior periods	-	1,333
Effect of current tax losses not recognised	430,091	731,083
Derecognition of previously recognised tax losses	20,119	5,262,864
Effect of current year capital losses not recognised	4,725	4,045
Decrease in income tax due to:		
Tax deductible equity raising costs	(22,589)	(60,583)
Income tax expense/(benefit) attributable to entity	-	-

12. LOSS PER SHARE

Basic loss per share	$0.005	$0.113

The calculation of basic loss per share at 30 June 2010 was based on the net loss for the period attributable to ordinary shareholders of $1,291,338 (2009: $20,779,821) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 251,836,699 (2009: 184,260,646).

Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	184,260,646	184,260,646
Effect of share options exercised	-	-
Effect of shares issued	67,576,053	-
Weighted average number of ordinary shares at 30 June	251,836,699	184,260,646
Basic and diluted loss per share	$0.005	$0.113

The Company is in a loss making position and it is unlikely that the conversion to, calling of, or subscription for, ordinary share capital in respect of potential ordinary shares would lead to a diluted earnings per share that shows an inferior view of the earnings per share. For this reason, the diluted loss per share for the year ended 30 June 2010 is the same as basic loss per share.

	Note	2010 $	2009 $
13. CASH AND CASH EQUIVALENTS			
Bank balances		51,475	45,073
Short term deposits		1,309,488	-
Cash and cash equivalents in the statements of cash flows		1,360,963	45,073
14. TRADE AND OTHER RECEIVABLES			
Current:			
Prepayments		125,759	122,643
Other receivables		24,438	29,708
Receivable – related entity	*27*	-	444,378
		150,197	596,729
Non-current:			
Environmental bonds*		344,000	400,000
Security deposit		-	40,000
		344,000	440,000

*The ultimate recoupment of the environmental bonds is dependent on the completion, to the satisfaction of the Department of Mines and Petroleum, of rehabilitation of the site. The environmental bond facility is currently held in the name of KDC although the beneficial owner of the bond is Blina.

	Note	2010 $	2009 $
15. INVENTORIES			
Diamond inventory – at net realisable value*		-	591,783
Stores stock – at cost		10,647	16,476
		10,647	608,259

*During the year ended 30 June 2010 the write-down of inventory was nil (2009: $75,210).

	Note	2010 $	2009 $
16. INVESTMENTS			
Non-current :			
Listed equity securities available for sale	*(i)*	-	1,534
		-	1,534

(i) The Company holds nil (2009: 261,356) ordinary shares in Resource & Investment NL (RNI) as all shares held were disposed of during the year.

17. PROPERTY, PLANT AND EQUIPMENT

	Note	2010 $	2009 $
Office furniture and equipment:			
At cost		34,200	34,200
Accumulated depreciation		(14,008)	(14,008)
		20,192	20,192
Plant and equipment:			
At cost		2,827,746	2,763,975
Accumulated depreciation		(2,375,658)	(2,202,699)
		452,088	561,276
Buildings and infrastructure:			
At cost		1,712,657	1,712,657
Accumulated depreciation		(1,498,644)	(1,498,644)
		214,013	214,013
Motor vehicles:			
At cost		344,765	344,765
Accumulated depreciation		(276,120)	(276,120)
		68,645	68,645
Mine Properties			
At cost		560,000	560,000
Accumulated depreciation		(71,424)	-
		488,576	560,000
Rehabilitation Asset			
At cost		1,533,063	1,455,693
Accumulated depreciation		(1,533,063)	(1,455,693)
		-	-
Total property, plant and equipment		1,243,514	1,424,126

Reconciliation

A reconciliation of the carrying amounts for each class of property, plant and equipment is set out below:

	Note	2010 $	2009 $
Office furniture and equipment:			
Carrying amounts at the beginning of the year		20,192	14,817
Additions		-	9,063
Depreciation		-	(3,688)
Carrying amount at the end of the year		20,192	20,192
Plant and equipment:			
Carrying amounts at the beginning of the year		561,276	2,211,647
Additions		63,771	18,312
Depreciation		-	(222,544)
Impairment charge	*(i)*	(172,959)	(1,446,139)
Carrying amount at the end of the year		452,088	561,276

17. PROPERTY, PLANT AND EQUIPMENT (CONT)

	Note	2010 $	2009 $
Buildings and infrastructure:			
Carrying amounts at the beginning of the year		214,013	1,250,591
Additions		-	5,234
Depreciation		-	(125,419)
Impairment charge	*(i)*	-	(916,393)
Carrying amount at the end of the year		214,013	214,013
Motor vehicles:			
Carrying amounts at the beginning of the year		68,645	102,965
Additions		-	-
Depreciation		-	(34,320)
Carrying amount at the end of the year		68,645	68,645
Mine Properties:			
Carrying amounts at the beginning of the year		560,000	-
Transfers from exploration and evaluation assets		-	560,000
Impairment charges	*(ii)*	(71,424)	-
Carrying amount at the end of the year		488,576	560,000
Rehabilitation asset:			
Carrying amounts at beginning of the year		-	-
Additions		77,370	-
Impairment	*(i)*	(77,370)	-
Carrying amount at the end of the year		-	-
Total property, plant and equipment		1,243,514	1,424,126

(i) The recoverable amount of the Plant Equipment and Buildings and Infrastructure was estimated based on fair value. In determining fair value a Depreciable Replacement Cost (DRC) was used. The DRC approach considers the cost to reproduce or replace similar assets with an asset in new condition, including allowance for installation, less an amount for depreciation in the form of wear and tear, economic and functional obsolescence. In the absence of an active market, this method is an acceptable method to estimate the fair value of these types of assets. Based on the assessment the recoverable amount of the assets was $172,959 (2009: $2,362,532) lower than the carrying amount. An impairment charge of $172,959 (2009: $2,022,742) was recorded in the income statement. The events causing an impairment have been the decision to place the plant on care and maintenance, a decline in market value of the assets and also evidence that the asset may be partly obsolete.

(ii) The recoverable amount of mine properties was based on a valuation conducted by a related party (a GEM employee) and reviewed by an independent third party, CSA Global Pty Ltd. This valuation was based on the recently market released resource statement. Current diamond prices, exchange rates as well as indicative mining costs per tonne for similar operations were used in determining the valuation. Based on the assessment the asset was $71,424 lower than the carrying amount. An impairment charge of $71,424 was recorded in the income statement.

18. EXPLORATION AND EVALUATION ASSETS

	Note	2010 $	2009 $
Exploration and evaluation assets		-	-
Reconciliation			
Carrying amount at the beginning of the year		-	18,501,167
Expenditure during the period		-	2,217,484
Depreciation		-	(266,901)
Change in estimate of rehabilitation costs		-	736,232
Proceeds from the sale of rough diamonds recovered from exploration		-	(770,811)
Impairment of exploration assets on relinquishment of tenements	*(i)*	-	(4,389,504)
Impairment of exploration assets on existing tenements		-	(15,467,667)
Transfer to Mine Properties		-	(560,000)
Carrying amount at the end of the year		-	-

(i) The Company relinquished a number of diamond exploration tenements during the current financial year. The carrying value of those tenements is nil (2009: $4,389,504).

19. TAX ASSETS AND LIABILITIES

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2010 $	2009 $
Deductible temporary difference	1,141,720	976,305
Tax income losses	6,697,565	6,940,403
Tax capital losses	216,652	211,926
	8,055,937	8,128,634

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits from.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Property, plant & equipment	-	-	(146,573)	(168,000)	(146,573)	(168,000)
Exploration & evaluation assets	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Other payables and provisions	-	-	-	-	-	-
Site restoration provision	-	-	-	-	-	-
Accrued income	-	-	(1,308)	-	(1,308)	-
Tax value of losses recognised	147,881	168,000	-	-	147,881	168,000
	147,881	168,000	(147,881)	(168,000)	-	-

19. TAX ASSETS AND LIABILITIES (CONT)

Movement in temporary differences during the year

	1/7/2009 $	Under/ over provision $	Recognised in Income $	Recognised in Equity $	Other $	30/6/2010 $
Property, plant and equipment	(168,000)	-	21,427	-	-	(146,573)
Exploration and evaluation assets	-	-	-	-	-	-
Other receivables (prepayments)	-	-	-	-	-	-
Other payables and provisions	-	-	-	-	-	-
Site restoration	-	-	-	-	-	(70,917)
Tax value of losses recognised	168,000	-	(20,119)	-	-	147,881
Accrued income	-	-	(1,308)	-	-	(1,308)
	-	-	-	-	-	-

	1/7/2008 $	Under/ over Provision $	Recognised in Income $	Recognised in Equity $	Other $	30/6/2009 $
Property, plant and equipment	(3,321)	(605)	(164,074)	-	-	(168,000)
Exploration & evaluation assets	5,394,795	1,938	(5,396,733)	-	-	-
Other receivables (prepayments)	6,298	-	(6,298)	-	-	-
Other payables and provisions	(63,991)	-	63,991	-	-	-
Site restoration	(70,917)	-	70,917	-	-	-
Tax value of losses recognised	(5,262,864)	-	5,430,864	-	-	168,000
	-	1,333	(1,333)	-	-	-

The deferred tax assets have not been brought to account at balance date as the realisation of these is not probable.

This benefit (which has been calculated as 30% of losses and deductions available) will only be obtained if:

(i) The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) The Company continues to comply with the conditions for deductibility imposed by the tax legislation; and

(iii) No changes in tax legislation adversely affect the Company in realising the benefit from the deduction for the losses.

20. TRADE AND OTHER PAYABLES

	Note	2010 $	2009 $
Current:			
Trade creditors		26,848	62,741
Payable – related entity		356,601	-
Other creditors and accruals		14,229	177,794
Advance from Gem Diamonds Ltd	*27*	-	700,000
		397,678	940,535

21. PROVISIONS

	Bunuba obligation $	Site restoration $	Total $
Balance at 1 July 2009	20,000	1,417,746	1,437,746
Provisions made/released during the year	-	77,370	77,370
Unwind of discount	-	42,534	42,534
Balance at 30 June 2010	20,000	1,537,650	1,557,650
Disclosed as:			
Current	20,000	-	20,000
Non-current	-	1,537,650	1,537,650
	20,000	1,537,650	1,557,650

Bunuba provision

The provision represents the fair value of equity instruments to be granted under the Bunuba Native Title and Compensation Agreement with the Bunuba people and estimated legal fees. In June 1992 the High Court of Australia held in the Mabo case that the common law of Australia recognises a form of Native Title. The Company's exploration and mining tenements relate to land where native title may continue to exist. At this stage it is not possible to quantify what the outcome (if any) may have on the Company. However Blina has executed an agreement with the Bunuba people, the registered native title claimants whose claim covers a portion of the area comprised within the Blina tenements, relating to all exploration, mining and other tenements, and all ancillary rights and interests of Blina within the Agreement Area.

As part of the agreement with the Bunuba people Blina has, subject to certain conditions, agreed to the following obligations, which it is yet to satisfy:

- the issue of 100,000 Blina shares credited as fully paid
- the issue of 5 million options over Blina shares, exercisable within 3 years from the issue date at $0.60 each.

These obligations have not yet crystallised as they are dependent on the Bunuba fulfilling certain conditions which at the date of signing this financial report these conditions had not been met.

Site restoration

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land is recognised when the land is disturbed. The basis of accounting is set out in note 3(h)(i) of the significant accounting policies.

Change in accounting estimates

During the year, the core assumptions used in determining the present value of the provision have changed. The cash rate used to determine the discount rate of cash flows has increased from 2.5% (2009) to 4.5% (2010). The inflation rate used to predict future cash flows has increased from 2.5% (2009) to 2.9% (2010). In addition during the year a reassessment of restoration obligations was undertaken by a third party. The above changes during the year have resulted in the present value increasing by $77,370 (2009: $604,979).

22. ISSUED CAPITAL AND RESERVES

	2010 $	2009 $
Ordinary shares		
Issued and fully paid at 1 July	26,994,185	26,994,185
Share issue	1,776,391	-
Share issue expenses	(68,500)	-
	28,702,076	26,994,185
Reserves		
Share based payment reserve	728,796	728,796

22. ISSUED CAPITAL AND RESERVES (CONT)

	Ordinary Shares 2010	Ordinary Shares 2009
Movement in ordinary shares		
On issue at 1 July	184,260,645	184,260,645
Issued during the year	177,639,096	-
On issue at 30 June	361,899,741	184,260,645

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Options granted to key management on 23 Nov 07	5,000,000	None	3 years
Options granted to key management on 30 Nov 07	800,000	None	3 years
Options granted to consultants on 26 June 06	500,000	None	5 years

Terms and conditions

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets. Ordinary shares have no par value.

Options over shares

	Note	2010		2009	
		Options	Exercise price ($)	Options	Exercise price ($)
On or before 26 June 2011	*(i)*	500,000	0.60	500,000	0.60
On or before 1 November 2010	*(ii)*	5,800,000	0.25	5,800,000	0.25
		6,300,000		6,300,000	

(i) These options were issued to various consultants relating to work completed in respect of Aboriginal liaison and negotiations.

(ii) These options were issued to the Company's employees, including certain contractors.

Share-based payments reserve

The share-based payments reserve represents the fair value of equity instruments issued to employees as compensation and issued to external parties for the receipt of goods and services.

23. EMPLOYEE BENEFITS

With the exception of employee share-based payments listed below, the Company does not provide for any employee benefits beyond normal statutory requirements.

Share-based payments

The Board has introduced the Blina Diamonds NL Employee Option Plan, an equity-based long-term incentive (LTI), to promote continuity of employment and to provide additional incentive to increase shareholder wealth. LTIs are provided as options over ordinary shares of the Company and may be issued to directors, executives and employees. Details of equity-based LTIs issued to senior management and employees are summarised below. No equity-based LTIs have been issued to directors and executives of the Company.

Blina Diamonds NL Employee Option Plan

At the general meeting held on 24 November 2004, shareholders approved the Blina Diamonds NL Employee Option Plan (employee option plan). The employee option plan provides for selected employees (including executives) and contractors to be offered the opportunity to subscribe for options over ordinary fully paid shares each year for no consideration. The number of options on issue at any time under the plan may not exceed 5% of the Company's issued capital.

Each option carries the right to subscribe for one fully paid ordinary share.

23. EMPLOYEE BENEFITS (CONT)

Blina Diamonds NL Employee Option Plan (cont)

As a result of the above plan, the Company announced the issue of 5,000,000 unlisted options on 23 November 2007 and a further 800,000 unlisted options on 30 November 2007, to subscribe for ordinary fully paid shares in the Company at any time on or before 1 November 2010 at an exercise price of $0.25 each. Each option is convertible to one fully paid ordinary share. By resolution of the Board, the 5,800,000 options issued in November 2007 were not subject to vesting conditions, in accordance with clause 5(a) of the Employee Option Plan.

The fair value of the options is estimated at the date of grant using the Black-Scholes model. The following table sets out the assumptions made in determining the fair value of the options granted:

	Date of grant	
	23 Nov 2007	30 Nov 2007
Dividend yield	0.00%	0.00%
Expected volatility	75.00%	75.00%
Risk-free interest rate	6.75%	6.75%
Expected life of option (years)	3.00	3.00
Option exercise price	$0.25	$0.25
Share price at date of grant	$0.21	$0.21
Fair Value of Options	$0.10	$0.10

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future periods which may also not necessarily be the actual outcome. The following table illustrates the number and weighted average exercise prices (WAEP) of share options issued under the option plan.

	2010 number	2010 WAEP	2009 number	2009 WAEP
Outstanding at the beginning of the year	5,800,000	$0.40	5,800,000	$0.40
Adjustment from prior year	-	-	-	-
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Outstanding at the end of the year	5,800,000	$0.40	5,800,000	$0.40
Exercisable at the end of the year	$0.25	$0.25	$0.25	$0.25

The options outstanding at 30 June 2009 and 30 June 2010 have an exercise price of $0.25 fully exercisable on or before 1 November 2010.

24. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and liquidity risks arises in the normal course of the Company's business.

Credit risk

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Note	Carrying amount	
		2010 $	2009 $
Cash and cash equivalents	*13*	1,360,963	45,073
Trade and other receivables	*14*	349,052	1,036,729

24. FINANCIAL INSTRUMENTS (CONT)

Exposure to credit risk (cont)

The Company's maximum exposure to credit risk at the reporting date was $1,710,015 (2009, $1,081,802).

Impairment Losses

There are no past due receivables for the Company (2009: nil).

Liquidity Risk

The Company's exposure to liquidity risk is the risk that it will not be able to meet its financial obligations as they fall due. The Company's exposure approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

	Carrying amount $	Contractual cash flows $	6 mths or less $	6-12 mths $	1-2 years $	2-5 years $
Year ended 30 June 2010						
Trade and other payables	397,678	397,678	397,678	-	-	-
	397,678	397,678	397,678	-	-	-
Year ended 30 June 2009						
Trade and other payables	940,535	940,535	240,535	700,000	-	-
	940,535	940,535	240,535	700,000	-	-

Market risk

The Company is exposed to interest rate risk that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the Australian dollar (AUD). The Company is predominantly exposed to currency risk on diamond sales, which are denominated in US dollars. The Company does not have a policy to hedge its exposure to currency risk arising from sales and converts sales receipts to AUD at spot rates applicable on the date of transaction.

There were no foreign denominated assets or liabilities as at the balance sheet date 30 June 2010 or 30 June 2009, and as such no sensitivity analysis has been undertaken.

Interest rate risk

The Company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

Profile

At the reporting date the interest rate profile of the Company was:

	Carrying amount 2010 $	Carrying amount 2009 $
Variable rate instruments		
Financial assets (i)	1,360,963	45,073
Environmental bonds	344,000	440,000

(i) The amount relates to cash and cash equivalents which is subject to cash rate movements from time to time.

24. FINANCIAL INSTRUMENTS (CONT)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss or as available-for-sale financial assets. Therefore a change in interest rates at the reporting date would not affect profit and loss or equity.

Cash flow sensitivity analysis for variable rite Instruments

A change of 100 basis points in the interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

in AUD	Equity	
	100bp increase	100bp decrease
	$	$
30 June 2010		
Variable rate instruments	17,060	(17,060)
30 June 2009		
Variable rate instruments	4,850	(4,850)

Fair value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

in AUD	Note	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
		$	$	$	$
Financial assets					
Cash and cash equivalents	*13*	1,360,963	1,360,963	45,073	45,073
Trade and other receivables	*14*	4,360	4,360	152,351	152,351
Receivable - related entities	*14*	-	-	444,378	444,378
Investments available-for-sale	*16*	-	-	1,534	1,534
Bonds and security deposits	*14*	344,000	344,000	440,000	440,000
Total financial assets		1,709,323	1,709,323	1,083,336	1,083,336
Financial liabilities					
Trade and other payables	*20*	41,077	41,077	240,535	240,535
Payable – related entities	*20*	356,601	356,601	700,000	700,000
Total financial liabilities		397,678	397,678	640,535	940,535

Estimation of fair values

The methods and assumptions used in determining the fair values of financial instruments are disclosed in the accounting policy notes specific to the asset or liability

25. CAPITAL AND OTHER COMMITMENTS

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report as they are commitments for future expenditure at year end. Capital and other commitments comprise amounts to be expended on exploration tenements, as per tenement conditions. Should the company relinquish these tenements, the amounts stated above may reduce. Further, the company may decide to sell tenements or renegotiate commitment terms to reduce such commitments.

	2010	2009
	$	$
Within one year	1,217,900	1,303,000
Later than 1 year and no later than 5 years	5,037,500	5,101,000
Later than 5 years	10,235,100	11,227,000
	16,490,500	17,631,000

26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Loss for the period	(1,291,338)	(20,779,821)
Adjustments for:		
Relinquished exploration assets	-	4,389,504
Impairment of exiting exploration tenements	-	2,022,742
Impairment of plant and equipment	321,753	15,419,899
Depreciation	-	268,000
Unwinding of discount on provision	42,534	-
Impairment of financial assets	-	2,454
Operating (loss)/profit before changes in working capital and provisions	(927,051)	1,322,778
Decrease/(Increase) in inventories	597,612	(516,043)
Decrease/(increase) in receivables	446,533	(544,049)
Decrease in trade and other payables	(542,858)	-
Decrease in annual leave provision	-	(42,490)
Net cash (outflow)/inflow from operating activities	(425,764)	220,196

27. RELATED PARTIES

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors	Non-executive directors
Mr Alistair M Croll	Mr Brett F Fraser
Ms Lee-Anne De Bruin	

Key management personnel compensation

The key management personnel compensation included in 'personnel expenses' (see note 8) are as follows:

	2010	2009
	$	$
Short-term employee benefits	40,000	66,667
Post-employment benefits	-	3,303
	40,000	70,000

27. RELATED PARTIES (CONT)

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosure as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' Report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Other related party transactions

KDC and GEM
Transactions with KDC and GEM

During the financial year ended 30 June 2010, the Company sold 2,100.35 carats to KDC achieving a sale value of $676,075 (2009: $3,236,426). Proceeds of the sale have been applied against the loan receivable from KDC.

The Company has an agreement with KDC under which KDC manages the Company's day-to-day financial, statutory, and administrative affairs and allows the Company to use the offices and office facilities in which KDC has secured certain rights as the Company's head office. These services (Management Services) include general corporate, management, administrative, financial, secretarial, and office services to the Company through KDC's team of professionally qualified and administrative staff. The total amount charged for management services by KDC for the financial year ended 30 June 2010 was $136,000 (2009: $180,000), none of which is outstanding at 30 June 2010.

During September 2009 the Blina plant was placed under care and maintenance. An agreement was made between Blina and KDC that KDC would maintain the plant whilst on care and maintenance. This agreement was made at arm's length. During the financial year ended 30 June 2010 Blina paid $10,000 for care and maintenance fees, none of which remains outstanding at 30 June 2010.

During the financial year ended 30 June 2010 the Company charged KDC $88,000 to process exploration samples (2009: $1,143,216). This transaction was done at arm's length. As at 30 June 2010 none of this remains outstanding.

During the reporting period ended 30 June 2009 the Company entered into an agreement with KDC for KDC to hire a genset owned by Blina. The agreement was done at arm's length. During the financial year ended 30 June 2010 $16,684 (2009: Nil) was charged by the company to KDC, none of this amount remains outstanding at 30 June 2010.

During the financial year ended 30 June 2010 Blina paid a 1.5% royalty on its sales to Kimroy Pty Ltd and Royell Ltd. Kimroy Pty Ltd and Royell Pty Ltd are wholly owned subsidiaries of KDC. During the financial year ended 30 June 2010 Blina paid $10,141 to each of the entities (2009 $48,547 each). As at 30 June 2010 the loans with Kimroy Pty Ltd and Royell Pty Ltd have been offset with the loan receivable from KDC.

During the financial year ended 30 June 2010 Blina paid a 1% commission to Kimberley Diamonds Australia BVBA (KDA) on its sales to KDC. KDA is a wholly owned subsidiary of KDC. The amount paid during the year was $6,760 (2009: $32,364), none of which is outstanding.

During the financial year ended 30 June 2010 the Company terminated the Forward Sales Agreement (FSA) it had entered into with GEM on the 23 September 2008. The FSA agreement was terminated because of the depressed rough diamond prices at the time and Blina did not have (and did not foresee in the medium term to have) the ability to continue mining diamonds.

Pursuant to the terms of the FSA, GEM advanced $700,000 to Blina in lieu of diamonds to be delivered by Blina to GEM. Diamonds to the value of $700,000 were mined by Blina and delivered to, and subsequently sold by KDC for and on behalf of GEM. The proceeds accruing from the sale of the diamonds by KDC have been applied to the loan balance between KDC and Blina and as such have not been paid to GEM to set off against the amount of $700,000 previously advanced to Blina by GEM pursuant to the FSA.

GEM has ceded to KDC all its rights to the claim against Blina for the $700,000 it advanced to Blina in terms of the FSA. Following the ceding KDC and Blina have set off the $700,000 against the amount owing by KDC to Blina as at 28 February 2010 of $343,399.

As at 30 June 2010 Blina owes KDC $356,601.

28. SUBSEQUENT EVENTS

On 30 August 2010, shareholders approved the issue of 65,000,000 unlisted options (comprising 50,000,000 to directors and 15,000,000 to a nominee) at an exercise price of $0.02 each and with an expiry date of 27 August 2012.

Approval was also granted for the future placement of up to 600,000,000 shares at an issue price not less than 80% of the average market price on the ASX for the Company's shares over the last 5 trading days on which sales in the shares were recorded before the date of issue.

On 08 September 2010, the Company announced the placement of 136,363,636 ordinary fully paid shares at $0.011 per share, raising $1,500,000 before costs. The shares were issued to sophisticated investors.

On 10 August 2010, the Company announced it had entered into a Memorandum of Understanding with an Asian entity to exclusively conduct due diligence on mineral exploration assets in Asia. The due diligence is to be completed to the satisfaction of the Company before 30 September 2010. If the results of the due diligence enquiries are satisfactory, the Company will seek to enter into a binding Option Agreement to acquire 100% of the issued capital of the Asian entity.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

1. In the opinion of the directors of Blina Diamonds NL ("the Company"):

    (a) the financial statements and notes and the remuneration disclosures that are contained in sections 12.1, 12.2 and 12.3 of the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:

        (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

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

    (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);

    (c) the remuneration disclosures that are contained in sections 12.1, 12.2 and 12.3 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

    (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable. Without qualifying this statement, please refer to note 2(b) which discusses the basis for this statement.

2. The directors have been given the declarations required by Section 295A of Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2010.

Dated at West Perth this 29th day of September 2010.

Signed in accordance with a resolution of the directors:

ALISTAIR M CROLL EXECUTIVE DIRECTOR	LEE-ANNE DE BRUIN EXECUTIVE DIRECTOR

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MGI Perth Audit Services
ABN 14 105 426 064
Level 7, The Quadrant,
1 William Street,
GPO Box 2570,
Perth, Western Australia 6001

T: +61 8 9463 2463
F: +61 8 9463 2499

E: audit@mgiperth.com.au

Independent auditor's report to the members of Blina Diamonds NL

We have audited the accompanying financial report of Blina Diamonds NL (the Company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes and the directors' declaration of the Company.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Blina Diamonds NL is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 9 to 12 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Blina Diamonds NL for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

MG IPAS

MGI Perth Audit Services

Amar Nathwani

Amar Nathwani B.Eng, CA
Director

Perth
29 September 2010

SHAREHOLDER INFORMATION
AS AT 30 SEPTEMBER 2010

1. CAPITAL

Ordinary Share Capital
498,263,377 ordinary fully paid shares held by 2,682 shareholders.

All issued ordinary shares carry one vote per share and carry the right to receive dividends when declared.

Options	No. of Holders	Name of Holder
5,800,000 unlisted options expiring 1/11/2010 exercisable at $0.25	13	Employee Incentive Scheme
500,000 unlisted options expiring 26/6/2011 exercisable at $0.60	1	C Wolf
Unlisted options expiring 27/8/2012 exercisable at $0.02		
15,000,000		B Fraser
20,000,000		A Croll
15,000,000		L de Bruin
15,000,000		J Stephenson

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	97,256,497	19.52

3. DISTRIBUTION OF SHAREHOLDERS AS AT 30 SEPTEMBER 2010

DISTRIBUTION ANALYSIS	NUMBER OF HOLDERS	NUMBER OF SHARES	PERCENTAGE
1 – 1,000	683	261,272	0.05
1,001 – 5,000	979	2,366,273	0.47
5,001 – 10,000	254	1,878,954	0.38
10,001 – 100,000	431	15,364,175	3.08
100,001 and over	335	478,392,703	96.02
TOTAL	2,682	498,263,377	100.00

As at 30 September 2010 there were 2,172 fully paid ordinary shareholders holding less than marketable parcel.

4. 20 LARGEST HOLDERS OF EACH CLASS OF QUOTED SECURITIES AS AT 30 SEPTEMBER 2010

FULLY PAID ORDINARY SHARES	NUMBER	PERCENTAGE
Kimberley Diamond Company	97,256,497	19,52
Two Tops Pty Ltd	16,045,455	3.22
Taycol Nominees Pty Ltd	15,859,091	3.18
Doulton, Antony Cokayne	14,509,840	2.91
BT Portfolio Services Ltd <Warrell Holdings S/F>	13,545,455	2.72
JP Morgan Nominees Australia Ltd	9,090,915	1.82
Celtic Capital Pty Ltd <Celtic Capital A/C>	9,090,909	1.82
Jeremy Nominees Pty Ltd <Jeremy Investment A/C>	8,674,132	1.74
Surfboard Pty Ltd (ARW Super Fund No. 1 A/C>	8,181,818	1.64
Picadilly Resources Pty Ltd	7,500,000	1.51
French, John Cameron	7,000,000	1.40
Ardon, Rick	5,000,000	1.00
Millswest Pty Ltd	5,000,000	1.00
Kingslane Pty Ltd <Cranston Super A/C>	4,545,455	0.91
Bahen, Mark John & Margaret Patricia <Super A/C>	4,000,000	0.80
Third Reef Pty Ltd <Back Reef A/C>	4,000,000	0.80
Wertheim, Michael	4,000,000	0.80
HSBC Custody Nominees Australia Ltd	3,895,302	0.78
HSBC Custody Nominees Australia Ltd	3,893,507	0.78
Fiske Nominees Ltd	3,688,289	0.74
	244,776,665	49.09

5. ON-MARKET BUY-BACK

There is no current on-market buy-back.

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BLINA DIAMONDS NL ABN 25 086 471 007
Level 3, 52 Kings Park Road, West Perth Western Australia 6005 PO Box 806 West Perth WA 6872
T +61 8 9426 9888 F +61 8 9426 9899 E general@blinadiamonds.com.au W www.blinadiamonds.com.au