DWYKA DIAMONDS LIMITED

A.B.N. 98 060 938 552

ANNUAL REPORT
30 JUNE 2006

DWYKA DIAMONDS LIMITED

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COMPANY PARTICULARS

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Board of directors
Melissa J Sturgess
Adrian Griffin
Cedric J Bredenkamp
Edward FG Nealon
Evan Kirby
Michael J Langoulant

Company secretary
Michael J Langoulant

Auditor
PricewaterhouseCoopers

Share register
Computershare Share Registry Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000

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Stock exchange listings
Dwyka Diamonds Limited is listed on the Australian Stock Exchange (Shares: DWY,) and on the Alternative Investment Market of the London Stock Exchange (Shares: DWY).

Solicitors
Clayton Utz (Australia)
Werkmans (South Africa)

DWYKA DIAMONDS LIMITED

CHAIRMAN'S LETTER

Dear Shareholder

This financial year has seen the company bring on line its fifth revenue producing asset whilst continuing to progress our exploration portfolio. In terms of the company's growth the commissioning of the De Beers Tailing retreatment plant in Kimberly is significant. With the first diamonds extracted from tailings in July 2006 the project is underpinned by two key imperatives; in-house ability to develop projects into production and the ability to secure joint venture agreements with industry majors.

The tailings plant, now running at 50,000 tonnes per month, was not the only project to be brought into production during the period. The hard rock diamond projects Newlands and Blaauwbocsh saw their diamond first sales in October 2005. The rapid pace of development of these projects has been realised through the expertise of our team and a regional focus. Concentrating our attention on producing assets within South Africa has seen clear cost and infrastructure benefits at all five of our revenue generating projects and gives our exploration teams a solid base from which to pursue our earlier stage assets.

Success at our four diamond extraction projects has also been complemented by the continued strong performance of the company's Industrial Division supplying building products to the South African construction industry.

In addition to the success in securing the De Beers tailings project our ongoing relationship with industry majors has reaped benefits within our exploration portfolio. During the year we signed a new agreement with De Beers to acquire and undertake exploration on two diamondiferous kimberlite pipes in Tanzania.

Our exploration and development activities have been substantially strengthened with the appointment of Adrian Griffin as CEO in December of last year. Adrian has spent 30 years in the mining industry with responsibilities including exploration, feasibility, financing and development of a wide range of commodities. His exposure includes professional involvement in Africa, Asia, Eastern Europe, Australia and Antarctica. He has been instrumental in the development of operations exploring for and producing a range of commodities which include gemstones, iron ore, base metals, mineral sands, platinum group metals and gold.

Over the next twelve months we shall continue to aggressively progress the company's exploration projects and look to optimize production from our portfolio of revenue producing assets. The management of the company is also currently looking at ways in which we can bring our expertise in successfully operating mines to bear on new projects in South Africa and thus secure further cash flow for the company.

The company's team is a cohesive and committed group of professionals and I thank them for their continued and unwavering commitment.

M J Sturgess
Chairman

Date: 29 September 2006

DWYKA DIAMONDS LIMITED

OPERATIONS AND FINANCIAL REVIEW

Operating Results

Introduction

Dwyka Diamonds Limited’s (the “company”) production operations are located in the Northern Cape Province of the Republic of South Africa, near Kimberley, one of the world’s most prolific diamond producing areas. Exploration focus included areas within the vicinity of the company’s mines and greenfields exploration in India.

Highlights during the year included:

- The company, together with its black economic empowerment (BEE) partner, Kolong Investment Holdings (Pty) Limited, completed the construction, and commenced commissioning, of the SMI4 plant to retreat diamond tailings under agreement with De Beers.

- The company commenced underground development of its hard-rock, kimberlite-hosted diamond mines, Blaauwbosch and Newlands, which were acquired in September 2005 and required capital development to bring them back into production. The New Elands mine, which is close to Blaauwbosch, remains on care and maintenance. The company intends to dewater and develop the mine in 2007.

- The Nooitgedacht alluvial diamond operation continued its record of regularly producing large good quality stones.

- The company undertook successful exploration activities at Bosele, near Newlands, recovering diamonds from crater sediments thought to be the high level expression of a kimberlitic extrusive. Exploration in India, under joint venture with BHP, was successful in recovering kimberlitic indicator minerals which were compatible with the diamond stability field. No source rocks were located in either case.

- The company negotiated the purchase of various assets from De Beers, including a fully equipped mechanical workshop and pilot sampling plants. A long term lease on office premises was negotiated for a nominal rental.

- The company completed an agreement to the purchase of two diamondiferous kimberlites in Tanzania, from De Beers.

De Beers Tailings Re-treatment Project - 40% (BEE partner 60%)

SuperKolong (Pty) Limited, a BEE initiative company established by the company together with BEE partner Kolong Investments, completed construction of the dense media separation plant to process diamond tailings from De Beers’ Kimberley mines. The operation is governed by an agreement with De Beers Consolidated Mines Limited, the owners of the tailings, pursuant to which SuperKolong (Pty) Limited is paid a toll treating charge, designed to cover operating costs. SuperKolong will also receive a share of the diamond revenue which results from selling the product through De Beers.

During the reporting period the company held 40 percent equity in SuperKolong (Pty) Ltd through its 100% owned subsidiary Supermix Mining (Pty) Limited.

Nooitgedacht Alluvial Mine – 100%

The Nooitgedacht mine is located on the farm Nooitgedacht some 15 km north west of Kimberley, South Africa. The farm extends for 6km along the eastern bank of the Vaal River, covering an area of 4,671 hectares.

Between the late 1940s and the 1970s, a small portion of the Nooitgedacht property was mined by diggers under a license arrangement with De Beers Consolidated Mines Limited. During this period, historical records note that some 76,000 carats were recovered in total from the property, with the largest stone being the Venter diamond that weighed 511 carats. This is the largest alluvial diamond recovered in South Africa, and the subsequent diamond rush resulted in the recovery of two diamonds greater than 300 carats. A total of 14 diamonds weighing greater than 100 carats each have been recovered from the Nooitgedacht property, including one recovered by the company.

Nooitgedacht is a low-grade, low-cost producer however the diamonds recovered are of high value. In July 2005 the company sold an 18.11 carat for US$7,100 per carat. Other large stones produced during the year included a 42 carat stone which sold for US$7,167 per carat, a 17 carat stone which sold for US$2,105 per carat and an 11 carat stone which sold for US$1,616.00 per carat. During the year 120,365 tonnes of gravel were treated recovering 1,074.42 carats at an average grade of 0.89 cpht.

Positive cash flow from the Nooitgedacht operation relies, to a large extent, on the sporadic recovery of large diamonds. To reduce the exposure to extended periods of cash outgoings, without the revenue from large stones, the company has implemented a plan to produce revenue from mining products apart from diamonds. At present the mining operations produce a large quantity of competent cobbles and boulders which are screened and rejected as part of the diamond recovery process. These cobbles and boulders have been tested for suitability as concrete aggregate and filler. The positive test results have culminated in the decision to construct a crushing plant on site to produce metal and dust for consumption in the company's brick and concrete business. The utilisation of this waste mining material will greatly reduce the material input costs of bricks and concrete produced in Kimberley, and reduce the financial exposure the Nooitgedacht diamond recovery operations have to sustained periods of low revenue.

Blaauwbosch Kimberlite Mine – 100%

The Blaauwbosch mine is located approximately 90 km east of Kimberley in the well known diamond producing area of Boshoff. The Blaauwbosch pipe (3.71 acres at surface) was mined to a depth of about 110 metres producing an estimated 967,000t of ore, yielding some 338,000 carats at an average grade of 34.95 carats per hundred tonne ("cpht"). Operations were ceased in 1967 due to flooding.

Following acquisition of the mine, the company commenced a capital upgrade programme to recommence production. The programme included:

- Deepening the existing shaft to 220m
- Developing a new haulage level at 205m
- Installing ore passes and travelling ways
- Refurbishing the winder
- Developing an alternative access and improved ventilation
- Processing plant upgrade

This capital development programme has been designed to open the ore-body for a more organised mining plan which will have the effect of increasing the tonnes of ore being delivered to the plant and decreasing the average costs of the operation. At the end of the financial year, much of the planned capital development was complete. Connection of the stoping levels to the bottom haulage level is anticipated in October 2006 and production stoping will commence at that time. This will effectively signal the commencement of underground mining operations at Blaauwbosch. Completion of the second access shaft and plant upgrade is scheduled for early 2007.

Blaauwbosch Kimberlite Mine – 100% (continued)

At full production the company anticipates processing 10,000 tonnes per month of underground ore to produce 46,000 carats per annum.

In addition to the current capital programme there is additional potential from the Blaauwbosch project in the form of un-mined blows and fissure systems. It is likely that these will be able to undergo economic exploitation in the future, thereby lengthening the mine life of Blaauwbosch and further improving the economics of the asset.

Newlands Kimberlite Mine – 100%

This Newlands Mine, purchased in September 2005, is located 60 km north-west of Kimberley on the Harts River. The mine workings exploit one of five kimberlite blows, which occur on two north-east striking fissures. The other blows and the fissures also contain diamonds, representing additional project potential which will be exploited once the current Newlands operation is fully ramped up.

The blow presently being mined consists of multiple magmatic phases which appear to have variations in grade, with the highest grade associated with an intrusion close to the core of the blow. Historic mining had removed some of the higher grade material on existing production levels. To improve availability and to maintain target grades, an internal shaft is being sunk to provide access to new working levels and higher grade material. The planned shaft depth is 220m. Production will be maintained during the course of the shaft sink.

A second shaft, not connected to the areas presently being worked, provides access to one of the other blows, which has reportedly produced commercial diamonds in the past. The company plans to dewater the workings and examine the kimberlite in 2007. Material has been recovered from the top of one of the other blows by surface mining.

Both tailings and hard rock were processed through the plant resulting in throughput of 26,253 tonnes from which 4,570.32 carats of diamonds were recovered. At full production the company anticipates processing 10,000 tonnes per month to produce 18,600 carats per annum.

New Elands Kimberlite Mine – 100%

The New Elands Mine is located on the remaining extent of farm New Elands 949, situated 90km northeast of Kimberley in the Boshof district, Free State Province, South Africa. It is approximately 6 km north-north-east of Blaauwbosch. New Elands historically produced some 1.5 million tonnes from dykes and kimberlite blows, yielding approximately 464,000 carats at an estimated grade of 34.24 cpht. The main haulage shaft is well preserved and it is the company’s plan to re-develop this mine. Underground examination and development will commence when both the Blaauwbosch and Newlands mines are in full operation.

Industrial Division

The company’s Industrial division is located at the South African Operations office in Kimberley, South Africa.

The industrial division comprises subsidiary companies Supermix Mining (Pty) Limited (Dwyka 100%) and Biz Afrika (Pty) Limited (Dwyka 70%) and comprises production and sale of paving bricks, building bricks, building blocks, readymix concrete, sand and aggregate, as by-products from the diamond mining operations, to the building industry in the Northern Cape in South Africa.

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Bosele Exploration Project - 70% (BEE partner 30%)

The company together with BEE partner Kolong was granted a prospecting permit over this property during August 2003. The prospecting permit of 1100 ha area is situated immediately south of the Dancarl Mining Lease in the Northern Cape Province in South Africa, 80km north of Kimberley.

The area hosts numerous Group II kimberlitic fissures, some of which are diamondiferous. Since April 2004 exploration has focused on newly discovered crater facies volcanoclastic rocks which occur in the southern and central parts of the Bosele area.

Macro diamonds have been recovered from bulk samples of volcanoclastic sediments interpreted as being crater-fill sediments overlying a kimberlitic pipe. The volcanoclastic body that has a surface expression with a length of approximately 3km and breadth of 1.5km. Two bulk samples were taken with both of them recovering diamonds. The first, taken by the company personnel, recovered 40 diamonds from approximately 150 tonnes of material. The second sample was taken by an independent consulting geologist and was processed at De Beers' Evaluation Sampling Department in Kimberley and yielded 8 diamonds. Further sample test work will be taken in the coming year to further assess the prospectivity of this area.

Tanzania Exploration Project – 75-95% (de Beers/Thornton 5-25%)

During the year the company acquired the diamondiferous Mahene and Itanana kimberlite pipes in the Nzega District of Tanzania from de Beers.

Under the terms of the transaction the company will bulk sample the pipes at a cost of about US$1.5m. Dwyka's Tanzanian partner, Thorntree Minerals Limited is assisting with logistical, managerial and government liaison support within Tanzania. Thorntree Minerals has the right to participate in 20 per cent of the company's equity interest in the projects once the decision to progress to feasibility study is taken. Thorntree will be required to fund their share of costs to maintain their equity position.

De Beers has the option to acquire a 51 per cent shareholding in Dwyka Tanzania Limited, the company's subsidiary holding the project, by reimbursing the company three times the costs incurred by the company to evaluate the projects. Alternatively, De Beers may elect to remain as a 5 per cent shareholder in Dwyka Tanzania Limited or convert its shareholding into a 1.5 per cent gross royalty payable on diamond revenues. As part of the agreement Dwyka Tanzania will sell all diamonds recovered in the licence areas to De Beers.

Since acquiring the project the company has been investigating exploration logistics with the aim to commence on ground operations in 2007. On ground exploration has been deferred while the company and de Beers undertake a further review of past drilling samples and of potential exploration methods.

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Indian Exploration Project

The company maintained exploration activities pursuant to an Alliance Agreement with BHP Billiton to explore for hard rock diamond deposits in India. The Alliance covers this extensive portfolio of tenements of more than 55,000km^2 containing at least 4 known diamondiferous kimberlite pipes.

Regional scale stream sediment sampling programmes were completed in Uttar Pradesh and Orissa and Central Chhattisgargh. Dwyka achieved positive results from stream sediment sampling programmes in Uttar Pradesh, India. Microprobe analysis of three samples from the Uttar Pradesh programme suggests that the indicator minerals were derived from a diamondiferous source rock. The sample site is located approximately 100km north-west of the Bunder Kimberlite field discovery of Rio Tinto. Additionally the surface textures of the indicator minerals found by the company, and the distances from the Rio Tinto discoveries, would suggest that both samples contain indicator minerals sourced from as yet undiscovered kimberlite bodies.

The company completed its obligations under the terms of the Alliance subsequent to the end of the financial year. At the time of this report no decision had been made as to the future direction of the Alliance.

Operating Results

During the year the cash resources of the company were mainly allocated to acquiring the hard rock underground mines and the mine development work associated with these mines; the construction of the SMI4 plant and exploration projects in both India and Africa. Notwithstanding these expenditures cash resources at year end totalled $6.28 million.

The results for the financial year have been impacted by the directors’ decision to fully write off all exploration expenditure associated with the India exploration projects. This resulted in an impairment charge of $2.130 million during the year.

DWYKA DIAMONDS LIMITED

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Dwyka Diamonds Limited (referred to hereafter as the "company" or "parent entity") and the entities it controlled at the end of, or during, the year ended 30 June 2006.

Directors
The following persons were directors of the company during the whole of the financial year and up to the date of this report:

M J Sturgess C J Bredenkamp M J Langoulant E F G Nealon E Kirby

A Griffin was appointed as a director on 1 December 2005 and continues in office at the date of this report.

Corporate structure
The company is a company limited by shares that is incorporated and domiciled in Australia. Details of the entities that the company controlled during the financial year are disclosed in note 33 to the accounts.

Principal activities
The principal activities of the Group during the course of the financial year were exploration, evaluation and mining of diamonds.

The Group also produces building materials, including concrete, cement bricks, blocks, pavers, sand and aggregate, as by-products from the diamond mining operations.

Dividends
No amounts were paid by way of dividend since the end of the previous financial year. The directors do not recommend the payment of a dividend.

Review of operations
Information on the operations and financial position of the Group and its business strategies and prospects is set out in the operations and financial review on pages 4 to 8 of this annual report.

Significant changes in the state of affairs
Significant changes in the state of affairs of the Group during the financial year were:

- In August 2005 the company issued 2,747,802 ordinary shares at GBP0.35 ($0.84) as part consideration for the purchase of 3 underground mines;
- In November 2005 the company issued 4,500,000 ordinary shares at GBP0.30 ($0.72) to raise $3,080,000 (after issue costs) through a private placement;
- In December 2005 the company issued 749,137 shares at $0.685 in lieu of services rendered; and
- In June 2006 the company issued GBP 1,000,000 in 8% pa yielding convertible notes. These notes are convertible at GBP0.36 on or before 22 June 2010.

There were no other significant changes in the state of affairs of the Group that occurred in the financial year not otherwise disclosed in this report.

Matters subsequent to the end of the financial year
An in principle agreement has been reached whereby the company will restructure its black economic empowerment ("BEE") arrangements with its principal BEE partner, Kolong Investments such that the Group will increase its interest in the SMI4 de Beers tailings re-treatment project to 70% in exchange for reducing its interest in current 100% owned South African operations to 70%. Formal approvals for this proposal are being sought and agreements to affect this proposal are being prepared.

Other then the above, there has not been any other circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

Likely developments and expected results
Comments on expected results of certain aspects of the operations of the Group are included in the operations and financial review section of this report. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation
The Group's operations are subject to significant environmental regulations under South African legislation in relation to mining, exploration and evaluation activities. The Group's operations are also subject to environmental management programme statements outlining environmental and rehabilitation principles to be adhered to in work programmes. There have been no significant known breaches of these regulations and principles.

The Group has lodged environmental rehabilitation bonds for each South African project area.

Information on directors

M J Sturgess BSc, MBA. *Executive Chairman.* Aged 40
Experience and expertise
Appointed in April 2001, Ms Sturgess' early career was with British Airways and lawyers Mallesons Stephen Jacques. She has worked in the corporate development and promotion of a range of public companies, including Aquarius Platinum Limited where she was primarily responsible for attracting institutional shareholders.
Other current directorships
Non-executive director of Sylvania Resources Limited (director since 2004) and Churchill Mining PLC (director since 2005).
Former directorships in last 3 years
She has held no other public company directorships in the past 3 years.
Special responsibilities
Member of Audit committee, responsible for investor relations and strategic direction.
Interests in shares and options
2,002,500 ordinary shares

Information on directors (continued)

A Griffin BSc (Hons) *Chief Executive Officer.* Aged 53
Experience and expertise
Appointed 1 December 2005, Mr Griffin has a background as a geologist with over 25 years experience in the mining industry, throughout Australia and Southeast Asia. He commenced his career in the area of Base metal exploration before moving to BHP to undertake a role in the development of iron ore exploration methodology, mine planning and grade control.
Other current directorships
Washington Resources limited, Hodges Resources Limited
Former directorships in last 3 years
Preston Resources Limited until 2003
Special responsibilities
Chief Executive Officer
Interests in shares and options
Nil

C J Bredenkamp *Managing Director- South Africa.* Aged 38
Experience and expertise
Appointed June 2005, Mr Bredenkamp has over 15 years experience in the mining and construction industries, specialising in plant design, construction and management. Since 2003 he has been the Managing Director of Dwyka's South African operations.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Managing director of South African operations
Interests in shares and options
12,660 ordinary shares
250,000 options exercisable at $0.52 on or before 30 June 2007
250,000 options exercisable at $1.00 on or before 30 June 2009

E F G Nealon ***BSc. Geol (Hons), MSc. Geol, MAusIMM***. *Non-executive Director.* Aged 55
Experience and expertise
Appointed April 2001, Mr Nealon is a qualified geologist with over 25 years experience in the mining and exploration industry. He has worked around the world with major companies such as Anglo-America Corporation, Rio Tinto and Aquarius Platinum. He founded his own consulting company in 1983.
Other current directorships
Executive Chairman of Sylvania Resources Limited and a non-executive director of Tanzanite One Limited (both since 2004).
Former directorships in last 3 years
None.
Special responsibilities
None
Interests in shares and options
2,000,000 ordinary shares

Information on directors (continued)

E Kirby ***BSc (Hons) Metallurgy, PhD Metallurgy, MAusIMM, MSthAfrIMM.*** *Non-executive director.* Aged 55

Experience and expertise

Appointed in November 2002, Dr Kirby has worked for major companies such as Impala Platinum, Rand Mines, Rustenburg Platinum Mines, Minproc Engineers and Bechtel before starting his own consulting business in 2002. He has broad experience with the development of a wide range of mining and minerals processing projects particularly in Africa and Australia.

Other current directorships

Non-executive director of Sylvania Resources Limited (since 2003) and Wedgetail Exploration NL (since 2004).

Former directorships in last 3 years

None.

Special responsibilities

None

Interests in shares and options

1,000,000 ordinary shares

M J Langoulant ***B Com, CA.*** *Chief Financial Officer and Company Secretary.* Aged 49

Experience and expertise

Appointed in April 2005, Mr Langoulant is a Chartered Accountant with over 20 years experience in public company corporate administration and fundraising. After 10 years with large international accounting firms he has acted as CFO, company secretary and non-executive director with a number of publicly listed companies. He started his own corporate/company secretarial consultancy firm in 1994.

Other current directorships

None

Former directorships in last 3 years

None.

Special responsibilities

Chief Financial Officer, Company secretary, Member of audit committee

Interests in shares and options

1,000,000 ordinary shares

Company secretary

The company secretary since July 2004 has been Mr M J Langoulant.

Meetings of directors

During the financial year there were thirteen formal directors’ meetings. All other matters that required formal board resolutions were dealt with via circulating written rotary resolutions. In addition the directors met on an informal basis at regular intervals during the year to discuss the company’s affairs. Other than an audit sub-committee, which was formed during the year, there are no sub-committees of the Board of directors. The number of meetings of the company’s Board of directors attended by each director was:

	Directors’ meetings held whilst in office	*Directors’ meetings attended*	*Audit committee meetings held*	*Audit committee meetings attended*
M Sturgess	13	13	1	1
A Griffin	6	6	-	-
C Bredenkamp	13	13	-	-
M Langoulant	13	13	1	1
E Nealon	13	13	-	-
E Kirby	13	11	-	-

Remuneration report
The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration (audited)
B Details of remuneration (audited)
C Service agreements (audited)
D Share-based compensation (audited)
E Additional information (unaudited)

A Principles used to determine the nature and amount of remuneration (audited)

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aims to align executive reward with the creation of value for shareholders. The key criteria for good reward governance practices adopted by the Board are:

- competitiveness and reasonableness
- acceptability to shareholders
- performance incentives
- transparency
- capital management.

The framework provides a mix of fixed fee, consultancy agreement based remuneration, and share based incentives.

The broad remuneration policy for determining the nature and amount of emoluments of board members and senior executives of the company is determined by the full Board in accordance with a written Remuneration Committee Charter. The Board's aim is to ensure the remuneration packages properly reflect directors' and executives' duties and responsibilities. The Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention and motivation of a high quality Board and executive team.

At this stage of the company's development the remuneration policy is that no element of any director/executive package should be directly related to the company's financial performance. Indeed there are no elements of any director or executive remuneration that is dependent upon the satisfaction of any specific condition. The overall remuneration policy framework however is structured in an endeavour to advance/create shareholder wealth. This policy has been consistent over the past 5 financial years.

Non-executive directors
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board and are intended to be in line with the market.

Executive directors
All executive directors are either employees or perform some executive or consultancy services. However, each of the executive director receives a separate fixed fee for their services as directors, as the Board considers it important to distinguish between the executive/consulting and non-executive roles held by those individuals.

Remuneration report (continued)

A Principles used to determine the nature and amount of remuneration (audited) (continued)

Retirement allowances for directors

Apart from superannuation payments paid on salaries and base director fees there are no retirement allowances for directors.

Executive pay

The executive pay and reward framework has two components:

- base pay and benefits such as superannuation; and
- long-term incentives through participation in the Employee Share/Option Plan.

Base pay
All directors and executives who are not employees currently receive a fixed monthly retainer as agreed with the company. All salaries and monthly retainers are reviewed on at least an annual basis.

Benefits
Apart from statutory superannuation paid on salaries there are no additional benefits paid to directors and executives.

Employee share/option plan
Information on the existing employee share and option plans is set out in note 38.

B Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Dwyka Diamonds Limited and the Group are set out in the following tables. There are no elements of remuneration that are directly related to the Group's performance. The remuneration shown for the year ended June 2005 for C Bredenkamp and M Langoulant includes remuneration paid to them prior to their appointment as directors of the company.

The key management personnel of Dwyka Diamonds Limited and the Group include the directors as per pages 10 to 12 above and the following executive officer:

Mr G Button – Commercial Manager

The named executives and executive directors of the Group are also the 5 highest paid executives of the Group. There are only 4 such executives for the parent entity.

Remuneration report (continued)

B Details of remuneration (audited) (continued)

Remuneration of key management personnel of Dwyka Diamonds Limited and the Group

All the key management of the Group are key management of the parent company except for C Bredenkamp.

2006

Name	Short-term benefits Base fees	Short-term benefits Salary and consultancy	Post-employment Superannuation	Share and option based payments	Total
	$	$	$	$	$
Executive directors					
M Sturgess	35,000	230,000	3,150	101,158	369,308
A Griffin	20,417	83,653	9,366	-	113,436
C Bredenkamp	35,000	149,641	-	23,464	208,105
M Langoulant	35,000	72,000	3,150	52,358	162,508
Non-executive directors					
E Nealon	35,000	80,000	3,150	101,158	219,308
E Kirby	35,000	100,000	3,150	51,468	189,618
Other key management					
G Button	-	70,416	-	12,254	82,670
Total	195,417	785,710	21,966	341,860	1,344,953

2005

Name	Short-term benefits Base fees	Short-term benefits Salary and consultancy	Post-employment Superannuation	Share and option based payments	Total
	$	$	$	$	$
Executive directors					
M Sturgess	20,000	254,167	2,000	39,000	315,167
C Bredenkamp	1,205	100,870	-	34,144	136,219
E Kirby	20,000	83,333	2,000	9,750	115,083
M Langoulant	4,054	72,039	365	-	76,458
Non-executives directors					
E Nealon	20,000	174,167	2,000	39,000	235,167
Other key management					
G Button	-	66,792	-	9,750	76,542
Total	65,259	751,368	6,365	131,644	954,636

In the year ended 2005 before they were appointed directors Mr Langoulant had received consulting fees of $57,039 and Mr Bredenkamp had received a salary of $95,050. In addition the option based payment was received by Mr Bredenkamp prior to his appointment as a director.

C Service agreements (audited)

No formal service agreements have been entered into with directors or with other key management personnel. These directors and other key management personnel are retained on a monthly retainer which is reviewed at least annually and can be terminated upon one months notice.

D Share-based compensation (audited)

Employee share and option plans

Shares and options are granted under the employee incentive share plan and the employee incentive option plan, which were approved by shareholders at the 2003 annual general meeting. These plans were replaced by new plans approved at the 2005 annual general meeting.

The Board considers length of service, seniority, responsibilities, potential contribution and any other relevant matters in determining eligibility of participants.

A participant who is invited to subscribe for shares under the share plan may also be invited to apply for a loan up to the amount payable in respect of the shares accepted by the participant. These loans are to be made on the following terms:

- Interest free;
- Applied directly against the issue price of the shares to be acquired under the plan;
- For a term to be determined by the Board;
- Repayable to the extent of the lesser of the issue price of the relevant shares issued, less any cash dividends applied against the outstanding principal; and the last market sale price of the shares on the date of repayment of the loan;
- The loan must be repaid in full prior to expiry of the loan;
- The Company will have a lien over the shares in respect of which a loan is outstanding;
- Shares issued under the plan are not transferable while a loan amount in respect of those shares remains payable; and
- Shares issued under the share plan will not be quoted on a publicly traded stock market while a loan amount in respect of those shares remains payable.

The Board has sole responsibility to determine the number of options and terms and conditions of options granted to any participant under the option plan.

The options issued under the option plan will be granted free of charge. The exercise price for the options is to be not less than the weighted average share price for the last five trading days immediately preceding the options being offered to the participant.

The expiry date of the options will be determined by the Board and will also lapse within one month of the participant ceasing to be a director, employee or consultant of the company or a controlled entity (subject to certain exceptions). The Board at its discretion may apply certain vesting conditions upon any options issued under the option plan.

The options are not transferable without prior written approval from the Board. The options will not be quoted on a publicly traded stock market; however application will be made for ASX/AIM quotation of the shares issued upon the exercise of the options.

The aim of the employee incentive share and option plans is to provide long term incentives to directors and executives to create and enhance shareholder wealth and to provide a mechanism to assist the company in its endeavours to retain key executives and employees.

For the purposes of this report shares issued under the share plan for which a loan has not been repaid are considered options.

Remuneration report (continued)

D Share-based compensation (audited) (continued)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price of options	Value of shares at grant date	Date vested/exercisable
17 December 2003	17 December 2006	$0.52	$0.56	33% on each anniversary
17 February 2004	30 June 2007	$0.52	$0.67	33% on each anniversary
21 December 2005	21 December 2008	$0.87	$0.65	33% on each anniversary
21 December 2005	21 December 2008	$1.00	$0.65	33% on each anniversary
12 April 2006	12 April 2009	$1.00	$0.78	33% on each anniversary
20 April 2006	30 June 2009	$0.87	$0.76	33% on each anniversary
20 April 2006	30 June 2009	$1.00	$0.76	33% on each anniversary

Options granted under the plans carry no dividend or voting rights.

Details of employee plan share and options in the company provided as remuneration to each director of the company and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Dwyka Diamonds Limited.

Further information on the employee share and option plans are set out in note 38 to the financial statements.

	Number of options granted during the year		**Number of options vested during the year**	
	2006	2005	**2006**	2005
Directors of Dwyka Diamonds Limited				
M J Sturgess	1,000,000	-	333,333	333,333
A Griffin	-	-	-	-
C J Bredenkamp	-	-	83,333	83,333
E F G Nealon	1,000,000	-	333,333	333,333
E Kirby	750,000	-	83,333	83,333
M J Langoulant	1,000,000	-	-	-
Other key management personnel of the Group				
G Button	-	-	83,333	83,333

There were no employee plan options forfeited during the year under review.

Remuneration report (continued)

D Share-based compensation (audited) (continued)

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the equity to be paid or exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The additional model inputs for shares and options granted during the year ended 30 June 2006 not included in the table above are:

(a) options are granted for no consideration; share capital payable is funded by way of an interest free loan that is not repayable until the end of the option period
(b) expected price volatility of the company's shares: 60% (2005: 60%)
(c) expected dividend yield: nil (2005: nil)
(d) risk-free interest rate: 5.80% (2005: 5.5%).

Shares provided on exercise of remuneration options
No ordinary shares in the company were provided as a result of the exercise of remuneration options during the year.

E Additional information (unaudited)

The remuneration of key management does not take into account the performance of the Group but is based on current market rates for personnel with similar skills and experience.

No options have been granted since the end of the year.

Further details relating to share based compensation are set out below.

Name	**A Remuneration consisting of options**	**B Value at Grant date**	**C Value at exercise date**	**D Value at lapse date**	**E Total of columns B-D**
		$	**$**	**$**	**$**
M J Sturgess	**27.4%**	**146,000**	**-**	**-**	**146,000**
C J Bredenkamp	**11.3%**	**101,500**	**-**	**-**	**101,500**
E F G Nealon	**46.1%**	**146,000**	**-**	**-**	**146,000**
E Kirby	**27.1%**	**114,250**	**-**	**-**	**114,250**
M J Langoulant	**32.2%**	**155,500**	**-**	**-**	**155,500**

A = The percentage of the value of remuneration consisting of employee shares and options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of shares and options granted during the year as part of remuneration.
C = The value at exercise date of shares and options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of shares and options that were granted as part of remuneration and that lapsed during the year.

Shares under option

Unissued ordinary shares of the company under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
17 February 2004	30 June 2007	$0.52	1,100,000
20 April 2006	30 June 2009	$0.87	250,000
20 April 2006	30 June 2009	$1.00	1,250,000
			2,600,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

No shares were issued on the exercise of options during the year.

Insurance of officers

During the year the company has paid premiums in respect of a contract insuring all directors and officers of the company and its controlled entities against liabilities incurred as directors or officers to the extent permitted by the *Corporations Act 2001*. Due to a confidentiality clause in the contract the amount of the premium has not been disclosed.

Proceedings on behalf of company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the parent company auditor (PricewaterhouseCoopers), its related practices and non-related audit firms for audit and non-audit services provided during the year are set out below.

	Consolidated		**Parent entity**	
	2006	2005	**2006**	2005
	$	$	**$**	$
Auditor of the parent entity				
- Australian firm	**85,600**	54,800	**85,600**	54,800
- Related practices of Australian firm	**20,975**	41,197	**-**	-
- Other firms	**2,677**	4,172	**-**	-
	109,252	100,169	**85,600**	54,800
Remuneration for other services:				
Auditor of the parent entity, tax consulting	**-**	29,919	**-**	29,919
- Other; tax consulting	**-**	671	**-**	-
	-	30,590	**-**	29,919

Non-audit services (continued)

The audit committee has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The auditor's independence was not compromised.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors.

M. J Sturgess
Executive Chairman
Perth Date: 29 September 2006

PricewaterhouseCoopers
ABN 52 780 433 757

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Auditor's Independence Declaration

As lead auditor for the audit of Dwyka Diamonds Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Dwyka Diamonds Limited and the entities it controlled during the period.

David J Smith
Partner 29 September 2006

Perth

PricewaterhouseCoopers

Liability limited by a scheme approved under Professional Standards Legislation

Introduction

Since the introduction of the ASX Principles of Good Corporate Governance and Best Practice Recommendations ("**ASX Guidelines**"), Dwyka Diamonds Ltd ("**company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this report. Commensurate with the spirit of the ASX Guidelines, the company has followed each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the company and the Board, resources available and activities of the company. Where, after due consideration, the company's corporate governance practices depart from the Recommendations, the Board has offered full disclosure of the nature of, and reason for, the adoption of its own practice.

Further information about the company's corporate governance practices is set out on the company's website at www.dwykadiamonds.com. In accordance with the ASX Principles and Recommendations, information published on the company's website includes charters (for the Board and its sub-committees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

Explanations for departures from best practice recommendations

Principle:	2
Recommendation:	2.1 – A majority of the Board should be independent directors
Notification of departure:	Two of the six directors are considered to be independent.
Explanation for departure:	The current board reflects the request by major shareholders in 2003 that the Board take a more active, day to day role in the company. This resulted in the then board members taking on executive or consultancy services. Since this time, the Board has appointed 3 additional directors all of whom were likewise involved with the company's daily operations. However, with the completion of the SMI4 Project, Mr Kirby's position has now become non-executive, affording him a greater level of independence. Likewise, since 2003 Mr Nealon's day to day role has diminished. Therefore, the Board considers that its current structure has been, and continues to be, appropriate in the context of the company's recent history and is aligned with shareholder expectations.

Principle:	2
Recommendation:	2.2 – The Chairperson should be an independent director
Notification of departure:	The chairperson does not satisfy the test of independence as set out in Box 2.1 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations Independence Test ("Independence Test").
Explanation for departure:	Melissa Sturgess, the current chairperson, does not satisfy paragraph 3 of the Independence Test due to her Consultancy Agreement with the company. Notwithstanding this, the Board believes that Ms Sturgess is the most appropriate person to hold the position of Chair because of her ability to pursue strategic opportunities and relationships for the company and her experience in the corporate development of a range of public companies.

Principle:	2
Recommendation:	2.4 – The Board should establish a Nomination Committee
Notification of departure:	A separate nomination committee has not been formed.
Explanation for departure:	The full Board considers those matters that would usually be the responsibility of a nomination committee. The composition of the Board does not make the establishment of a separate nomination committee practicable. The Board has adopted a Nomination Committee Charter, which it applies when convening as the nomination committee.
Principle:	4
Recommendation:	4.2 – The Board should establish an Audit Committee; 4.3 – Structure the Audit Committee so that it consists of only non-executive directors; a majority of independent directors; an independent chairperson, who is not chairperson to the Board; and at least 3 members.
Notification of departure:	For a portion of the reporting period, a separate Audit Committee was not formed.
Explanation for departure:	At the commencement of the Reporting Period the formation of an Audit Committee was not considered appropriate or necessary. At the time, the full Board applied an Audit Committee Charter when it met to consider matters relating to the financial affairs of the Company. In addition, the full Board liaised with the external auditors in both Australia and South Africa in connection with the audit of the financial accounts. On 1 December 2005, Mr Adrian Griffin was appointed to the Board. The Board then decided to form an Audit Committee. However, the Audit Committee does not meet the compositional requirements of Principle 4, Recommendation 4.3 as there are only two members, both of whom are executives. Further, Melissa Sturgess is the Chair of both the company and the Audit Committee.
Principle:	9
Recommendation:	9.2 – The Board should establish a Remuneration Committee.
Notification of departure:	A separate remuneration committee has not been formed.
Explanation for departure:	The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee. However, similarly to its approach to nomination-related matters, the Board has adopted a Remuneration Committee Charter, which it applies when convening as the remuneration committee. Time is set aside at one Board meeting each year specifically to address the matters usually considered by a remuneration committee in accordance with the Remuneration Committee Charter. Executive directors absent themselves during discussion of their remuneration.

Nomination committee

The full Board, in its capacity as the Nomination Committee, held one meeting during the reporting period. All members attended the meeting.

Audit committee

During the reporting period, a separate Audit Committee was formed. The members are Melissa Sturgess and Mike Langoulant. The Audit Committee is chaired by Melissa Sturgess. One Audit Committee meeting was held and both members attended.

Mr Langoulant's qualifications and experience as a Chartered Accountant enable him to meet the test of financial literacy, experience and industry knowledge.

Remuneration committee

Company's remuneration policies
The company's remuneration policies as discussed in the "Remuneration Report" section of the Directors' Report.

The full Board, in its capacity as Remuneration Committee held one meeting during the reporting period. All members attended the meeting.

Other

Skills, experience, expertise and term of office of each Director

A profile of each director containing the applicable information is set out in the Directors' Report.

Identification of independent directors

In considering independence of directors, the Board refers to the criteria for independence as recommended by the ASX. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Statement of Board and Management Functions, which is disclosed in full on the company's website.

Applying the independence criteria, the Board considers that Edward Nealon is independent.

However, through Mr Kirby's consultancy company, Mr Kirby provides expertise and know-how in relation to the company's business, which services are provided at normal commercial rates. With the completion of the SMI4 Project, Mr Kirby's day to day involvement with the company has diminished and he is now considered non-executive. Notwithstanding the relationship between Mr Kirby and the company, the company considers that relevant materiality thresholds are not exceeded, and Mr Kirby is not impeded from exercising independent judgment in his role as director and therefore deems him to be independent.

In the interests of disclosure, through his consultancy company, Mr Nealon provides expertise and know-how in relation to the company's business, which services are provided at normal commercial rates. Mr Nealon's position is non executive and the company considers that relevant materiality thresholds are not exceeded.

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance evaluation of the Board and its members have taken place and how conducted

During the Reporting Period a formal evaluation of the non-executive members of the Board was not carried out, as it was not considered to be a beneficial procedure given the size and composition of the Board and the nature of the company's operations. However, the composition of the Board and its suitability to carry out the company's objectives is discussed on an as-required basis during regular meetings of the Board and any adjustments made accordingly.

DWYKA DIAMONDS LIMITED

FINANCIAL REPORT CONTENTS

This financial report covers both Dwyka Diamonds Limited as an individual entity and the consolidated entity consisting of Dwyka Diamonds Limited and its subsidiaries. The financial report is presented in the Australian currency.

Dwyka Diamonds Limited is a company limited by shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:
Dwyka Diamonds Limited
98 Colin Street
West Perth, Western Australia 6005

A description of the nature of the consolidated entity's operations and its principal activities is included in the operations and financial review on pages 4 to 8 and in the directors' report on pages 9 to 21, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 29 September 2006. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.dwykadiamonds.com

DWYKA DIAMONDS LIMITED

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Parent entity	
		2006	2005	**2006**	2005
		$000	$000	**$000**	$000
Revenue	5	**7,402**	5,164	**-**	-
Cost of sales	6	**(5,093)**	(3,922)	**-**	-
Gross profit		**2,309**	1,242	-	-
Other revenue	5	**1,068**	628	**906**	1,274
Administration	6	**(4,988)**	(5,218)	**(2,825)**	(2,901)
Impairment of assets	6	**(3)**	(212)	**(4,400)**	(2,276)
Impairment of exploration, evaluation and mining properties		**(2,130)**	(580)	**-**	(552)
Finance costs		**(38)**	(8)	**(7)**	-
Net Loss before income tax expense		**(3,782)**	(4,148)	**(6,326)**	(4,455)
Income tax benefit	7	**168**	-	**28**	-
Net Loss after income tax expense		**(3,614)**	(4,148)	**(6,298)**	(4,455)
Net profit attributable to minority interest		**67**	-	**-**	-
Net Loss attributable to members of Dwyka Diamonds Limited		**(3,681)**	(4,148)	**(6,298)**	(4,455)
		Cents	Cents		
Basic loss per share	37	**(4.4)**	(5.5)		
Diluted loss per share	37	**(4.4)**	(5.5)		

The above income statements should be read in conjunction with the accompanying notes.

DWYKA DIAMONDS LIMITED

BALANCE SHEETS

AS AT 30 JUNE 2006

	Notes	Consolidated		Parent entity	
		2006	2005	**2006**	2005
		$000	$000	**$000**	$000
ASSETS					
Current assets					
Cash and cash equivalents	8	**6,286**	9,582	**6,051**	7,270
Trade and other receivables	9	**977**	1,003	**56**	319
Inventories	10	**484**	542	**-**	-
Total current assets		**7,747**	11,127	**6,107**	7,589
Non-current assets					
Receivables	11	**4,536**	1,804	**12,681**	6,313
Other financial assets	13	**103**	76	**103**	2,546
Property, plant and equipment	14	**3,597**	1,773	**139**	147
Exploration, evaluation and mining properties	15	**8,709**	1,092	**-**	-
Other	16	**308**	320	**-**	-
Total non-current assets		**17,253**	5,065	**12,923**	9,006
Total assets		**25,000**	16,192	**19,030**	16,595
LIABILITIES					
Current liabilities					
Trade and other payables	18	**1,649**	1,101	**257**	284
Provisions	19	**249**	425	**5**	3
Borrowings	20	**76**	-	**-**	-
Total current liabilities		**1,974**	1,526	**262**	287
Non-current liabilities					
Payables	21	**-**	-	**-**	710
Provisions	22	**305**	97	**-**	-
Borrowings	23	**2,611**	-	**2,183**	-
Deferred tax liability	24	**1,601**	-	**-**	-
Total non-current liabilities		**4,517**	97	**2,183**	710
Total liabilities		**6,491**	1,623	**2,445**	997
Net assets		**18,509**	14,569	**16,585**	15,598
EQUITY					
Contributed equity	25	**56,912**	50,726	**56,912**	50,726
Reserves	26	**2,217**	913	**1,535**	519
Accumulated losses	26	**(40,669)**	(37,070)	**(41,863)**	(35,647)
Parent entity interest		**18,460**	14,569	**16,584**	15,598
Minority interest	27	**49**	-	**-**	-
Total equity		**18,509**	14,569	**16,584**	15,598

The above balance sheets should be read in conjunction with the accompanying notes.

DWYKA DIAMONDS LIMITED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Parent entity	
		2006	2005	**2006**	2005
		$000	$000	**$000**	$000
Total equity at the beginning of the financial year		14,569	7,603	15,598	9,333
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
Retained profits	26	82	-	82	-
Reserves	26	(82)	-	(82)	-
Restated total equity at beginning of financial year		14,569	7,603	15,598	9,333
Exchange differences on translation of foreign operations	26	288	394	-	-
Changes in fair value of available-for sale financial assets, net of tax	26	41	-	41	-
Net income recognised directly in equity		329	394	41	-
Loss for the year		(3,614)	(4,148)	(6,298)	(4,455)
Adjustment for prior year losses recouped on minority interest		(18)	-	-	-
Total recognised income and expense for the year		(3,303)	(3,754)	(6,257)	(4,455)
Transactions with equity holders in their capacity as equity holders					
Contributions of equity, net of transaction costs	25	5,967	10,374	5,967	10,374
Share based compensation	26	428	346	428	346
Value of conversion rights of 8% convertible notes, net of tax	25	219	-	219	-
Deferred share consideration on purchase of business unit	26	629	-	629	-
		7,243	10,720	7,243	10,720
Total equity at end of the financial year		18,509	14,569	16,584	15,598
Total recognised income and expense for the year is attributable to:					
Members of Dwyka Diamonds Limited		(3,369)	(3,754)	(6,274)	(4,455)
Minority interest	27	49	-	-	-
		(3,320)	(3,754)	(6,274)	(4,455)

The above statements of changes in equity should be read in conjunction with the accompanying notes.

DWYKA DIAMONDS LIMITED

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Consolidated		Parent entity	
		2006	2005	**2006**	2005
		$000	$000	**$000**	$000
Cash flow from operating activities					
Receipts from customers (inclusive of goods and services tax)		**7,253**	5,084	**202**	132
Payments to suppliers and employees (inclusive of goods and services tax)		**(8,680)**	(7,682)	**(2,562)**	(2,720)
Interest received		**373**	576	**276**	491
Other income received		**396**	52	**-**	-
Interest paid		**(7)**	-	**-**	-
Net cash flow used in operating activities	36	**(665)**	(1,970)	**(2,084)**	(2,097)
Cash flow from investing activities					
Payments for exploration, evaluation and mining properties		**(3,405)**	(1,672)	**-**	(552)
Payments for purchase of unrelated investments		**(375)**	-	**(375)**	-
Payments for property, plant and equipment		**(1,471)**	(1,083)	**(41)**	(113)
Proceeds from sale of property, plant and equipment		**223**	-	**-**	-
Loans to controlled entities		**-**	-	**(5,086)**	(4,889)
Loans to other parties		**(3,220)**	(2,253)	**-**	(251)
Loans to other parties repaid		**250**	61	**250**	61
Payment for acquisition of business unit, net of cash acquired		**(1,021)**	-	**-**	-
Proceeds from the sale of unrelated investments		**372**	-	**372**	-
Rehabilitation security bond		**(8)**	(175)	**-**	-
Net cash flow used in investing activities		**(8,655)**	(5,122)	**(4,880)**	(5,744)
Cash flow from financing activities					
Proceeds from issue of shares		**3,204**	10,856	**3,204**	10,856
Payments for equity issue costs		**(107)**	(543)	**(107)**	(543)
Proceeds from borrowings		**2,489**	-	**2,489**	-
Net cash flow from financing activities		**5,586**	10,313	**5,586**	10,313
Net increase/(decrease) in cash held		**(3,734)**	3,221	**(1,378)**	2,472
Cash at the beginning of the financial year		**9,582**	6,632	**7,270**	4,798
Effects of exchange rate changes on cash		**438**	(271)	**159**	-
Cash and cash equivalents held at the end of the financial year	8	**6,286**	9,582	**6,051**	7,270
Non-cash financing and investing activities	36				

The above cash flow statements should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Dwyka Diamonds Limited as an individual entity and the consolidated entity consisting of Dwyka Diamonds Limited and its subsidiaries.

(a) Basis of preparation of financial report

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs
Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Dwyka Diamonds Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure.*

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
These financial statements are the first Dwyka Diamonds Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Dwyka Diamonds Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Dwyka Diamonds Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005. Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 39.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

1 Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Dwyka Diamonds Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Dwyka Diamonds Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the company.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity’s income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1 Summary of significant accounting policies (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Dwyka Diamonds Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, while interest revenue is measured on an effective interest rate basis. Amounts disclosed as revenue are net of returns and trade allowances. Revenue is recognised for the major business activities when the following specific recognition criteria are met:

Sales
Risks and rewards of the goods has passed to the buyer, which occurs on delivery.

Interest income
Time proportionate basis using the effective interest rate method.

1 Summary of significant accounting policies (continued)

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Australian tax consolidation regime does not apply to the company because there are no Australian incorporated subsidiaries.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange.

1 Summary of significant accounting policies (continued)

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Inventories

Inventories, which include rough diamonds, finished goods and raw materials, are stated at the lower of cost and estimated net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses

1 Summary of significant accounting policies (continued)

(m) Investments and other financial assets

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, were brought to account at cost and dividend income is recognised in the statement of financial performance when receivable.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005
The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(ii) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm’s length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

1 Summary of significant accounting policies (continued)

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is shown at cost and is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings	10-20 years
- Machinery	5-12 years
- Vehicles	3-5 years
- Furniture, fittings and equipment	3-8 years

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

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount (note 1(i)).

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

1 Summary of significant accounting policies (continued)

(p) Exploration and evaluation expenditure

Exploration and evaluation costs include expenditure incurred in connection with the exploration for and the evaluation of economically recoverable diamond resources. These costs include costs of acquisition, exploration and appraisal costs and technical overheads directly associated with those projects.

The company's policy with respect to exploration and evaluation expenditure is to use the "area of interest" method. Under this method, exploration and evaluation costs are carried forward on the following basis:

(i) Each area of interest is considered separately when deciding whether and to what extent to carry forward or write off exploration and evaluation costs;

(ii) Exploration and evaluation costs related to an area of interest may be carried forward provided that rights to tenure of the area of interest are current and provided further that one of the following conditions are met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
- exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

(iii) The carrying values of exploration and evaluation costs are reviewed by directors where results of exploration and/or evaluation of an area of interest are sufficiently advanced to permit a reasonable estimate of the costs expected to be recouped through successful development and exploitation of the area of interest or by its sale. Expenditure in excess of this estimate is written off to the profit and loss account in the year in which the review occurs;

(iv) When development of an area of interest is complete and production commences, all exploration, evaluation and development costs carried forward as an asset (including the cost of extractive rights acquired) are transferred to mining properties.

Development costs related to an area of interest are carried forward as an asset to the extent that they are expected to be recovered either through sale or successful exploitation; and

(q) Mining properties

Mine properties represent the acquisition costs and/or accumulation of exploration, evaluation and development costs in respect of areas of interest in which mining has commenced.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on a unit-of-production basis so as to write off the cost in proportion to the depletion of the proved and probable mineral resources.

1 Summary of significant accounting policies (continued)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(u) Provisions

Leave entitlements
Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Rehabilitation and restoration costs

The Consolidated entity has obligations for site restoration related to its mining properties. The Consolidated entity establishes restoration provisions for future mine closure costs when a legal or constructive obligation exists based on the present value of the future cash flows required to satisfy the obligations. Provisions expected to be utilized in the coming 12 months on areas with lives of less than one year are accounted for in the income statement of the consolidated entity. Provisions not expected to be utilized in the coming 12 months are added to the capital cost of the related mining assets in mine properties and amortised over the resource life. The provision is accreted to its future value over the resource life through a charge to borrowing costs.

Changes in the estimated cost of rehabilitation is applied on a prospective basis with an adjustment to capital cost.

(v) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(ii) Share-based payments

Share-based compensation benefits are provided to employees via the Dwyka Diamonds Limited Share and Option Plan.

Shares and options granted before 7 November 2002 and/or vested before 1 January 2005.

No expense is recognised in respect of these shares or options. The share capital is recognised when either, the share purchase loan is repaid or when the options are exercised, and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of shares and options granted under the Dwyka Diamonds Limited Employee Share and Option Plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares and/or options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the issue/exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the share/option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the shares and/or options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions regarding the employee loan recoverability and about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

The value of shares issued to employees financed by way of a non recourse loan under the employee share scheme is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non recourse loans are considered to be options.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

(ii) Diluted earnings per share

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

1 Summary of significant accounting policies (continued)

(y) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

(z) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(aa) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) New Accounting Standards and Interpretations

As at 30 June 2006, a number of accounting standards have been issued or amended with applicable commencement dates subsequent to the year end. The company has not elected to early adopt these accounting standards. The expected impact of these accounting standards should not materially alter the accounting policies of the company at the date of the report. The company is currently assessing the impact of the adoption of the above, which will be effective from the 1 July 2006. The new standards are

(i) UIG 4 *Determining whether an Asset Contains a Lease*
UIG 4 is applicable to annual periods beginning on or after 1 January 2006. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006.
(ii) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.
(iii) AASB 2006-1 *Amendments to Australian Accounting Standards [AASB 121]*
AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation.

2 Financial risk management and financial instruments

The Group's activities expose it predominantly to interest rate risk and credit risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks.

(a) Credit risk exposures

The credit risk on financial assets of the Group which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provision for doubtful debts.

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

(b) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity’s functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to South African rand, British pounds and the US dollar.

(c) Interest rate risk

The Group is exposed to fluctuations in interest rates. Interest rate risk is managed by maintaining a mix of floating rate deposits. Current interest bearing deposits have been secured on a fixed interest rate bases.

3 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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) Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(ii) Exploration, evaluation and mining properties
The Group's main activity is exploration and evaluation for, and mining of diamonds. The nature of mining and exploration activities are such that it requires interpretation of complex and difficult geological models in order to make an assessment of the size, shape, depth and quality of resources and their anticipated recoveries. The economic, geological and technical factors used to estimate mining viability may change from period to period. In addition exploration activities by their nature are inherently uncertain. Changes in all these factors can impact exploration and mining asset carrying values, provisions for rehabilitation and the recognition of deferred tax assets

(iii) Rehabilitation obligations
The Consolidated entity estimates the future removal costs of mine operations disturbances at the time of installation of the assets and commencement of operations. In most instances, removal of assets occurs some years into the future. This requires judgmental assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and asset specific discount rates to determine the present value of these cash flows.

(iv) Recoverable amounts of investments and receivables

The parent entity has funded its controlled entities operations via the provision of loan funds. The recoverable amount of these loans is subject to the performance of those subsidiaries being able to generate sufficient profits and reserves to repay these advances.

4 Segment information

During the year the Group operated primarily in two geographical segments being South Africa, where its main operations are diamond mining exploration and production, and in India, where additional diamond exploration activities are located. The parent entity is based in Australia which is effectively the corporate office of the Group.

Although the consolidated entity operates in different areas of the globe it has the following 2 divisions organised by industry distinction. The mining division incorporates both hard rock and alluvial diamond mining and exploration for diamond resources; while the industrial division incorporates the production and sale of bricks and cement using waste material from mining operations as a source material.

	Australia		South Africa		India		Inter-segment eliminations/unallocated		Consolidated	
Revenue	**2006 $000**	2005 $000	**2006 $000**	2005 $000	**2006 $000**	2005 $000	**2006 $000**	2005 $000	**2006 $000**	2005 $000
External sales	**-**	-	**7,402**	5,164	**-**	-	**-**		**7,402**	5,164
Total sales revenue	**-**	-	**7,402**	5,164	**-**		**-**		**7,402**	5,164
Other revenue	**160**	-	**535**	52	**-**	-	**-**		**695**	52
Inter-segment revenue	**470**	783	**-**	-	**-**	-	**(470)**	(783)	**-**	-
Total segment revenue	**630**	783	**7,937**	5,216	**-**	-	**(470)**	(783)	**8,097**	5,216
Unallocated revenue							**373**	576	**373**	576
Total revenue									**8,470**	5,792
Result										
Segment result	**(6,575)**	(4,600)	**(7,816)**	(1,749)	**(2,147)**	(21)	**12,383**	3,254	**(4,155)**	(3,116)
Unallocated revenue net of unallocated expenses									**373**	(1,032)
Loss before tax									**(3,782)**	(4,148)
Income tax benefit									**168**	-
Loss after tax									**(3,614)**	(4,148)
Assets										
Segment assets	**17,562**	16,595	**19,349**	8,132	**96**	958	**(12,007)**	(9,493)	**25,000**	16,192
Unallocated assets									**-**	-
Total assets									**25,000**	16,192

DWYKA DIAMONDS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

4 Segment information (continued)

	Australia		South Africa		India		Inter-segment eliminations/unallocated		Consolidated	
	2006 $000's	2005 $000's	**2006 $000's**	2005 $000's	**2006 $000's**	2005 $000's	**2006 $000's**	2005 $000's	**2006 $000's**	2005 $000's
Liabilities										
Segment liabilities	**262**	996	**22,588**	8,249	**3,220**	1,939	**(21,622)**	(9,521)	**4,448**	1,663
Unallocated liabilities									**2,183**	-
Total liabilities									**6,631**	1,663
Acquisition of property plant and equipment and other non-current segment assets	**41**	113	**8,571**	970	**-**	-	**-**	-	**8,612**	1,083
Loan to associate	**-**	-	**4,536**	1,317	**-**	-	**-**	-	**4,536**	1,317
Other non-cash expenses	**-**	-	**-**	536	**-**	-	**428**	346	**428**	882
Depreciation and amortisation expense	**48**	55	**439**	448	**-**	-	**-**	-	**487**	473
Impairment of assets										
- related party loans	**5,867**	1,380	**7,137**	-	**-**	-	**(13,004)**	(1,380)	**-**	-
- investments in subsidiaries	**-**	883	**-**	-	**-**	-	**-**	(883)	**-**	-
- other investments	**-**	13	**-**	-	**-**	-	**-**	-	**-**	13
- Non- current receivables	**-**	-	**3**	199	**-**	-	**-**	-	**3**	199
- exploration and evaluation and mining properties	**-**	552	**-**	28	**2,130**	-	**-**	-	**2,130**	580

Secondary reporting format – Business segments

	Segment revenues from sales to external customers		**Segment assets**		**Acquisition of property plant and equipment and other non-current segment assets**	
	2006 $	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Mining	**2,189**	674	**11,894**	1,309	**10,357**	3,612
Industrial	**5,213**	4,490	**1,845**	2,946	**125**	173
	7,402	5,164	**13,739**	4,255	**10,482**	3,785
Unallocated assets			**11,261**	11,937		
Total assets			**25,000**	16,192		

5 Revenue

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Revenue				
Sale of goods	**7,402**	5,164	**-**	-
Other revenue				
Interest received	**373**	576	**276**	491
Foreign exchange gains	**160**	-	**160**	-
Management fees	**-**	-	**470**	783
Other income	**535**	52	**-**	-
	1,068	628	**906**	1,274
	8,470	**5,792**	**906**	1,274

6 Expenses

Loss before income tax expense includes the following specific expenses:

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Cost of sales includes the following expenses:				
Depreciation of plant and equipment	**408**	383	**-**	-
Rehabilitation expenses	**130**	297	**-**	-
Other charges against assets:				
Impairment of assets	**3**	199	**-**	-
Impairment of investments	**-**	13	**-**	13
Impairment of related company loans	**-**	-	**4,400**	883
Impairment of exploration expenditure and mineral properties	**2,130**	580	**-**	552
Administration includes the following:				
Bad and doubtful debts expense	**105**	53	**-**	-
Consulting expenses	**982**	1,049	**754**	865
Depreciation of buildings, plant and equipment	**79**	60	**48**	55
Directors fees	**195**	65	**195**	65
Employee benefits expense	**1,931**	1,016	**192**	85
Legal fees	**68**	45	**35**	42
Loss on sale of property, plant and equipment	**6**	-	**-**	-
Rental expenses related to operating leases	**113**	11	**58**	11
Share based compensation	**428**	346	**428**	346

7 Income tax

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Income statement				
Current income tax				
Current income tax charge	**-**	-	**-**	-
Deferred income tax				
Increase in deferred tax asset (Note 17)	**(171)**	-	(31)	-
Increase in deferred tax liability (Note 24)	**3**	-	3	-
Income tax (benefit) / expense reported in income statement	**(168)**	-	(28)	-
Unrecognised Deferred Tax Balances				
Unrecognised deferred tax assets – Losses	**1,995**	2,302	**252**	501
Unrecognised deferred tax assets - Capital Losses	**431**	425	**431**	425
Unrecognised deferred tax assets - Temporary differences	**-**	-	**4,945**	7,281
Net unrecognised deferred tax assets	**2,426**	2,727	**5,628**	8,207
Reconciliation to income tax expense on accounting loss				
Loss from ordinary activities before income tax expense	**(3,614)**	(4,149)	**(6,298)**	(4,455)
Income tax benefit @ 30%	**(1,084)**	(1,245)	**(1,889)**	(1,337)
Tax effect on amounts which are not deductible				
Share-based payments	**128**	104	**128**	104
Foreign expenditure	**483**	491	**1,046**	491
Non-deductible provisions	**-**	59	**754**	683
Sundry items	**(17)**	215	**(22)**	(14)
	(490)	(376)	**17**	(73)
Prior year revenue losses recouped not previously recognised	**(17)**	-	**(17)**	-
Benefit of tax losses not brought to account	**507**	376	**-**	73
Income tax expense	**-**	-	**-**	-

The Australian tax consolidation regime does not apply for the company.

8 Current assets - Cash and cash equivalents

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Cash at bank and on hand	**9**	4,085	**6**	1,773
Deposits at call	**3,740**	5,472	**3,508**	5,472
Term deposits	**2,537**	25	**2,537**	25
	6,286	9,582	**6,051**	7,270

Interest earned from cash accounts and deposits ranged from 0% to 5.60% (2005: 0% - 5.65%). The term deposits have an average maturity of 30 days.

9 Current assets – Trade and other receivables

Trade debtors	**928**	714	**-**	-
Less provision for doubtful receivables	**(130)**	(39)	**-**	-
	798	675	**-**	-
GST/VAT refund	**94**	51	**54**	51
Loans to other parties	**71**	251	**2**	251
Other debtors	**14**	26	**-**	17
	977	1,003	**56**	319

Trade debtors are denominated and receivable in South African Rand (ZAR) and are non interest bearing.

Other debtors generally arise from transactions outside the usual operating activities of the Group and are non-interest bearing. Loans to other parties are interest free and at call. GST/VAT refunds are non-interest bearing.

The Group has recognised a loss of $104,905 (2005: $52,747) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'administration expenses' in the income statement.

10 Current assets - Inventories

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
At cost:				
Raw materials	**130**	93	**-**	-
Finished goods	**117**	114	**-**	-
Rough diamonds	**237**	335	**-**	-
	484	542	**-**	-

Inventories recognised in cost of sales amounted to $2,784,000 (2005: $1,592,000).

11 Non-current assets – Receivables

Non-current				
Loan to other parties	**-**	671	**-**	-
Less :impairment charge	**-**	(184)	**-**	-
	-	487	**-**	-
Loan to associate	**4,536**	1,317		
Loans to related parties (refer note 30)	**-**	-	**24,596**	8,636
Less impairment of loans to related parties	**-**	-	**(11,915)**	(2,323)
	4,536	1,317	**12,681**	6,313
	4,536	1,804	**12,681**	6,313

The loan to an associate company – Superkolong Pty Ltd –consists of a South African Rand (ZAR) denominated loan. The loan funds have been advanced for construction of a diamond tailings re-treatment plant which was at the early commissioning stage as at June 2006. The loan to this associate is carried at the net recoverable amount and attracts a variable interest rate of South African prime plus 1%. The loan is repayable from operating surpluses on a quarterly basis over 4.5 years from the end of the associates first financial year of operations.

Loans to related parties are carried at their net recoverable amount and are non-interest bearing.

12 Non-current assets – Investments accounted for using the equity method

Shares in associate	**-**	-	**-**	-

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

The Group has a 40% interest in Superkolong which had no operating activities during the year under review.

13 Non-current assets - Other financial assets

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Investments traded on organised markets				
Opening balance	**-**	89	**-**	89
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Revaluation charged to equity	**-**	(13)	**-**	(13)
	-	76	**-**	76
Available-for-sale financial assets				
Opening balance	**76**	-	**76**	-
Additions	**375**	-	**375**	-
Disposals	**(372)**	-	**(372)**	-
Revaluation charged to equity	**24**	-	**24**	-
	103	-	**103**	-
Other (non traded investments)				
Shares in other corporations at cost				
- controlled entities	**-**	-	**4,581**	24,251
- less impairment of investment in controlled entities	**-**	-	**(4,581)**	(21,781)
- associates	**-**	-	**-**	-
- other entities	**21**	21	**21**	21
- less impairment of investment in other entities	**(21)**	(21)	**(21)**	(21)
	-	-	**-**	2,470
	103	76	**103**	2,546

(a) Non-traded shares in other corporations

Non-traded shares in other corporations have been written down to their assessed recoverable amount, being the present value of net cash inflows from expected future dividends and subsequent disposal of the shares

(b) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. For further information refer to section 5 of note 38.

14 Non-current assets - Property, plant and equipment

Consolidated

	Freehold land & buildings $000	Plant & equipment $000	Leased assets	Total $000
At 1 July 2004				
Cost or fair value	107	3,878	-	3,985
Accumulated depreciation	(12)	(2,602)	-	(2,614)
Net book amount	95	1,276	-	1,371
Year ended 30 June 2005				
Opening net book amount	95	1,276	-	1,371
Additions	105	866	-	971
Depreciation charge	(5)	(468)	-	(473)
Exchange differences	(7)	(89)	-	(96)
Closing net book	188	1,585	-	1,773
At 30 June 2005				
Cost or fair value	205	4,656	-	4,861
Accumulated depreciation	(17)	(3,071)	-	(3,088)
Net book amount	188	1,585	-	1,773
Year ended 30 June 2006				
Opening net book amount	188	1,585	-	1,773
Additions	5	1,001	465	1,471
Acquisition of subsidiaries	-	818	-	818
Disposals	-	(229)	-	(229)
Exchange differences	(6)	257	-	251
Depreciation charge	(12)	(475)	-	(487)
Closing net book	175	2,957	465	3,597
At 30 June 2006				
Cost or fair value	200	5,547	465	6,212
Accumulated depreciation	(25)	(2,590)	-	(2,615)
Net book amount	175	2,957	465	3,597

14 Non-current assets - Property, plant and equipment (continued)

Parent

	Freehold land & buildings $000	Plant & equipment $000	Leased assets	Total $000
At 1 July 2004				
Cost or fair value	-	183	-	183
Accumulated depreciation	-	(94)	-	(94)
Net book amount	-	89	-	89
Year ended 30 June 2005				
Opening net book amount	-	89	-	89
Additions	-	113	-	113
Depreciation charge	-	(55)	-	(55)
Closing net book	-	147	-	147
			-	
At 30 June 2005				
Cost or fair value	-	296	-	296
Accumulated depreciation	-	(149)	-	(149)
Net book amount	-	147	-	147
Year ended 30 June 2006				
Opening net book amount	-	147	-	147
Additions	-	40	-	40
Disposals	-	-	-	-
Depreciation charge	-	(48)	-	(48)
Closing net book	-	139	-	139
At 30 June 2006				
Cost or fair value	-	262	-	262
Accumulated depreciation	-	(123)	-	(123)
Net book amount	-	139	-	139

15 Non-current assets - Exploration, evaluation and mining properties

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Exploration and evaluation costs	**14,688**	8,797	**-**	-
Impairment charges	**(9,835)**	(7,705)	**-**	-
	4,853	1,092	**-**	-
Mining properties	**14,442**	10,586	**-**	-
Impairment charges	**(10,337)**	(10,337)	**-**	-
Accumulated amortisation	**(249)**	(249)	**-**	-
	3,856	-	**-**	-
	8,709	1,092	**-**	-

Reconciliations of the carrying amount of exploration, evaluation and mining properties at the beginning and end of the current and previous financial year:

	Consolidated 2006 $000	Consolidated 2005 $000	Parent entity 2006 $000	Parent entity 2005 $000
Exploration and evaluation costs				
Opening balance	**1,092**	-	**-**	-
Exploration and evaluation costs incurred during the year	**1,933**	1,092	**-**	**-**
Expenditure written off	**(2,130)**	-	**-**	**-**
Exploration property acquired during the year	**4,629**	-	**-**	**-**
Exchange translations	**(671)**	-	**-**	**-**
Closing balance	**4,853**	1,092	**-**	**-**
Mining properties				
Opening balance	**-**	-	-	-
Project generation costs incurred during the year	**-**	580	**-**	552
Mine property acquired during the year	**2,370**	-	**-**	-
Mine development incurred after acquisition	**1,774**	-	**-**	-
Expenditure written off	**-**	(580)	**-**	(552)
Exchange translations	**(288)**	-	**-**	-
Closing balance	**3,856**	-	-	-

During the year the costs associated with exploration in India were fully written off given the uncertainty over the company's future direction in regards to exploration in India.

Ultimate recoupment of costs carried forward for mining properties, exploration and evaluation is dependent upon:

- continuance of the company's rights to tenure of the areas of interest;
- results of future exploration; and
- recoupment of costs through successful development and commercial exploitation, or alternatively by sale of the respective areas.

16 Non-current assets - Other

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Term deposit	**308**	320	**-**	-
Goodwill on consolidation	199	199	**-**	-
Impairment charge	(199)	(199)	**-**	-
	-	-	**-**	-
	308	320	**-**	-

The term deposits are held as security for bank guarantees in favour of the Department of Minerals and South African Mineral Authorities pursuant to conditions for the granting of mining leases.

17 Deferred tax asset

The balance comprises temporary differences attributable to:

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Amounts recognised in profit and loss:				
Accruals	**21**	-	**13**	-
Receivables from related companies	**150**	-	**18**	-
	171	-	**31**	-
Amounts recognised directly in equity:				
Available-for-sale financial assets	**17**	-	**17**	-
Equity issue costs	**49**	-	**49**	-
	66	-	**66**	-
	237	-	**97**	-
Set-off against deferred tax liabilities	**(237)**	-	**(97)**	-
	-	-	**-**	-
Movements				
Opening balance 1 July 2005	**-**	-	**-**	-
Credited to income statement	**171**	-	**31**	-
Credited to equity	**66**		**66**	
Closing balance	**237**	-	**97**	-
Deferred tax assets to be settled within 12 months	**95**	-	**12**	-
Deferred tax assets to be settled after 12 months	**142**	-	**84**	-
	237	-	**97**	-

18 Current liabilities – Trade and other payables

Trade payables	**1,561**	1,000	**169**	219
Other payables	**88**	101	**88**	65
	1,649	1,101	**257**	284

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Other creditors are non-interest bearing and are settled on an at-call basis. Of the consolidated payables $1,363,974 (2005: $781,618) is denominated and repayable in South African Rand.

19 Current liabilities - Provisions

Rehabilitation costs– opening balance	**397**	**351**	**-**	**-**
- utilised during year	**(289)**	**(251)**	**-**	**-**
- Exchange differences	**(18)**	**-**	**-**	**-**
- provision for year	**130**	**297**	**-**	**-**
Balance at end of year	**220**	**397**	**-**	**-**
Leave entitlements	**29**	**28**	**5**	**3**
	249	**425**	**5**	**3**

20 Current liabilities - Borrowings

Secured

Lease liabilities	**76**	-	-	**-**

Refer to note 23 for details of the security arrangements

21 Non-current liabilities – Trade and other payables

Loan from controlled entity	**-**	-	**-**	710

22 Non-current liabilities – Provisions

Rehabilitation costs– opening balance	**97**	105	-	-
- provision acquired on purchase of subsidiaries during year	**216**	-	-	-
- Finance costs	**25**	8		
- Exchange differences	**(33)**	(16)	-	-
Balance at end of year	**305**	97	**-**	-

23 Non-current liabilities - Borrowings

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Secured				
Lease liabilities	**428**	-	**-**	-
Unsecured				
Convertible notes	**2,183**	-	**2,183**	-
	2,611	-	**2,183**	-

The lease liabilities are South African Rand denominated and bear interest at 9,5% per annum. They are secured by moveable assets with a book value of $465,000 as at 30 June 2006. The agreements are repayable in fixed monthly instalments until June 2011.

The parent entity issued 1,000 8% convertible notes for GBP1 million on 22 June 2006. The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 23 June 2010. The number of ordinary shares to be issued for each convertible note will be based on a conversion price of GBP0.36. The convertible notes are presented in the statement of financial position as follows:

Face value of notes issued	**2,489**	-	**2,489**	-
Other equity securities – value of conversion rights	**(313)**	-	**(313)**	**-**
	2,176		**2,176**	
Interest expense *	**7**	-	**7**	-
Non-current liability	**2,183**	-	**2,183**	-

* Interest expense is calculated by applying the effective interest rate of 12% to the liability component.

24 Deferred tax liabilities

The balance comprises temporary differences attributable to:

Amounts recognised in profit and loss:				
Cash assets	**3**	-	**3**	-
Exploration, evaluation and mining properties	**1,741**	-	**-**	-
	1,744	-	**3**	-
Amounts recognised directly in equity:				
Convertible note	**94**	-	**94**	-
	1,838	-	**97**	-
Set-off against deferred tax assets	**(237)**	-	**(97)**	-
	1,601	-	**-**	-
Movements				
Opening balance 1 July 2005	**-**	-	**-**	-
Credited in income statement	**3**	-	**3**	-
Charged to equity	**94**	-	**94**	-
Acquisition of subsidiaries	**1,984**	-	**-**	-
Exchange differences	**(243)**	-	**-**	-
Closing balance	**1,838**	-	**97**	-
Deferred tax liabilities to be settled within 12 months	**3**	-	**3**	-
Deferred tax liabilities to be settled after 12 months	**1,385**	-	**94**	-
	1,838	-	**97**	-

25 Contributed equity

(a) Share capital

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Ordinary shares fully paid	**56,912**	50,726	**56,693**	50,726

(b) Other equity securities

Value of conversion rights – convertible notes, net of tax			313	-
Deferred tax liability component			(94)	-
Total contributed equity			**56,912**	50,726

(c) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$000
1 July 2004	Opening Balance		61,057,696		40,352
10 August – 13 September 2004	Placement		16,532,500	GBP0.26 ($A0.67)	10,856
12 January 2005	Employee share plan loan repaid –proceeds received		33,333	$0.52	17
9 February 2005	Employee share plan loan repaid –proceeds received		83,333	$0.52	44
	Less: issue transactions costs		-		(543)
30 June 2005	**Balance**		**77,706,862**		**50,726**
1 September 2005	Mine purchase consideration		2,747,802	GBP0.35 (A$0.84)	2,308
4 November 2005	Placement		4,500,000	GBP0.30 ($A0.72)	3,187
22 December 2005	Placement in lieu of services rendered		749,137	A$0.69	513
8 March 2006	Employee share plan loan repaid –proceeds received		33,333	$A0.52	17
	Less: issue transactions costs		-		(107)
	Deferred tax credit recognised directly in equity		-		49
30 June 2006	Balance		85,737,134		56,693

25 Contributed equity (continued)

(d) Movement in Employee Share Plan shares issued with limited recourse employee loans:

1 July 2004	Opening Balance	2,850,000	
12 January 2005	Employee share plan loan repaid – shares transferred to ordinary share capital	(33,333)	$A0.52
9 February 2005	Employee share plan loan repaid – shares transferred to ordinary share capital	(83,333)	$A0.52
30 June 2005	**Balance**	2,733,334	
21 December 2005	Employee Share Plan issue	750,000	$0.87
21 December 2005	Employee Share Plan issue	3,350,000	$1.00
8 March 2006	Employee share plan loan repaid – shares transferred to ordinary share capital	(33,333)	$0.52
6 April 2006	Employee Share Plan issue	200,000	$1.00
30 June 2006	Balance	7,000,001	

The weighted average issue price of issued employee share plans shares is $0.77. Refer to note 38 for details of the employee share plan.

(e) Share options

	Number of options	
	2006	2005
To acquire ordinary fully paid shares in Dwyka Diamonds Limited:		
- at $1.47 per share on or before 30 June 2006	**-**	2,000,000
Employee option plan options (refer note 38)		
- at $0.52 per share on or before 30 June 2007	**1,100,000**	1,100,000
- at $0.87 per share on or before 30 June 2009	**250,000**	-
- at $1.00 per share on or before 30 June 2009	**1,250,000**	-
	2,600,000	3,100,000

(f) Movements in share options

	Number of options	
	2006	2005
To acquire ordinary fully paid shares at $1.47 on or before 30 June 2006:		
Beginning of the financial year	**2,000,000**	2,000,000
Options expired	**(2,000,000)**	-
Balance at end of financial year	**-**	2,000,000

Refer to note 38 for movements in the employee option plan including details of options issued, exercised, and lapsed during the year and options outstanding at the end of the financial year.

25 Contributed equity (continued)

(g) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(h) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 38.

26 Reserves and accumulated losses

(a) Reserves

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Available-for-sale investments revaluation reserve				
Balance 1 July		-	**-**	-
Adjustment on adoption of AASB 132 and AASB 139	**(82)**	-	**(82)**	-
Revaluation	**24**	-	**24**	-
Deferred tax	**17**	-	**17**	-
Balance 30 June	**(41)**	-	**(41)**	-
Share-based payments reserve				
Balance 1 July	**519**	173	**519**	173
Expense for the year	**428**	346	**428**	346
Balance 30 June	**947**	519	**947**	519
Foreign currency translation reserve				
Balance 1 July	**394**	-	**-**	-
Currency translation differences	**288**	394	**-**	-
Balance 30 June	**682**	394	**-**	-
Deferred share issue reserve				
Balance 1 July	**-**	-	**-**	-
Deferred share issue on business unit acquisition	**629**	-	**629**	-
Balance 30 June	**629**	-	**629**	-
TOTAL 30 June	**2,217**	913	**1,535**	519

(b) Accumulated losses

Movements in accumulated losses were as follows:

Balance at beginning of year	**(37,070)**	(32,922)	**(35,647)**	(31,192)
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**82**	-	**82**	-
Net loss attributable to members of Dwyka Diamonds Limited	**(3,681)**	(4,148)	**(6,298)**	(4,455)
Balance at end of financial year	**(40,669)**	(37,070)	**(41,863)**	(35,647)

26 Reserves and accumulated losses (continued)

(c) Nature and purpose of reserves

(i) Available-for-sale investments revaluation reserve
Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve. Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(ii) Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of employee share plan shares issued with an attaching limited recourse employee loan; and employee option plan options issued but not exercised.

(iii) Foreign currency translation reserve
Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve. The reserve is recognised in profit and loss when the net investment is disposed of.

(iv) Deferred share issue reserve
During the year the Group acquired a new business unit (refer Note 32). A portion of the consideration consists of a deferred share issue. Upon the deferred shares being issued the reserve will be transferred to contributed equity.

27 Minority interest

	Consolidated	
	2006	2005
	$000	$000
Outside equity interest comprises:		
Reserves	**91**	91
Accumulated losses	**(42)**	(91)
	49	-

The parent entity bears the responsibility for the minority interest's share of outgoings resulting from accumulated losses in excess of reserves.

28 Key management personnel disclosures

(a) Directors

The following persons were directors of Dwyka Diamonds Limited during the financial year:

(i) Chairman
Ms M Sturgess

(ii) Executive directors
Mr A Griffin, Chief Executive Officer
Mr C J Bredenkamp, Managing director – South Africa
Mr M Langoulant, Chief Financial Officer

(iii) Non-executive directors
Mr E Nealon
Dr E Kirby

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	*Position*
Mr G Button	Commercial Manager

All of the above persons were also key management persons during the year ended 30 June 2005, except for A Griffin who commenced employment with the Group on 1 December 2005.

28 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Short-term employee benefits	**981,127**	816,627	**796,486**	714,552
Post-employment benefits	**21,966**	6,365	**21,966**	6,365
Share-based payments	**341,860**	131,644	**318,396**	97,500
	1,344,953	954,636	**1,136,848**	818,417

The company has taken advantage of the relief provided by Corporations Regulation CR2M.604 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 14 to 19.

(d) Equity instruments disclosure relating to key management personnel

(i) Shares and options provided as remuneration and shares issued on exercise of such options
Details of shares and options provided as remuneration, and of shares issued on the exercise of such options, together with the terms and conditions of the shares and options, can be found in section D of the remuneration report on pages 14 to 19.

(ii) Option holdings
The numbers of options over ordinary shares in the company held during the financial year by each director of Dwyka Diamonds Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006 Name	Balance at the start of the year	Granted during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Dwyka Diamonds Limited				
M J Sturgess	-	-	-	-
E F G Nealon	-	-	-	-
E Kirby	-	-	-	-
A Griffin	-	-	-	-
C J Bredenkamp	250,000	250,000	500,000	166,667
M J Langoulant	-	-	-	-
Other key management personnel of the Group				
G Button	-	-	-	-

2005 Name	Balance at the start of the year	Granted during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Dwyka Diamonds Limited				
M J Sturgess	-	-	-	-
E F G Nealon	-	-	-	-
E Kirby	-	-	-	-
A Griffin	-	-	-	-
C J Bredenkamp	250,000	-	250,000	83,333
M J Langoulant	-	-	-	-
Other key management personnel of the Group				
G Button	-	-	-	-

28 Key management personnel disclosures (continued)

(d) Equity instruments disclosure relating to key management personnel (continued)

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Dwyka Diamonds Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006

Name	Balance at the start of the year	Received during the year	Balance at the end of the year
Directors of Dwyka Diamonds Limited			
Ordinary shares			
M J Sturgess	**1,002,500**	1,000,000	2,002,500
E F G Nealon	**1,000,000**	1,000,000	2,000,000
E Kirby	**250,000**	750,000	1,000,000
A Griffin	**-**	-	-
C J Bredenkamp	**12,660**	-	12,660
M J Langoulant	**-**	1,000,000	1,000,000
Other key management personnel of the Group			
Ordinary shares			
G Button	**350,000**	-	350,000

2005

Name	Balance at the start of the year	Movement during the year	Balance at the end of the year
Directors of Dwyka Diamonds Limited			
Ordinary shares			
M J Sturgess	**1,002,500**	-	**1,002,500**
E F G Nealon	**1,000,000**	-	**1,000,000**
E Kirby	**250,000**	-	**250,000**
C J Bredenkamp	**12,660**	-	**12,660**
M J Langoulant	**-**	-	-
Other key management personnel of the Group			
Ordinary shares			
G Button	**416,667**	(66,667)	350,000

29 Remuneration of auditors

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$	$	**$**	$
Remuneration for audit or review of the financial reports of the parent entity or any entity in the Group:				
Auditor of the parent entity				
- Australian firm	**85,600**	54,800	**85,600**	54,800
- Related practices of Australian firm	**20,975**	41,197	**-**	-
- Other firms	**2,677**	4,172	**-**	-
	109,252	100,169	**85,600**	54,800
Remuneration for other services:				
Auditor of the parent entity, tax consulting	**-**	29,919	**-**	29,919
- Other; tax consulting	**-**	671	**-**	-
	-	30,590	**-**	29,919

30 Contingencies/Commitments

(a) Contingent liabilities

The parent entity and Group had no known contingent liabilities as at 30 June 2006.

(b) Contingent assets

The parent entity and Group had no known contingent assets as at 30 June 2006.

(c) Commitments

The Group has an exploration commitment with a de Beers subsidiary to expend $US1.5 million over the next 2 years upon exploration of the Tanzanian exploration tenements. This commitment can be reduced with approval of de beers upon the acceptance of alternative exploration proposals. The company and de Beers are currently investigating an alternate exploration plan which would significantly reduce this exploration commitment..

The Group leases various plant and equipment with a carrying amount of $360,000 under finance leases expiring 5 years. These leases are denominated in South African Rand.

Commitments in relation to finance lease are payable as follows:				
Within one year	**130**	-	-	-
Later than one year but no later than 5 years	**374**	-	-	-
Later than 5 years	**-**	-	-	-
Minimum lease payments	**504**	-	-	-
Represented by				
Current (note 20)	**76**	-	-	-
Non-current (note 23)	**428**	-	-	-
	504	-	-	-

31 Related party transactions

(a) Parent entity

The ultimate parent entity in the wholly-owned group and the ultimate Australian parent entity is Dwyka Diamonds Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Parent entity	
	2006	2005
	$	$
Loans advanced to controlled entities		
Opening balance	**6,312,908**	1,478,676
- Management fee charged to controlled entities	**470,074**	782,711
- cash advances to controlled entities	**5,153,767**	4,884,548
- parent company shares issued on behalf of a controlled entity as part consideration to acquire a business unit	**2,308,154**	-
- parent company shares to be issued to be on behalf of a controlled entity as part consideration to acquire a business unit	**629,496**	-
- transfer of loans to parent company on members voluntary liquidation of controlled entity	**1,692,902**	-
- parent company shares issued on behalf of a controlled entity in lieu of services	**513,159**	-
- provision for loss on loans to related parties	**(4,400,953)**	(833,027)
Closing balance	**12,679,507**	6,312,908
Loans received from controlled entities		
Opening balance	**(709,695)**	(714,196)
- loan repaid on liquidation of controlled entity	**777,320**	-
- cash advances to controlled entities		4,501
- cash advances from controlled entities	**(67,625)**	-
Closing balance	**-**	(709,695)
Loans advanced to associate		
Opening balance	**1,316,698**	-
- cash advances to associate	**3,219,722**	1,316,698
Closing balance	**4,536,420**	1,316,698

31 Related party transactions (continued)

(e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Non-current loans advanced by Dwyka to controlled entities	**12,679,507**	6,312,908
Non-current loans advanced by Dwyka to associates	**4,536,420**	1,316,698
Non-current loans received by Dwyka from controlled entities	**-**	(709,695)

32 Business combination

On 1 September 2005 the parent entity effected the acquisition of 100% of the issued share capital of Kophia Diamonds Pty Ltd and Bellsbank Mining Number One Pty Ltd. These entities were acquired as a single business acquisition transaction.

Together these companies own 3 underground mines in South Africa. The consideration for this purchase is the issue of 2,747,802 shares and the payment of ZAR5 million to the vendors of the companies. This acquisition incorporates the provision of future services to the company by the vendors and includes operational targets for the mines acquired.

The acquired business contributed revenues of $1,044,983 and a net profit of $1,987 to the Group for the period from 1 October 2005 to 30 June 2006. If the acquisition had occurred on 1 July 2005, the acquired business would have contributed revenues of $1,044,983 and a net loss of $69,377 to the Group.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

Purchase consideration:	**AUD $000**
Cash paid (ZAR5 million)	1,021
Parent company shares (valued at the market price of those shares as at the date of acquisition)	2,308
Deferred issue of Parent company shares (valued at the market price of those shares as at the date of acquisition)	629
Total purchase consideration	3,958
Fair value of net identifiable assets acquired	3,958
Goodwill	-

At the date of acquisition it is considered probable that at least a further 749,400 parent company shares will be issued as additional consideration for the acquisition. This deferred share issue has been valued at the market price of those shares as at the date of acquisition. Further in the event that certain pre-determined mine performance hurdles are achieved by the subsidiary, additional consideration in the form of shares and options may be payable. It is not possible to determine if additional shares and/or options will be issued. The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created. There were no acquisitions in the year ended 30 June 2005.
The assets and liabilities arising from the acquisition are as follows:

	Carrying amount $000	**Fair Value $000**
Receivables	211	211
Inventories	345	345
Plant and equipment	818	818
Exploration	-	4,630
Mine property/development	170	2,370
Deferred tax asset	149	-
Trade payables	(45)	(45)
Deferred tax liability	-	(1,984)
Rehabilitation provision	-	(216)
Non-current payables	(776)	(776)
Non-current loans from vendors	(1,395)	(1,395)
Net identifiable assets acquired	(523)	3,958

33 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1(a):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2006	2005
			%	%
Supermix Mining	South Africa	Ordinary	**100**	100
Biz Africa 546	South Africa	Ordinary	**70**	70
Basfour 254	South Africa	Ordinary	**70**	70
JJS & L Mining	South Africa	Ordinary	**100**	100
Diamantrif Delwery	South Africa	Ordinary	**100**	100
Kophia Diamonds	South Africa	Ordinary	**100**	-
Bellsbank Mining Number One	South Africa	Ordinary	**100**	-
Kohinoor Mining International	Mauritius	Ordinary	**100**	100
Dwyka Diamonds Holdings	Mauritius	Ordinary	**100**	100
Huntingdale Investments	Mauritius	Ordinary	**100**	100
Karringyup Holdings	Mauritius	Ordinary	**100**	100
Troon Investments	Mauritius	Ordinary	**100**	100
Tralee Investments*	Mauritius	Ordinary	**100**	N/a
AMIL Mining India	India	Ordinary	**100**	100
Diamix (in members voluntary liquidation)	United Kingdom	Ordinary	**100**	100
Dwyka Alsami*	Tanzania	Ordinary	**100**	N/a
Dwyka Tanzania*	Tanzania	Ordinary	**95**	N/a

* Incorporated during the financial year ended 30 June 2006.

34 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

Name	Principal activity	Ownership interest		Consolidated		Parent entity	
		2006	2005	2006	2005	2006	2005
		%	%	$000	$000	$000	$000
Superkolong (unlisted)	Diamond tailings processing	40	-	-	-	-	-

The above associate is incorporated in South Africa and had not traded in the year to 30 June 2006. In the year to 30 June 2006 the associate secured a processing agreement with de Beers and has been constructing a diamond tailings re-treatment plant. This plant was at the early commissioning stage as at 30 June 2006.

(b) Summarised financial information of associates

	Group's share of			
	Assets	Liabilities	Revenues	Profits
	$000	$000	$000	$000
Superkolong	3,176	3,176	-	-

(c) Share of associates' expenditure commitments and contingencies

As at June 2006 the associate had no commitments or contingent liabilities.

35 Events occurring after the balance sheet date

Since the end of the financial year an in principle agreement has been reached whereby Dwyka will restructure its black economic empowerment ("BEE") arrangements with its principal BEE partner, Kolong Investments such that the Group will increase its interest in the SMI4 de Beers tailings re-treatment project to 70% in exchange for reducing its interest in current 100% owned South African operations to 70%. Formal approvals for this proposal are being sought and agreements to affect this proposal are being prepared.

Except for the above no other matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Group's state of affairs in future financial years.

36 Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Loss from ordinary activities after tax	**(3,614)**	(4,140)	**(6,326)**	(4,455)
Depreciation and amortisation	**488**	473	**48**	55
Exploration expenditure & mining property generation written off	**2,130**	580	**-**	552
Doubtful debts	**107**	39	**-**	-
Finance costs	**31**	-	**7**	-
Foreign exchange (gain)/loss	**(143)**	840	**(160)**	-
Share based compensation	**428**	346	**428**	346
Impairment of assets	**3**	212	**4,400**	2,276
Loss on sale of plant	**6**	-	**-**	-
Reversal of asset impairment	**(139)**			
Management fees charged to controlled entities	**-**	-	**(470)**	(783)
Decrease/(increase) in receivables	**(224)**	(205)	**14**	(31)
Decrease/(increase) in inventory	**58**	(292)	**-**	-
(Increase)/decrease in tax expense	**(168)**	-	**-**	-
Increase/(decrease) in payables	**548**	119	**(27)**	(60)
Increase/(decrease) in current provisions	**(176)**	58	**2**	3
Net cash flow used in operating activities	**(665)**	(1,970)	**(2,084)**	(2,097)

Non-cash financing activities

During the year the company issued 2,747,802 ordinary shares at GBP0.35 ($0.84) to acquire 3 underground mines and it issued 749,137 ordinary shares at $0.685 in lieu of services rendered.

37 Loss per share

The following reflects the operating loss and share data used in the calculations of basic and diluted loss per share:

	2006 $000	2005 $000
Net consolidated loss	(3,614)	(4,148)
Adjustments:		
Less: Net loss attributable to outside equity interest	67	-
Loss used in calculating basic and diluted earnings per share	(3,681)	(4,148)

	Number	Number
Weighted average number of ordinary shares used in calculating basic loss per share	83,352,062	77,706,802
Effect of dilutive securities:		
Employee share plan shares	4,923,380	2,733,334
Adjusted weighted average number of ordinary shares used in calculating diluted loss per share	88,275,442	80,440,136

Information concerning the classification of securities:
Options granted are considered to be potential ordinary shares but have not been included in the determination of diluted loss per share as they are not dilutive. Details relating to the options are set out in the Directors' Report and note 38.

38 Share-based payments

(a) Employee Option Plan

An employee incentive option plan was approved at the 2003 annual general meeting. This plan was replaced by a new employee option plan approved at the 2005 annual general meeting.

Participants of the option plan are determined by the Board and can be employees and directors of, or consultants to, the company or a controlled entity. The Board considers length of service, seniority, responsibilities, potential contribution and any other relevant matters in determining eligibility of potential participants. The Board has sole responsibility to determine the number of options and terms and conditions of options granted to any participant.

The options issued under the option plan will be granted free of charge. The exercise price for the options is to be not less than the weighted average share price for the last five trading days immediately preceding the options being offered to the participant.

The expiry date of the options will be determined by the Board and will also lapse within one month of the participant ceasing to be a director, employee or consultant of the company or a controlled entity (subject to certain exceptions). The Board at its discretion may apply certain vesting conditions upon any options issued under the plan.

The options are not transferable without prior written approval from the Board. The options will not be quoted on a publicly traded stock market; however application will be made for ASX/AIM quotation of the shares issued upon the exercise of the options.

Set out below are summaries of options granted under the plan:

Consolidated and parent entity - 2006

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
17 February 2004	30 June 2007	$0.52	1,100,000	-	1,100,000	733,333
20 April 2006	30 June 2009	$0.87	-	250,000	250,000	-
20 April 2006	30 June 2009	$1.00	-	1,250,000	1,250,000	-
			1,100,000	1,500,000	2,600,000	733,333
Weighted average exercise price			$0.52	$0.98	$0.78	$0.52

Consolidated and parent entity - 2005

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
17 February 2004	30 June 2007	$0.52	1,100,000	-	1,100,000	366,666
Weighted average exercise price			$0.52	-	$0.52	$0.52

38 Share-based payments (continued)

(a) Employee Option Plan (continued)

No options were forfeited during the periods covered by the above tables.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was 20.7 cents per option. The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The additional model inputs for options granted during the year ended 30 June 2006 included:

(a) options are granted for no consideration, have a three year life, and 33% of each tranche vests and is exercisable on each anniversary of the date of grant

(b) share price at grant date: $0.76

(c) expected price volatility of the company’s shares: 60%

(d) expected dividend yield: Nil

(e) risk-free interest rate: 5.8%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

38 Share-based payments (continued)

(b) Employee Share Plan

An employee incentive share plan was approved at the 2003 annual general meeting. This plan was replaced by a new employee share plan approved at the 2005 annual general meeting.

Participants of the plan are determined by the Board and can be employees and directors of, or consultants to, the company or a subsidiary. The Board considers length of service, seniority, responsibilities, potential contribution and any other relevant matters in determining eligibility of potential participants.

The issue price for the shares issued under the plan are not less than the weighted average share price for the last five trading days immediately preceding the offer to the participant. The market value of shares issued under the scheme, measured as the weighted average market price on the day of issue of the shares, is recognised in the statement of financial position as share capital and as part of employee benefit costs in the period the shares are vested.

A participant who is invited to subscribe for shares under the plan may also be invited to apply for a loan up to the amount payable in respect of the shares accepted by the participant. These loans are to be made on the following terms:

- Interest free;
- Applied directly against the issue price of the shares to be acquired under the plan;
- For a term to be determined by the Board;
- Repayable to the extent of the lesser of the issue price of the relevant shares issued, less any cash dividends applied against the outstanding principal; and the last market sale price of the shares on the date of repayment of the loan;
- The loan must be repaid in full prior to expiry of the loan;
- The company will have a lien over the shares in respect of which a loan is outstanding;
- Shares issued under the plan are not transferable while a loan amount in respect of those shares remains payable; and
- Shares issued under the share plan will not be quoted on a publicly traded stock market while a loan amount in respect of those shares remains payable.

All shares issued under the employee share plan with non-recourse loans are considered to be options and are accounted for in accordance with note 1(v) (ii).

On 17 December 2003, 2,850,000 shares were issued at $0.52 to directors, consultants and employees under the plan. The shares were paid for by way of a loan payable on or before 17 December 2006 (as provided by the plan).

On 21 December 2005, 750,000 shares were issued at $0.87 to directors under the plan. Also on 21 December 2005, 3,350,000 shares were issued at $1.00 to directors, consultants and employees under the plan. On 12 April a further 200,000 shares were issued at $1.00 to a consultant under the plan. These shares were paid for by way of a loan payable on or before 21 December 2008 and 12 April 2009 respectively (as provided by the plan).

For details of the shares issued to directors and executives refer to note 28.

38 Share-based payments (continued)

(c) Expenses relating to share based payment transactions

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$000	$000	**$000**	$000
Options issued under employee option plan	**87**	140	**87**	140
Shares issued under employee share plan	**341**	206	**341**	206
Shares issued in exchange for services rendered	**513**	-	**513**	-
	941	346	**941**	346

39 Impact of Adopting Australian Equivalents to IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Consolidated Previous AGAAP $000	Consolidated Effect of transition to AIFRS $000	Consolidated AIFRS $000	Parent entity Previous AGAAP $000	Parent entity Effect of transition to AIFRS $000	Parent entity AIFRS $000
ASSETS							
Current assets							
Cash and cash equivalents		6,632	-	6,632	4,798	-	4,798
Receivables		547	-	547	37	-	37
Inventories		250	-	250	-	-	-
Total current assets		7,429	-	7,429	4,835	-	4,835
Non-current assets							
Receivables	4(a)	1,627	(1,482)	145	3,010	-	3,010
Other financial assets		89	-	89	3,939	-	3,939
Property, plant and equipment	4(b), 4(c)	3,054	(1,683)	1,371	89	-	89
Total non-current assets		4,770	(3,165)	1,605	7,038	-	7,038
Total assets		12,199	(3,165)	9,034	11,873	-	11,873
LIABILITIES							
Current liabilities							
Payables		982	-	982	344	-	344
Provisions	4(d)	503	(159)	344	-	-	-
Total current liabilities		1,485	(159)	1,326	344	-	344
Non-current liabilities							
Payables		-	-	-	714	-	714
Provisions	4(d)	-	105	105	-	-	-
Total non-current liabilities		-	105	105	714	-	714
Total liabilities		1,485	(54)	1,431	1,058	-	1,058
Net assets		10,714	(3,111)	7,495	10,815	-	10,815
EQUITY							
Contributed equity	4(a)	41,834	(1,482)	40,352	41,834		41,834
Reserves	4(a)	-	173	173	-	173	173
Accumulated losses	4(a), 4(b), 4(c), 4(d)	(31,120)	(1,802)	(32,922)	(31,019)	(173)	(31,192)
Parent entity interest		10,714	(3,111)	7,603	10,815	-	10,815
Minority interest		-	-	-	-	-	-
Total equity		10,714	(3,111)	7,603	10,815	-	10,815

39 Impact of Adopting Australian Equivalents to IFRS (continued)

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Consolidated Previous AGAAP $000	Consolidated Effect of transition to AIFRS $000	Consolidated AIFRS $000	Parent entity Previous AGAAP $000	Parent entity Effect of transition to AIFRS $000	Parent entity AIFRS $000
ASSETS							
Current assets							
Cash and cash equivalents		9,582	-	9,582	7,270	-	7,270
Receivables		1,003	-	1,003	319	-	319
Inventories		542	-	542	-	-	-
Total current assets		11,127	-	11,127	7,589	-	7,589
Non-current assets							
Receivables	4(a)	3,545	(1,421)	2,124	6,313	-	6,313
Other financial assets		76	-	76	2,546	-	2,546
Property, plant and equipment	4(b), 4(c)	3,582	(1,809)	1,773	147	-	147
Exploration, evaluation and mining properties		1,092	-	1,092	-	-	-
Total non-current assets		8,295	(3,230)	5,065	9,006	-	9,006
Total assets		19,422	(3,230)	16,192	16,595	-	16,595
LIABILITIES							
Current liabilities							
Payables		1,101	-	1,101	284	-	284
Provisions	4(d)	561	(136)	425	3	-	3
Total current liabilities		1,662	(136)	1,526	287	-	287
Non-current liabilities							
Payables		-	-	-	710	-	710
Provisions	4(d)	-	97	97	-	-	-
Total non-current liabilities		-	97	97	710	-	710
Total liabilities		1,662	(39)	1,623	997	-	997
Net assets		17,760	(3,191)	14,569	15,598	-	15,598
EQUITY							
Contributed equity	4(a)	52,147	(1,421)	50,726	50,726	-	50,726
Reserves	4(a), 4(c), 4(d)	-	913	913	-	519	519
Accumulated losses	4(a0, 4(b), 4(c), 4(d)	(34,387)	(2,683)	(37,070)	(35,128)	(519)	(35,647)
Parent entity interest		17,760	(3,191)	14,569	15,598	-	15,598
Minority interest		-		-	-	-	-
Total equity		17,760	(3,191)	14,569	15,598	-	15,598

39 Impact of Adopting Australian Equivalents to IFRS (continued)

(2) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to IFRSs (AIFRS)

(a) Reconciliation of profit for the year ended 30 June 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP $000	Effect of transition to AIFRS $000	AIFRS $000	Previous AGAAP $000	Effect of transition to AIFRS $000	AIFRS $000
Revenue							
Revenue from sale of goods		5,164	-	5,164	-	-	-
Cost of sales	4(b)	(3,891)	(31)	(3,922)	-	-	-
		1,273	(31)	1,242	-	-	-
Other income		628	-	628	1,274	-	1,274
Other expenses from ordinary activities							
Administration		(3,994)	-	(3,994)	(2,555)	-	(2,555)
Share based compensation	4(a)	-	(346)	(346)		(346)	(346)
Charges against assets		(212)	-	(212)	(2,276)	-	(2,276)
Exploration, evaluation and project generation costs		(580)	-	(580)	(552)	-	(552)
Finance costs	4(d)	-	(8)	(8)	-	-	-
Foreign exchange gains/(losses)	4(c)	(382)	(496)	(878)	-	-	-
Loss before income tax		(3,267)	(881)	(4,148)	(4,109)	(346)	(4,455)
Income tax expense		-	-	-	-	-	-
Loss for the year		(3,267)	(881)	(4,148)	(4,109)	(346)	(4,455)
Loss attributable to minority interest		-	-	-	-	-	-
Loss attributable to members of Dwyka Diamonds Limited		(3,267)	(881)	(4,148)	(4,109)	(346)	(4,455)

39 Impact of Adopting Australian Equivalents to IFRS (continued)

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those shares and options that were issued to employees under the Dwyka Diamonds Employee Share and Option Plan after 7 November 2002 but that had not vested by 1 January 2005. In addition the treatment of the shares issued under the Plan changes in that as the shares are financed by a limited recourse loan there is no equity recognised until the employee loan is repaid in accordance with the Plan terms (Refer Note 38) The effects of these changes are:

(i) At 1 July 2004
For the Group and parent company there has been an increase in accumulated losses of $173,000 and a corresponding increase in reserves. For the Group and parent company non-current receivables decreases by $1,482,000 and contributed equity decreases by the same amount.

(ii) At 30 June 2005
For the Group and parent company there has been an increase in accumulated losses of $519,000 and a corresponding increase in reserves. For the Group and parent company non-current receivables decreases by $1,421,000 and contributed equity decreases by the same amount.

(iii) For the year ended 30 June 2005
For the Group and parent company there has been an increase in employee benefits expense of $346,000.

(b) Impairment

The assessment of recoverable amount of the plant and equipment utilised by the Group's South African based industrial division has been reviewed. When this assessment was made under previous AGAAP, the recoverable amount was estimated on an undiscounted basis. Using a discount rate of 8% to arrive at value-in-use, at the date of transition an impairment of $25,000 existed. The effect of this is:

(i) At 1 July 2004
For the Group there has been a decrease in plant and equipment of $25,000 while accumulated losses has increased by the same amount.

(ii) At 30 June 2005
For the Group there has been a decrease in plant and equipment of $56,000 while accumulated losses has increased by the same amount.

(iii) For the year ended 30 June 2005
For the Group depreciation expense has increased by $31,000.

39 Impact of Adopting Australian Equivalents to IFRS (continued)

(c) Foreign currency translation reserve

Under AIFRS the Group has elected to apply the period closing exchange rate for translation of controlled entity non-monetary items upon consolidation with exchange translation differences being represented by a foreign currency translation reserve. Under AGAAP the Group was translating these non-monetary items at historical exchange rates.

Further, the Group has elected to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* The cumulative translation differences for all foreign operations calculated above and represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRSs. This transition date adjustment carries through to each subsequent period.

The effects of the above are:

(i) At 1 July 2004

For the Group plant and equipment is reduced by $1,658,000 while accumulated losses are increased by the same amount

(ii) At 30 June 2005

For the Group plant and equipment is reduced by $1,753,000 while accumulated losses are increased by $2,154,000 and the foreign currency translation reserve is recognised at $401,000.

(iii) For the year ended 30 June 2005

For the Group, accumulated losses have increased by $496,000.

(d) Provision for rehabilitation

Under AASB 137 Provisions, Contingent Liabilities and Contingent Assets from 1 July 2004 the group is required to recognise a provision from inception of the operation, through the creation of an equal valued asset which is then amortised over the life of the operation.
This is in contrast to the previous Australian GAAP treatment under which the provision is created in proportion to the tonnes mined over the life of mine reserve.

(i) At 1 July 2004
For the Group, there has been a net decrease in provisions of $54,000, and a corresponding decrease in accumulated losses of $54,000

(ii) At 30 June 2005
For the Group, there has been a net decrease in provisions of $39,000, a decrease in reserves of $7,000 and a decrease in accumulated losses of $46,000

(iii) For the year ended 30 June 2005
For the Company there has been an increase in interest expense of $8,000.

39 Impact of Adopting Australian Equivalents to IFRS (continued)

(e) Accumulated losses

The effect on accumulated losses of the changes set out above are as follows:

		Consolidated		Parent	
		1 July 2004	30 June 2005	1 July 2004	30 June 2005
	Notes	$000	$000	$000	$000
Foreign currency translation reserve	4(c)	(1,658)	(2,154)	-	-
Impairment	4(b)	(25)	(56)	-	-
Provision for rehabilitation	4(d)	54	46	-	-
Share-based payments	4(a)	(173)	(519)	(173)	(519)
Total adjustment		(1,802)	(2,683)	(173)	(519)

(5) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*: 1 July 2005

(a) Available-for-sale financial assets

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Refer to note 1(m) for further information on the transition to AASB 132 and AASB 139 from 1 July 2005.

At 1 July 2005, for the Group and the parent entity, reserves are decreased by $82,000 and accumulated losses are decreased by the same amount. Additionally, within other financial assets, investments traded on organised markets is decreased by $76,000 and available-for-sale financial assets is increased by the same amount.

DWYKA DIAMONDS LIMITED

DIRECTOR'S DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 27 to 84 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date.

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

(c) the audited remuneration disclosures set out on pages 15 to 19 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

M. J Sturgess
Executive Chairman
Perth   Date: 29 September 2006

Independent audit report to the members of Dwyka Diamonds Limited

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Audit opinion
In our opinion:

1. the financial report of Dwyka Diamonds Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Dwyka Diamonds Limited and the Dwyka Diamonds Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*;and
2. the remuneration disclosures that are contained on pages 14 to 19 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remunerations disclosures and directors' responsibility
The financial report comprises the balance sheet, income statement, cash flow statements, statements of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Dwyka Diamonds Limited (the company) and the Dwyka Diamonds Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "Remuneration Report" on pages 14 to 19 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Pricewaterhouse Coopers

PricewaterhouseCoopers

David J. Smith

David J Smith | Perth
Partner | 29 September 2006

DWYKA DIAMONDS LIMITED

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2006.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security *Shares*
1 - 1,000	78
1,001 - 5,000	182
5,001 - 10,000	70
10,001 - 100,000	139
100,001 and over	85
	554

There were 45 holders of a less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest holders of quoted ordinary shares as at 31 August 2006 were:

	Listed ordinary shares	
Name	*Number held*	*Percentage of issued shares*
Chase Nominees Limited	11,432,350	12.33
Mellon Nominees (UK) Limited	7,549,000	8.14
Willbro Nominees Limited	5,208,572	5.62
Daltonvale Ltd	4,439,905	4.79
Productive Nominees Limited	3,290,867	3.55
Brewin Nominees (Channel Islands) Limited	3,025,000	3.26
Chase Nominees Limited	2,930,000	3.16
Acorn Mining (Proprietary) Limited	2,448,042	2.64
Morstan Nominees Limited	2,405,600	2.59
The Bank of New York (Nominees) Limited	2,250,000	2.43
Goldman Sachs Securities (Nominees) Limited	2,053,135	2.21
Mr Ed Nealon	2,000,000	2.16
Ms Melissa Sturgess	2,000,000	2.16
ANZ Nominees Limited	1,992,650	2.15
Ferlim Nominees Limited	1,735,000	1.87
Pershing Keen Nominees Limited	1,699,655	1.83
HSBC Custody Nominees (Australia) Limited	1,604,844	1.73
The Bank of New York (Nominees) Limited	1,386,783	1.50
Fisherstreet Management Limited	1,316,668	1.42
Clyde Trading Ltd	1,259,133	1.36
	62,027,204	66.90

SHAREHOLDER INFORMATION (CONTINUED)

C. Substantial holders

Substantial holders in the Company are set out below:

Ordinary shares	***Number held***	***Percentage***
JP Morgan Chase & Co	8,755,000	9.44
FNR Corp & FIL	8,295,600	8.96

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

E. Restricted securities

There are no restricted securities on issue.

F. Tenement Schedule

1. Mining Permit and Mining Licence held through controlled entity Supermix Mining (Pty) Ltd

Mining Permit, MP 308/2000, issued in terms of Section 9(1) read with Section 9(3)(d) of the Minerals Act covering the farm De Hoop (formerly No. K72) measuring 3108.25 hectares in extent. The permit was renewed on 19 November 2003 and is valid until 20 December 2006.

Mining Permit, MP 165/2002, to mine diamonds and issued in terms of Section 9(1) read with Section 9(3)(d) of the Minerals Act covering the remaining extent De Hoop No. 65, Pax No. 195, Portion 7 De Hoop No. 65, Portion 8 De Hoop No. 65, Portion 9 De Hoop No. 65, Portion 10 a portion of Portion 1 De Hoop No. 65, Portion 11 a portion of Portion 1 of De Hoop No. 65, Farm No. 196, Farm 193 and Portion 5 of De hoop No. 65 (excluding area delineated as Phase B). The permit was issued on 19 November 2002 and is valid until 18 November 2006.

Mining Permit, ML 08/2002, to mine diamonds, sand and dimension stone and issued in terms of Section 9(1) read with Section 9(3)(d) of the Minerals Act covering Portion 5 of De Hoop No. 65 (Phase A and B) and the remaining extend of De Hoop. The permit was issued on 12 February 2003 and is valid until 20 December 2006.

Mining Licence, ML 3/2003, issued in terms of Section 9(1) read with Section 9(3)(d) of the Minerals Act covering Portions 1, 2, 3, 4, 5 & 6 of the farm Nooitgedacht. The licence is valid until 20 June 2011.

F. Tenement Schedule (continued)

2. Right to Prospect and Prospecting Permit held through controlled entity Basfour 2624 (Pty) Ltd

Prospecting Permit PP 31/2003 issued subject to the provisions of the Minerals Act 1991 - Permit on a certain surveyed portion of farms 84 & 86 and valid until 24th August 2006 & issued on 25th August 2003. An application to convert the old order prospecting right to a new order prospecting right was launched on 15 July 2006. Prospecting Permit, PP31/2003 is valid whilst the Department of Mineral and Energy process the application for a conversion.

3. Right to Prospect / Mine held through controlled entity – Kophia Diamonds

The current status in respect of *the* prospecting/mining titles on the individual properties is described as follows:

1. Newlands Diamond Mine – Certain 80 precious stone claims situated on portion 1 of Farm No 72, District of Barkly West.

   On the 9th January 2001 a mining license, ML 1/2001, was issued to Kophia Diamonds to mine for diamonds for a period ending on the exhaustion of the economically viable reserves or "in perpetuity". This mining license constitutes a "used old order mining right" and the holder of the mining license has the exclusive right to apply for a new order mining right for the period ending 31 April 2009. The MPRDA states that the Minister must grant a new order mining right if the applicant complies with the prerequisites set out in Sections 22 and 23 of the MPRDA, which includes compliance with the empowerment objectives.

2. West End Diamond Mine – Portion of the Remaining extent of Erf 14 of Postmasburg.

   An application for a "new order mining right" has been submitted to the DME. The application submitted is in respect of the West End Mine and does not include any tailings situated on the surface.

3. Blaauwbosch Diamond Mine – District of Boshoff.

   Kophia Diamonds were issued with a mining license ML 12/2002 for a period of 25 years ending 28 July 2027. This mining license constitutes a "used old order mining right" and the holder of the mining license has the exclusive right to apply for a new order mining right for the period ending 31 April 2009. The MPRDA states that the Minister must grant a new order mining right if the applicant complies with the prerequisites set out in Sections 22 and 23 of the MPRDA, which includes compliance with the empowerment objectives.

4. New Elands Diamond Mine – District of Boshoff.

   Kophia Diamonds were issued with a mining license ML 12/2002 for a period of 25 years ending 28 July 2027. This mining license constitutes a "used old order mining right" and the holder of the mining license has the exclusive right to apply for a new order mining right for the period ending 31 April 2009. The MPRDA states that the Minister must grant a new order mining right if the applicant complies with the prerequisites set out in Sections 22 and 23 of the MPRDA, which includes compliance with the empowerment objectives.

F. Tenement Schedule (continued)

4. Mineral exploration permits held through controlled entity Amil Mining India Pvt Ltd

Reconnaissance permit covering Orissa licence 75 was executed on 19 February 2006 for a period of three years. The licence granted covers an area of 128.06 square kilometres.

Reconnaissance permit covering Orissa licence 81 was executed on 19 February 2006 for a period of three years. The licence granted covers an area of 2600 square kilometres.

Reconnaissance permit covering Orissa licence 68 was applied for on 8 March 2001 for a period of three years. The licence application covers an area of 1930 square kilometres. Awaiting execution.

Reconnaissance permit covering Orissa licence 70 was applied for on 8 March 2001 for a period of three years. The licence application covers an area of 1870 square kilometres. Awaiting execution.

Reconnaissance permit covering Orissa licence 71 was applied for on 8 March 2001 for a period of three years. The licence application covers an area of 631.80 square kilometres. Awaiting execution.

Reconnaissance permit covering Orissa licence 76 was applied for on 15 August 2001 for a period of three years. The licence application covers an area of 550 square kilometres. Awaiting execution.

Reconnaissance permit covering Orissa licence 80 was applied for on 24 December 2001 for a period of three years. The licence application covers an area of 2000 square kilometres. Awaiting execution.

Prospecting Licence application covering Andhra Pradesh SL No. 1 was applied for on 1 July 2005 for a period of three years. The licence application covers an area of 2.73 square kilometres. Application being processed.

Prospecting Licence application covering Andhra Pradesh SL No. 2 was applied for on 1 July 2005 for a period of three years. The licence application covers an area of 0.95 square kilometres. Application being processed.

5. Mineral exploration permits held through controlled entity Dywka Tanzania Limited

Prospecting license 2097/2002 granted pursuant to section 29 of the mining act 1998 in 2002 and renewed on 20 December 2005 for a further 3 year period.

Prospecting license 2098/2002 granted pursuant to section 29 of the mining act 1998 in 2002 and renewed on 12 January 2006 for a further 3 year period.