



Dwyka
Diamonds
Limited

24 October 2005

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
20 Bond Street
Sydney NSW 2000

Dear Sir,

Re: Notice of Annual General Meeting

Please find attached a Notice of Annual General Meeting, Explanatory Memorandum and Proxy form which are being mailed to shareholders today.

Yours faithfully
Dwyka Diamonds Limited

Michael Langoulant
Company Secretary

DWYKA DIAMONDS LIMITED

ACN 060 938 552

NOTICE OF ANNUAL GENERAL MEETING

and

EXPLANATORY MEMORANDUM

Date of Meeting: Wednesday 30 November 2005

Time of Meeting: 11.00 am (WST)

Place of Meeting: Sandalwood Room
Ground Floor
Holiday Inn Centre
788 Hay Street
Perth, Western Australia

This Notice of Annual General Meeting and Explanatory Memorandum should be read in their entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

DWYKA DIAMONDS LIMITED
ACN 060 938 552

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an annual general meeting of shareholders of Dwyka Diamonds Limited ACN 060 938 552 ("**Company**") will be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 11.00 am (WST) on Wednesday 30 November 2005.

The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting describes the various matters to be considered and contains a glossary of defined terms for terms that are not defined in full in this Notice of Meeting.

AGENDA

FINANCIAL STATEMENTS AND REPORTS

To receive and consider the financial statements, the Directors' report and auditor's report for the Company and its controlled entities for the year ended 30 June 2005.

RESOLUTIONS

1. Adoption of Remuneration Report

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That the remuneration report for the Company and its controlled entities for the year ended 30 June 2005 be adopted."

The vote on this resolution is advisory only and does not bind the directors or the Company.
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2. Re-election of Mr Mike Langoulant as a Director

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That Mr Mike Langoulant, who was appointed as a director of the Company to fill a casual vacancy on 18 April 2005, retires in accordance with the Company's constitution and being eligible, offers himself for re-election, be re-elected as a Director."

3. Re-election of Mr Cedric Bredenkamp as a Director

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That Mr Cedric Bredenkamp, who was appointed as a director of the Company to fill a casual vacancy on 7 June 2005, retires in accordance with the Company's constitution and being eligible, offers himself for re-election, be re-elected as a Director."

4. Re-election of Mr Edward Nealon as a Director

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That Mr Edward Nealon, who retires by rotation in accordance with the Company's constitution and being eligible, offers himself for re-election, be re-elected as a Director."

5. Increase in directors' fees

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That the maximum aggregate fees payable out of the funds of the Company to directors of the Company for their services as directors including their service on a committee of directors be increased to \$300,000 per annum."

The Company will disregard any votes cast on this resolution by a director of the Company and an associate of that person (or those persons). However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. Issue of Shares to Evan Kirby under the Existing Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 250,000 shares in the capital of the Company at an issue price of \$0.87 per share to Evan Kirby in accordance with the Dwyka Diamonds Share Plan (which was approved by shareholders on 28 November 2003) and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. Issue of Shares to Mike Langoulant under the Existing Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 500,000 shares in the capital of the Company at an issue price of \$0.87 per share to Mike Langoulant in accordance with the Dwyka Diamonds Share Plan (which was approved by shareholders on 28 November 2003) and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

8. Establishment of replacement Directors and Employees Incentive Share Plan

To consider and, if thought fit, to pass, with or without amendment, the following as an **ordinary resolution**:

"That, for the purpose of Listing Rule 7.2, exception 9(b) and for all other purposes, the directors of the Company are authorised to implement and maintain a replacement share plan to be called the "Dwyka Diamonds Share Plan" and to issue shares under that plan from time to time upon the terms and conditions specified in the Rules of the Dwyka Diamonds Share Plan (the terms of which are summarised in the Explanatory Memorandum), as an exception to Listing Rule 7.1."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

9. Establishment of replacement Directors and Employees Incentive Option Plan

"That, for the purpose of Listing Rule 7.2, exception 9(b) and for all other purposes, the directors of the Company are authorised to implement and maintain a replacement option plan to be called the "Dwyka Diamonds Option Plan" and to grant options and issue shares upon exercise of those options under that plan from time to time upon the terms and conditions specified in the Rules of the Dwyka Diamonds Option Plan (the terms of which are summarised in the Explanatory Memorandum), as an exception to Listing Rule 7.1."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

10. Issue of Shares to Edward Nealon under the replacement Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 1,000,000 shares in the capital of the Company at an issue price of \$1.00 per share to Edward Nealon in accordance with the replacement Dwyka Diamonds Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

11. Issue of Shares to Melissa Sturgess under the replacement Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 1,000,000 shares in the capital of the Company at an issue price of \$1.00 per share to Melissa Sturgess in accordance with the replacement Dwyka Diamonds Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

12. Issue of Shares to Evan Kirby under the replacement Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 500,000 shares in the capital of the Company at an issue price of \$1.00 per share to Evan Kirby in accordance with the replacement Dwyka Diamonds Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

13. Issue of Shares to Mike Langoulant under the replacement Share Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 500,000 shares in the capital of the Company at an issue price of \$1.00 per share to Mike Langoulant in accordance with the replacement Dwyka Diamonds Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

14. Grant of Options to Cedric Bredenkamp under the replacement Option Plan

To consider and, if thought fit, to pass, the following as an **ordinary resolution**:

"That for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the grant of up to 500,000 options (each to subscribe for one fully paid ordinary share in the capital of the Company and each exercisable at \$1.00 on or before 30 June 2009) to Cedric Bredenkamp (or his nominee) in accordance with the replacement Dwyka Diamonds Option Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum and to allot and issue up to 500,000 shares in the capital of the Company on the valid exercise of those options."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to Dwyka) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

BY ORDER OF THE BOARD



Melissa Sturgess

Executive Chairman

DATED: 17 October 2005

PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

PROXY INSTRUCTIONS

Shareholders are entitled to appoint up to two individuals or bodies corporate to act as proxies to attend and vote on their behalf. Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion of the shareholder's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be deposited at or sent by facsimile transmission to the Company's office, Level 4, HPPL House, 28-42 Ventnor Avenue, West Perth WA 6005, +61 8 9324 2977, not less than 48 hours before the time for holding the Meeting, or adjourned meeting as the case may be, at which the individual or body corporate named in the proxy form proposes to vote.

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act.

The proxy may, but need not, be a shareholder of the Company.

In the case of shares jointly held by two or more persons, all joint holders must sign the proxy form.

A proxy form is attached to this Notice.

VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 11.00 am on Monday 28 November 2005. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

DWYKA DIAMONDS LIMITED
ACN 060 938 552

PROXY FORM

Dwyka Diamonds Limited, Level 4, HPPL House, 28-42 Ventnor Avenue, West Perth WA 6005,
Facsimile +61 8 9324 2977

I/We _____

of _____

being a shareholder/(s) of Dwyka Diamonds Limited ("**Company**") and entitled to

_____ shares in the Company

hereby appoint _____

of _____

or failing him/her/it _____

of _____

or failing him/her/it the Chairman as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 11.00 am (WST) on Wednesday 30 November 2005 and at any adjournment thereof in respect of _____ of my/our shares or, failing any number being specified, **ALL** of my/our shares in the Company.

If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is []%.
(An additional proxy form will be supplied by the Company on request.)

If you wish to indicate how your proxy is to vote, please tick the appropriate places below. If no indication is given on a resolution, the proxy may abstain or vote at his/her/its discretion.

In relation to undirected proxies, the Chairman intends to vote in favour of all of the Resolutions.

If you do not wish to direct your proxy how to vote, please place a mark in the box.

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of a resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

I/we direct my/our proxy to vote as indicated overleaf:

DWYKA DIAMONDS LIMITED
ACN 060 938 552

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be considered at the annual general meeting of Shareholders to be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 11.00 am (WST) on Wednesday 30 November 2005.

The Explanatory Memorandum should be read in conjunction with the accompanying Notice of Meeting. For the assistance of Shareholders, a glossary of defined terms is included at the end of the Explanatory Memorandum.

Full details of the business to be considered at this Annual General Meeting are set out below.

1. Resolution 1 - Adoption of Remuneration Report

The remuneration report of the Company for the financial year ended 30 June 2005 is set out on pages 11 to 14 of the Company's 2005 annual report.

Pursuant to the Corporations Act, a resolution that the remuneration report be adopted must be put to vote at the Company's annual general meeting. The vote on this resolution is advisory only and does not bind the directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

2. Resolutions 2 to 4 - Re-election of Directors

It is a requirement under the Company's constitution that Mr Mike Langoulant and Mr Cedric Bredenkamp, who were appointed to fill casual vacancies on 18 April 2005 and 7 June 2005, respectively, retire at the Annual General Meeting. Mr Langoulant and Mr Bredenkamp, both being eligible for re-election pursuant to the Company's constitution, offer themselves for re-election.

The remaining Directors recommend to shareholders that Mr Langoulant and Mr Bredenkamp be re-elected.

It is a requirement under the Company's constitution that Mr Edward Nealon retire by rotation at the Annual General Meeting. Mr Nealon, being eligible for re-election pursuant to the Company's constitution, offers himself for re-election.

The remaining Directors recommend to shareholders that Mr Nealon be re-elected.

3. Resolution 5 - Increase in Directors' Fees

The Company seeks shareholder approval to increase the maximum fees payable to the Directors each year from \$200,000 to \$300,000 per annum.

The Directors have no immediate plans to change the current Director's Fee arrangements. However, with the increasing level of activity within the Company, the Directors consider it prudent to increase the maximum level of fees payable to ensure that the Company can attract and retain appropriately qualified and experienced candidates as Directors.

The proposed maximum fee level is considered comparable to directors' fees paid by other companies of a similar size.

Given their interest in the subject matter of this resolution, the directors make no recommendation to shareholders on resolution 5.

4. Resolutions 8 and 9 - Establishment of Replacement Directors and Employees Incentive Plans

4.1 Background

The Company has established share and option plans ("**Existing Share and Option Plans**"), which were approved by shareholders on 28 November 2003. However, since the establishment of the Existing Share and Option Plans, the Company's financial position and circumstances have changed materially and the Company has undergone considerable change.

To ensure that the Company has appropriate mechanisms to continue to attract and retain the services of directors and employees of a high calibre, the Company is proposing to establish revised share and option plans ("**Replacement Plans**") for consideration by Shareholders.

The Directors, employees and consultants of the Company have been, and will continue to be, instrumental in the growth of the Company. The Replacement Plans are an appropriate method to:

- (a) reward Directors, consultants and employees for their past performance;
- (b) provide long term incentives for participation in the Company's future growth;
- (c) motivate Directors and generate loyalty from senior employees and consultants; and
- (d) assist to retain the services of valuable employees and consultants.

Further, the Directors consider that the Replacement Plans will provide the Company with the ability to attract and retain employees of a high calibre. The Replacement Plans will be used as part of the remuneration planning for executive Directors and employees. The Corporate Governance Council Guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the company's circumstances and goals. The Replacement Plans will also be used as part of the remuneration planning for non-executive Directors. Although this is not in accordance with the recommendations contained in the Corporate Governance Council Guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Replacement Plans given the size of the Company.

Although the Company is not required to obtain shareholder approval for the introduction of the Replacement Plans, if the Replacement Plans are approved by shareholders within 3 years of the date of issue of securities under the Plans, then those securities will be considered as an exception to Listing Rule 7.1.

Listing Rule 7.1 broadly provides, subject to certain exceptions, that a company may not issue or agree to issue securities which represent more than 15% of the nominal value of the company's issued capital at the beginning of any 12 month period without obtaining shareholder approval. If Shareholders approve these resolutions, then the securities issued under the Replacement Plans would not be included in the 15% limit imposed by Listing Rule 7.1.

The Company proposes to issue a total of 6,000,000 securities (being a combination of shares under the Replacement Share Plan and options under the Replacement Option Plan) under the Replacement Plans. No Shares have been issued under the Replacement Share Plan and no options have been granted under the Replacement Option Plan. However, the Company has issued conditional invitations, subject to the passing of Resolutions 8 to 14, as applicable, to directors, employees and consultants to participate in the Replacement Share Plan.

A summary of the terms of the Replacement Share Plan is set out in section 4.2 of this Explanatory Memorandum. A summary of the terms of the Replacement Option Plan is set out in section 4.3 of this Explanatory Memorandum. A copy of the full rules of the Replacement Plans will be sent to any member of the Company upon request.

4.2 Summary of the terms and conditions of the Replacement Share Plan

Set out below is a summary of the terms and conditions of the Replacement Share Plan.

- **Participants** - Participants in the Replacement Share Plan may be directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries ("**Participants**").
- **Board** - The Board, or a duly appointed committee of the Board, is responsible for the operation of the Replacement Share Plan.
- **Eligibility** - The Board determines the eligibility of Participants, having regard to:
 - (a) the seniority of the Participant and the position the Participant occupies with the Company or any subsidiary;
 - (b) the length of service of the Participant with the Company and its subsidiaries;
 - (c) the record of employment of the Participant with the Company and its subsidiaries;
 - (d) the potential contribution of the Participant to the growth and profitability of the Company and its subsidiaries; and
 - (e) any other matters which the Board considers relevant.
- **Invitations** - The Board may issue invitations to Participants for the number of Plan Shares specified in the invitation. Shares offered under the Replacement Share Plan must be in the name of the Participant.
- **Number of Shares** - The number of Shares that may be offered to a Participant is entirely within the discretion of the Board.
- **Issue Price** - The issue price for each Plan Share will be not less than:
 - (a) (if there was at least one transaction in the Shares on the Relevant Stock Market during the 5 day trading period immediately before the date on which an offer was made) the weighted average trading price of the Shares on the Relevant Stock Market during that period; or
 - (b) (if there were no transactions in the Shares on the Relevant Stock Market during that 5 day trading period immediately before the date on which an offer was made) the last price at which an offer was made on the Relevant Stock Market to purchase a Share.

- **Loan** - A Participant who is invited to subscribe for Shares under the Replacement Share Plan may also be invited to apply for a loan ("**Loan**") up to the amount payable in respect of the Shares accepted by the Participant, on the following terms:
 - (a) Loans must be made solely to the Participant and in the name of that Participant.
 - (b) Loans will be interest free.
 - (c) Any Loan made available to a Participant shall be applied by the Company directly toward payment of the issue price of the Shares to be acquired under the Replacement Share Plan.
 - (d) The term of the Loan, the time in which repayment of the Loan must be made by the Participant and the manner for making such payments shall be determined by the Board and set out in the invitation.
 - (e) The amount repayable on the Loan by the Participant will be the lesser of:
 - (i) the issue price of the Shares, less any cash dividends paid in respect of the Shares and applied by the Company in accordance with paragraph (g) below and any amount of the Loan repaid by the Participant; and
 - (ii) the last sale price of the Shares on the Relevant Stock Market on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.
 - (f) A Participant must repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not less than 1,000 Shares) at any time prior to expiry of the term of the Loan.
 - (g) Cash dividends which are paid in respect of Shares the subject of a Loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the Loan and any surplus of the cash dividend will be paid to the Participant.
 - (h) Any fees, charges and stamp duty payable in respect of a Loan will be payable by the Participant.
 - (i) The Company shall have a lien over the Shares in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in accordance with the terms of the Replacement Share Plan.
 - (j) A Share issued under the Replacement Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid and the Company will retain the Share Certificate in respect of the Loan Shares until the Loan amount has been repaid.
- **Termination of the Loan prior to the Repayment Date** - If, prior to repayment of a Loan by a Participant:
 - (a) the Participant dies, becomes bankrupt or is no longer a director or employee of, or consultant to, the Company or its subsidiaries as a result

of retirement or retrenchment, then the Participant is required to either repay the loan within 12 months or allow the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the Shares and apply the proceeds of sale in repayment of the Loan; or

- (b) the Participant is no longer a director or employee of, or consultant to, the Company or its subsidiaries other than as a result of one of the matters referred to in paragraph (a) above, then the Participant is required to either repay the loan within one month or allow the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the Shares and apply the proceeds of the sale in repayment of the loan.

If the proceeds of sale of the Shares are less than the amount outstanding in relation to the Loan, the Company will forgive the amount of the shortfall.

- **Restriction on Transfer** - Subject to the requirements of the AIM Rules and the Listing Rules, Shares issued under the Replacement Share Plan will not be quoted on the Relevant Stock Market and may not be sold or otherwise dealt with until the loan in respect of those Shares has been repaid in full and any other qualifying period that may be imposed by the Board has expired. If a Participant wishes to sell any Shares prior to the expiry of the qualifying period, the Participant may give written notice to the Company requesting the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the relevant Shares on the Relevant Stock Market. The Directors have absolute discretion to arrange the sale of the Shares, in the case of hardship or otherwise, provided that the proceeds of sale are reasonably likely to exceed the outstanding Loan amount.
- **Rights attaching to Shares issued under the Replacement Share Plan** - Shares which are issued under the Replacement Share Plan will rank equally in all respects (other than with respect to any restriction on transfer imposed until the Loan has been repaid or otherwise imposed by the Board and set out in the relevant invitation) with all Shares on issue and, subject to the requirements of the Listing Rules and AIM Rules, the Company will apply for quotation of those shares on ASX and AIM once the loan in respect of those Shares has been repaid in full and any other restrictions on transfer imposed by the Board have been satisfied.

4.3 **Summary of the terms and conditions of the Replacement Option Plan**

Set out below is a summary of the terms and conditions of the Replacement Option Plan.

- **Participants** - Participants in the Replacement Option Plan may be directors, full time or part-time employees of, and consultants to, the Company or any of its subsidiaries ("**Participants**").
- **Board** - The Board, or a duly appointed committee of the Board, is responsible for the operation of the Replacement Option Plan.
- **Eligibility** - The Board determines the eligibility of Participants, having regard to:
 - (a) the seniority of the Participant and the position the Participant occupies with the Company or any subsidiary;
 - (b) the length of service of the Participant with the Company and its subsidiaries;

- (c) the record of employment of the Participant with the Company and its subsidiaries;
 - (d) the potential contribution of the Participant to the growth and profitability of the Company and its subsidiaries;
 - (e) the extent (if any) of the existing participation of the Participant in the Replacement Option Plan; and
 - (f) any other matters which the Board considers relevant.
- **Invitations** - The Board may, in its absolute discretion, issue invitations to Participants for the number of options specified in the invitation. Options may be renounced in favour of the spouse of the invitee, a body corporate in which the invitee holds and beneficially owns not less than 50% of the issued voting share capital, the trustee of a trust in which the invitee is a beneficiary or object or the trustee of a superannuation fund of which the invitee is a member.
 - **Number of Options** - The number of options that may be offered to a Participant is entirely within the discretion of the Board. Each option will entitle the holder to one Share, upon payment of the exercise price in full upon application, prior to the expiry date.
 - **Issue Price** - Options granted under the Replacement Option Plan will be granted free of charge.
 - **Exercise Price** - The exercise price of Options granted under the Replacement Option Plan will be determined by the Board, but must not be less than:
 - (a) (if there was at least one transaction in Shares on the Relevant Stock Market during the 5 trading day period immediately before the date of the offer) the weighted average of the prices at which the Shares were traded on the Relevant Stock Market during that period; or
 - (b) (if there were no transactions in the Shares on the Relevant Stock Market during the 5 trading day period immediately before the date on which the offer is made, the last price at which an offer was made on the Relevant Stock Market to purchase a Share.
 - **Expiry Date** - The expiry date of the options will be determined by the Board, but will not be more than 10 years. Options granted under the Replacement Option Plan will lapse if not exercised prior to the expiry date, or on the first to occur of the following:
 - (a) if the Participant (or the person by virtue of whom a Participant holds options) ceases to be a Director, employee or consultant for any reason other than set out in paragraph (b) below, one month thereafter; and
 - (b) if the Participant (or the person by virtue of whom a Participant holds options) dies, retires, is retrenched, becomes bankrupt, wound up or deregistered, 12 months thereafter.
 - **Restriction on Transfer** - Options may not be transferred without the prior written approval of the Board.
 - **Adjustment of Options** - If, prior to the expiry of an option granted under the Replacement Option Plan, there is a reorganisation of the issued share capital of the Company (including a consolidation, subdivision or reduction of capital or return of

capital to shareholders), the number of Shares subject to the option and/or the exercise price will be adjusted in the manner required by the Listing Rules.

- **Bonus issue and rights issues** - A participant is required to exercise an Option in order to participate in a bonus or entitlement issue made by the Company. Participants will be provided with written notice of the terms of the issue to shareholders and afforded that period as determined by the Listing Rules to exercise their Options if they wish to participate in the bonus or entitlement issue.
- **Shares issued on Exercise of Options** - Shares which are issued as a result of the exercise of options granted under the Replacement Option Plan will rank equally in all respects with all Shares on issue and the Company will apply for quotation of those Shares on ASX and AIM.
- **Deferred delivery** - Subject to the consent of the Board, South African Participants are entitled to immediately exercise or partially exercise an option. However, delivery and passing of ownership of the shares in respect of which the option is exercised will be postponed until any qualification period set out in the invitation has expired and the exercise price has been paid in full. The purchased Shares shall only be released to the South African Participant once the exercise price has been paid in full.
- **Rights on exercise of option** - Dividends will not accrue on the shares in respect of which the option was exercised until the exercise price has been paid in full in cash. No Participant may exercise any votes attaching to the shares in respect of which the option was exercised until the exercise price has been paid in full in cash.

5. Resolutions 6, 7, 10, 11, 12, 13 and 14 - Issue of Securities to Directors

5.1 Details of proposed issues of securities to the Directors

The Company proposes to issue Shares to two Directors of the Company, Evan Kirby and Mike Langoulant, in accordance with the terms of the Existing Share Plan.

The Company also proposes to issue Shares to four Directors of the Company, Edward Nealon, Melissa Sturgess, Evan Kirby and Mike Langoulant, in accordance with the terms of the Replacement Share Plan and to grant Options to Cedric Bredenkamp, a Director of the Company, in accordance with the terms of the Replacement Option Plan.

The proposed issue of Shares under the Existing Share Plan and Replacement Share Plan and the grant of Options under the Replacement Option Plan are intended to:

- (a) provide an appropriate and adequate incentive for the Recipient Directors;
- (b) ensure that the Company may retain the services of the Recipient Directors; and
- (c) reinforce the commitment of the Recipient Directors to the Company.

The Recipient Directors will only benefit from an issue of Shares under the Existing Share Plan, Replacement Share Plan or Replacement Option Plan when there is an improvement in the Company's share price since the date on which they were offered the Shares and Options.

Resolutions 6, 7, 10, 11, 12, 13 and 14 seek shareholder approval for the issue of Shares and grant of Options to the Recipient Directors as follows:

Name of Director	Number of Shares to be issued under Existing Share Plan	Number of Shares to be issued under Replacement Share Plan	Number of Options to be issued under Replacement Option Plan
Evan Kirby	250,000	500,000	Nil
Mike Langoulant	500,000	500,000	Nil
Edward Nealon	Nil	1,000,000	Nil
Melissa Sturgess	Nil	1,000,000	Nil
Cedric Bredenkamp	Nil	Nil	500,000

The number of Shares and Options proposed to be issued or granted to the Recipient Directors reflects the level of commitment provided or to be provided by each Director to the Company, taking into account the responsibilities of each Director and the time commitments required from each Director. The number of Shares and Options proposed to be issued or granted to the Recipient Directors also reflects the value the Board feels that each Director brings to the enhancement of the Company.

The issue price of the Shares offered to Evan Kirby and Mike Langoulant under the Existing Share Plan is \$0.87, being the weighted average price of shares on ASX during the 5 day trading period immediately before 13 April 2005, the date of the offer. The issue price of the Shares offered to four of the Directors under the Replacement Share Plan and the exercise price of the Options offered to Cedric Bredenkamp under the Replacement Option Plan is \$1.00, being greater than the weighted average price of shares on ASX during the 5 day trading period immediately before 13 April 2005, the date of the offers, which was \$0.87.

The Shares to be issued pursuant to Resolutions 6, 7, 10, 11, 12, 13 and 14 may not be transferred or otherwise dealt with and will not be quoted until the later to occur of the following:

- (a) the loan amount in respect of the relevant share has been repaid; and
- (b) in respect of:
 - (i) one third of the Shares issued under the offer, 12 months after the date of issue of the Shares;
 - (ii) another one third of the Shares issued under the offer, 24 months after the date of issue of the Shares; and
 - (iii) the remaining one third of the Shares issued under the offer, 36 months after the date of issue of the Shares.

The Shares to be issued and Options to be granted pursuant to Resolutions 6, 7, 10, 11, 12, 13 and 14 are in addition to the fee and remuneration packages payable by the Company to the Recipient Directors. In calculating the fee and remuneration packages provided to the Recipient Directors as set out in section 5.2(m) of the Explanatory Memorandum, the Board has taken into consideration the issues of securities proposed in Resolutions 6, 7, 10, 11, 12, 13

and 14. The Board considers that the appropriate remuneration package for each of the Recipient Directors comprises both the remuneration set out in section 5.2(m) of the Explanatory Memorandum and the securities to be issued if Resolutions 6, 7, 10, 11, 12, 13 and 14 are passed by shareholders. Given the size of the Company, the Board considers it appropriate for part of the remuneration package to comprise non-cash, incentive-based remuneration.

5.2 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions to the provisions; or
- (b) prior shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, each Recipient Director is a related party and the issue of Shares and grant of Options to the Recipient Directors and provision of loans by the Company to four of the Recipient Directors to fund payment of the subscription price for the Shares constitutes the giving of a financial benefit. Accordingly, Shareholder approval is required.

In accordance with the requirements of Chapter 2E, and in particular with section 219, of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issues of Shares and grant of Options to the Recipient Directors and the provision of loans by the Company to four of the Recipient Directors to fund payment of the subscription price for the Shares:

- (a) the Recipient Directors are each related parties of the Company to whom proposed Resolutions 6, 7, 10, 11, 12, 13 and 14 would permit the financial benefits to be given;
- (b) the nature of the financial benefit to be given to Evan Kirby is the issue of 250,000 Shares and a loan in respect of those Shares, being \$180,000 based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC, under the Existing Share Plan and the issue of 500,000 Shares and a loan in respect of those Shares, being \$360,000 based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC, under the Replacement Share Plan;
- (c) the nature of the financial benefit to be given to Mike Langoulant is the issue of 500,000 Shares and a loan in respect of those Shares, being \$360,000 based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC under the Existing Share Plan and the issue of 500,000 Shares and a loan in respect of those Shares, being \$360,000, based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC, under the Replacement Share Plan;
- (d) the nature of the financial benefit to be given to Edward Nealon is the issue of 1,000,000 Shares and a loan in respect of those Shares, being \$720,000, based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC, under the Replacement Share Plan;
- (e) the nature of the financial benefit to be given to Melissa Sturgess is the issue of 1,000,000 Shares and a loan in respect of those Shares, being \$720,000, based on the closing price of Shares on the day before the Notice of Meeting was lodged with ASIC, under the Replacement Share Plan;

- (f) the nature of the financial benefit to be given to Cedric Bredenkamp is the grant of 500,000 Options exercisable at \$1.00 on or before 30 June 2009 under the Replacement Option Plan;
- (g) it is proposed that the Shares to be issued under the Existing Share Plan and Replacement Share Plan and the Options to be granted under the Replacement Option Plan will be issued on one date within 12 months from the date of the Annual General Meeting, but the Company reserves its right to issue the Shares and grant the Options progressively;
- (h) the terms of the Existing Share Plan (approved by shareholders on 28 November 2003), under which Shares will be issued to Evan Kirby and Mike Langoulant, are summarised in Schedule 1 to this Explanatory Memorandum. The terms of the Replacement Share Plan, pursuant to which Shares will be issued to four of the Recipient Directors, are summarised in Section 4.2 of this Explanatory Memorandum. The Options to be granted to Cedric Bredenkamp will be granted under the Replacement Option Plan, the terms of which are summarised in Section 4.3 of this Explanatory Memorandum. The Options will be granted to Mr Bredenkamp on the terms and conditions set out in Schedule 2 to this Explanatory Memorandum;
- (i) the Options will be granted for no cash consideration and accordingly, no funds will be raised by the grant of the Options to Cedric Bredenkamp. If all the Options proposed to be granted to Cedric Bredenkamp are exercised, delivered and paid for, the Company will receive \$500,000. The funds raised from time to time due to the purchase of Shares issued as a result of the exercise of Options will be used for working capital purposes, as the Board thinks fit;
- (j) initially no funds will be raised by the issue of Shares to four of the Recipient Directors under the Existing and Replacement Share Plans due to the provision of the Loans to those four Directors. However, when the Loans have been repaid, the funds raised by the issue of the shares will be used for working capital purposes, as the Board thinks fit;
- (k) as at the date of this Notice, the capital structure of the Company is as follows:

Capital	Number
Ordinary Shares	83,187,998
Options (unquoted) (\$1.47 exercisable on or before 30 June 2006)	2,000,000
Options (unquoted) (\$0.52 exercisable on or before 30 June 2007)	1,100,000
Total ordinary shares if all options on issue are exercised	86,287,998

If Shareholders approve Resolutions 6 and 7 contained in this Notice and all 750,000 Shares in relation to Resolutions 6 and 7 are issued under the Existing Share Plans, as contemplated by this Notice, the issued capital of the Company would be as follows:

Capital	Number
Ordinary shares	83,937,998
Options (unquoted) (\$1.47 exercisable on or before 30 June 2006)	2,000,000
Options (unquoted) (\$0.52 exercisable on or before 30 June 2007)	1,100,000
Total ordinary shares if all options on issue are exercised	87,037,998

If Shareholders approve the issue of 750,000 Shares to Evan Kirby and Mike Langoulant under the Existing Share Plan, the effect will be to dilute the shareholding of existing members by approximately 0.90%, based on the existing number of Shares as at the date of this Notice, or 0.87% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised.

If Shareholders approve Resolutions 10, 11, 12, 13 and 14 contained in this Notice and all 3,000,000 Shares in relation to Resolutions 10, 11, 12, and 13 are issued under the Replacement Share Plan and all 500,000 Options are granted in relation to Resolution 14 under the Replacement Option Plan, as contemplated by this Notice, the issued capital of the Company would be as follows:

Capital	Number
Ordinary shares	86,187,998
Options (unquoted) (\$1.47 exercisable on or before 30 June 2006)	2,000,000
Options (unquoted) (\$0.52 exercisable on or before 30 June 2007)	1,100,000
Options (unquoted) (\$1.00 exercisable on or before 30 June 2009)	500,000
Total ordinary shares if all options on issue are exercised	89,787,998

If Shareholders approve the issue of 3,000,000 Shares to Directors under the Replacement Share Plan, the effect will be to dilute the shareholding of existing members by approximately 3.61%, based on the existing number of Shares as at the date of this Notice, or 3.48% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised.

If Shareholders approve the grant of 500,000 Options to Cedric Bredenkamp under the Replacement Option Plan and all of those Options are exercised, the effect will be to dilute the shareholding of existing members by approximately 0.60% based on the existing number of Shares as at the date of this Notice, or 0.58% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised.

If Shareholders approve the issue of 3,000,000 Shares to Directors under the Replacement Share Plan and the grant of 500,000 Options to Cedric Bredenkamp under the Replacement Option Plan and Mr Bredenkamp exercises all 500,000 Options, the effect will be to dilute the shareholding of existing members by

approximately 4.21%, based on the existing number of Shares as at the date of this Notice, or 4.06% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised.

If Shareholders approve Resolutions 6, 7, 10, 11, 12, 13 and 14 contained in this Notice and all 3,750,000 Shares in relation to Resolutions 6, 7, 10, 11, 12 and 13 are issued and all 500,000 Options in relation to Resolution 14 are granted, under the Existing and Replacement Share Plans and the Replacement Option Plan, as contemplated by this Notice, the issued capital of the Company would be as follows:

Capital	Number
Ordinary shares	86,937,998
Options (unquoted) (\$1.47 exercisable on or before 30 June 2006)	2,000,000
Options (unquoted) (\$0.52 exercisable on or before 30 June 2007)	1,100,000
Options (unquoted) (\$1.00 exercisable on or before 30 June 2009)	500,000
Total ordinary shares if all options on issue are exercised	90,537,998

If Shareholders approve the issue of 3,750,000 Shares and grant of 500,000 Options to Recipient Directors under the Existing and Replacement Share Plans and the Replacement Option Plan and all of those 500,000 Options are exercised, the effect will be to dilute the shareholding of existing members by approximately 5.11%, based on the existing number of Shares as at the date of this Notice, or 4.92% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised.

- (l) as at the date of this Notice, the Recipient Directors hold the following securities in the Company representing 2.91% of the issued capital of the Company on a fully diluted basis:

Recipient Director	Number of Shares held Directly	Number of Shares held Indirectly	Number of Options held Directly	Number of Options held Indirectly
Edward Nealon	1,000,000	nil	nil	nil
Mike Langoulant	nil	nil	nil	nil
Melissa Sturgess	1,000,000	2,500	nil	nil
Evan Kirby	250,000	nil	nil	nil
Cedric Bredenkamp	12,663	nil	250,000	nil

If Shareholders approve all Resolutions contained in this Notice, all Shares are issued and Options are granted as contemplated by this Notice, the Recipient Directors will hold the following securities in the Company, representing 8.13% of the issued capital of the Company based on the existing number of Shares as at the date of this Notice, or 7.84% based on the existing number of Shares as at the date of this Notice and assuming all existing options are exercised:

Recipient Director	Number of Shares held Directly	Number of Shares held Indirectly	Number of Options held Directly	Number of Options held Indirectly
Edward Nealon	2,000,000	nil	nil	nil
Mike Langoulant	1,000,000	nil	nil	nil
Melissa Sturgess	2,000,000	2,500	nil	nil
Evan Kirby	1,000,000	nil	nil	nil
Cedric Bredenkamp	12,663	nil	750,000	nil

- (m) details of the Recipient Directors' remuneration for the year ended 30 June 2005 (based on information extracted from the Company's 2005 Annual Report) are as follows:

Recipient Director	Directors' Fees (\$)	Consultancy Fees (\$)	Base Salary (\$)	Super-Annuation (\$)	Non-monetary benefits (\$)	Equity Options (\$)	Total (\$)
Edward Nealon	20,000	174,167	nil	2,000	39,000	nil	235,167
Mike Langoulant	4,054	72,039	nil	365	nil	nil	76,458
Melissa Sturgess	20,000	254,167	nil	2,000	39,000	nil	315,167
Evan Kirby	20,000	83,333	nil	2,000	9,750	nil	115,083
Cedric Bredenkamp	1,205	100,870	nil	nil	nil	34,144*	136,219

*This is the value of options (using the Black-Scholes valuation method) issued to Mr Bredenkamp during the financial year ended 30 June 2004 that vested with him during the financial year ending 30 June 2004.

Details of the estimated remuneration payable to the Recipient Directors for the year beginning 1 July 2005 are as follows:

Recipient Director	Directors' Fees (\$)	Consultancy Fees (\$)	Base Salary (\$)	Super-Annuation (\$)	Non-monetary benefits (\$)	Equity Options (\$)	Total
Edward Nealon	20,000	99,600	nil	2,000	65,250	nil	186,850
Mike Langoulant	20,000	72,000	nil	2,000	26,250	nil	120,250
Melissa Sturgess	20,000	230,000	nil	2,000	65,250	nil	317,250
Evan Kirby	20,000	110,000	nil	2,000	29,438	nil	161,438
Cedric Bredenkamp	20,000	120,000	nil	nil	nil	57,294	197,294

- (n) the subscription price at which 750,000 Shares may be issued to Evan Kirby and Mike Langoulant under the Existing Share Plan will be \$0.87 per Share (being the weighted average price of Shares on ASX over the 5 trading days immediately before the date on which those Directors were offered the Shares), with the subscription price being loaned to Evan Kirby and Mike Langoulant on the key terms set out in Schedule 1, in accordance with the terms of the Existing Share Plan;
- (o) the subscription price at which 3,000,000 Shares may be issued to four of the Recipient Directors under the Replacement Share Plan will be \$1.00 per Share (being greater than the weighted average price of Shares on ASX over the 5 trading days immediately before the date on which the Directors were offered the Shares, which was \$0.87), with the subscription price being loaned to the Directors on the key terms set out in Section 4.2, in accordance with the terms of the Replacement Share Plan;
- (p) the Options are being granted for no consideration. The exercise price of the Options is \$1.00 (being greater than the weighted average price of Shares on ASX over the 5 trading days immediately before the date on which Mr Bredenkamp was offered the Options, which was \$0.87);
- (q) the market price for the underlying shares during the term of the Options would normally determine whether or not Cedric Bredenkamp would exercise the Options. If, at the time any of the Options are exercised, the price of the underlying shares is higher than the exercise price of the Options, there may be a perceived cost to the Company;
- (r) during the last 12 months before the date of lodgement of this Notice with the ASIC, the highest trading price of the Shares was \$1.02 on 11 January 2005 and the lowest trading price of the Shares was \$0.62 on 22 October 2004. The market price of the Company's Shares over the 5 days of trading on ASX up to and including 14 October 2005 has been between a minimum of \$0.67 per Share to a maximum of \$0.72 per Share. On 14 October 2005, the last trading day before this Notice of Meeting was lodged with the ASIC, the Shares closed at a price of \$0.72 per Share;
- (s) assuming a market price on the date of repayment of the loan of \$0.72, being the market price at the date of lodgement of this Notice with ASIC, the Company will receive \$2,700,000 from the issue of the 3,750,000 shares under the Existing and Replacement Share Plans;

- (t) if Mr Bredenkamp exercises the 500,000 Options granted to him the Company will receive \$500,000;
- (u) the primary purpose of the issue of the Shares and grant of the Options to the Recipient Directors under the Existing and Replacement Share Plans and the Replacement Option Plan is to provide an incentive to the Recipient Directors. Given this purpose, the Directors do not consider that there is any opportunity cost or benefit foregone to the Company in issuing the Shares proposed by Resolutions 6, 7, 10, 11, 12, 13 and 14;
- (v) the issue of securities to the Recipient Directions is a more cost effective incentive for the Company as opposed to the payment of cash compensation;
- (w) Evan Kirby has a material personal interest in the outcome of Resolutions 6 and 12, Mike Langoulant has a material personal interest in the outcome of Resolutions 7 and 13, Edward Nealon has a material personal interest in the outcome of Resolution 10, Melissa Sturgess has a material personal interest in the outcome of Resolution 11 and Cedric Bredenkamp has a material personal interest in the outcome of Resolution 14, as the recipients of the Shares proposed to be issued and Options proposed to be granted;
- (x) none of the Recipient Directors wish to make a recommendation to Shareholders about Resolutions 6, 7, 10, 11, 12, 13 and 14 because each has an interest in the outcome of some of those Resolutions, as set out in paragraph (w) above;
- (y) a valuation of the Shares proposed to be issued to Evan Kirby and Mike Langoulant under the Existing Share Plans has been calculated by HLB Mann Judd using the Black and Scholes option pricing model and based upon the following assumptions:
- the underlying value of each share in the Company is based on the closing share price of 68 cents as at 13 October 2005;
 - Risk free rate of return - 5.31% (based on the 3 year bond indicator rate as at 13 October 2005);
 - share price volatility of 52.52% determined utilising the daily closing share prices of the company for the preceding 12 months;
 - issue price of the Shares of \$0.87;
 - the Shares may not be transferred or otherwise dealt with, and will not be quoted on ASX or AIM, until the following conditions are met:
 - A. in respect of one third of the Shares issued under the offer, the expiry of 12 months from the date of issue of the Shares;
 - B. another one third of the Shares issued under the offer, the expiry of 24 months from the date of issue of the Shares;
 - C. the remaining one third of the Shares issued under the offer, the expiry of 36 months after the date of issue of the Shares; and
 - D. any loan in respect of the Shares is repaid.

Based on the above factors, the Black and Scholes Option Pricing Model attributes a theoretical value to each Share of 9.35 cents for the first tranche (5.2(y)A), 16.42

cents for the second tranche (5.2(y)B), and 21.96 cents for the third tranche (5.2(y)C).

The Black and Scholes Option Pricing Model assumes that the equity instruments the subject of the valuation can be sold on a secondary market. The terms and conditions of the Existing Share Plan states that no application will be made for the Shares to be listed for official quotation on ASX or AIM, until certain milestones are met. Accordingly a discount for lack of marketability is required to determine an indicative fair value of the options. In arriving at a discount factor of 30%, HLB Mann Judd considered:

- that discounts have traditionally been applied in the range of 10-30% to reflect the non-negotiability of unlisted equities; and
- the fact that the securities will be unlisted.

HLB Mann Judd have calculated an indicative fair value of the Shares, based on a discount factor of 30% applied to the theoretical valuation of the Shares, of 6.55 cents for the first tranche (5.2(y)A), 11.49 cents for the second tranche (5.2(y)B), and 15.37 cents for the third tranche (5.2(y)C). The values of the Shares issued under the Existing Share Plan are summarised in the tables below:

First Tranche

	Theoretical value per Share (cents)	Discount (%)	Indicative value per Share (cents)	Number of Shares issued	Total Value (\$)
Evan Kirby	9.35	30	6.55	83,333	5,458
Mike Langoulant	9.35	30	6.55	166,666	10,917
TOTAL				249,999	16,375

Second Tranche

	Theoretical value per security (cents)	Discount (%)	Indicative value per security (cents)	Number of securities issued	Total Value (\$)
Evan Kirby	16.42	30	11.49	83,333	9,575
Mike Langoulant	16.42	30	11.49	166,667	19,150
TOTAL				250,000	28,725

Based on the above factors, the Black and Scholes Option Pricing Model attributes a theoretical value to each Option and Share of 6.61 cents for the first tranche (5.2(z)A), 13.42 cents for the second tranche (5.2(z)B), and 22.49 cents for the third tranche (5.2(z)C).

The Black and Scholes Option Pricing Model assumes that the equity instruments the subject of the valuation can be sold on a secondary market. The terms and conditions of the Replacement Plans state that no application will be made for the Shares to be listed for official quotation on ASX or AIM, and the Options may not be exercised, delivered and paid for, until certain milestones are met. Accordingly a discount for lack of marketability is required to determine an indicative fair value of the options. In arriving at a discount factor of 30%, HLB Mann Judd considered:

- that discounts have traditionally been applied in the range of 10-30% to reflect the non-negotiability of unlisted equities; and
- the fact that the securities will be unlisted.

HLB Mann Judd have calculated an indicative fair value of the Shares and Options, based on a discount factor of 30% applied to the theoretical valuation of the Shares and Options, of 4.63 cents for the first tranche (5.2(y)A), 9.39 cents for the second tranche (5.2(y)B), and 15.74 cents for the third tranche (5.2(y)C). The values of the Shares and Options issued under the Replacement Share and Option Plans are summarised in the tables below:

First Tranche

	Theoretical value per security (cents)	Discount (%)	Indicative value per security (cents)	Number of securities issued	Total Value (\$)
Edward Nealon	6.61	30	4.63	333,333	15,433
Melissa Sturgess	6.61	30	4.63	333,333	15,433
Evan Kirby	6.61	30	4.63	166,666	7,716
Mike Langoulant	6.61	30	4.63	166,666	7,716
Cedric Bredenkamp	6.61	30	4.63	166,666	7,716
TOTAL				1,166,664	54,014

Second Tranche

	Theoretical value per security (cents)	Discount (%)	Indicative value per security (cents)	Number of securities issued	Total Value (\$)
Edward Nealon	13.42	30	9.39	333,333	31,300
Melissa Sturgess	13.42	30	9.39	333,333	31,300
Evan Kirby	13.42	30	9.39	166,667	15,650
Mike Langoulant	13.42	30	9.39	166,667	15,650
Cedric Bredenkamp	13.42	30	9.39	166,667	15,650
TOTAL				1,166,667	109,550

Third Tranche

	Theoretical value per security (cents)	Discount (%)	Indicative value per security (cents)	Number of securities issued	Total Value (\$)
Edward Nealon	22.49	30	15.74	333,334	52,467
Melissa Sturgess	22.49	30	15.74	333,334	52,467
Evan Kirby	22.49	30	15.74	166,667	26,233
Mike Langoulant	22.49	30	15.74	166,667	26,233
Cedric Bredenkamp	22.49	30	15.74	166,667	26,233
TOTAL				1,166,669	183,593

Total in respect of all three tranches:: 3,500,000 \$347,157

- (aa) additional information in relation to Resolutions 6, 7, 10, 11, 12, 13 and 14 is set out throughout this Explanatory Memorandum. Shareholders should therefore read the Explanatory Memorandum in its entirety before making a decision on how to vote on Resolutions 6, 7, 10, 11, 12, 13 and 14;

- (bb) the Company will incur no liabilities or costs in respect of the proposed issue of the Shares and grant of the Options to the Recipient Directors other than:
 - (i) the fees payable to ASX or AIM for quotation of the shares. At the rates applying at the date of this notice, these fees would be approximately \$5,384. However, these fees will not be payable until after the loans in respect of the Shares have been repaid;
 - (ii) a value equal to the weighted average trading price of shares on the Relevant Stock Market in the five days immediately before the date of valuation, will be included as wages for the purposes of the *Pay-roll Tax Act 2002 (WA)*, *Pay-roll Tax Assessment Act 2002 (WA)* and the *Taxation Administration Act 2003(WA)*. If this value in addition to other wages paid or payable by the Company during a month is in excess of the monthly pay-roll tax threshold, the Company may be required to register for pay-roll tax in the relevant jurisdiction. If this value in addition to other wages that are taxable in the jurisdiction is in excess of the annual pay-roll tax threshold, the Company will have a liability in respect of pay-roll tax in that jurisdiction; and
- (cc) neither the Board nor the Company is aware of any other information that would reasonably be required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolutions 6, 7, 10, 11, 12, 13 and 14, other than as stated in this Explanatory Memorandum.

5.3 Listing Rule 10.14

Listing Rule 10.14 provides, in essence, that the approval of ordinary shareholders by ordinary resolution is required before any of the following persons can acquire securities under an employee incentive scheme:

- (a) director;
- (b) an associate of a director; or
- (c) a person whose relationship with the company or a related party is, in ASX's opinion, such that approval should be obtained.

Each of the Recipient Directors is a Director of the Company for the purpose of Listing Rule 10.14. Accordingly, in order for the Recipient Directors to acquire Shares and Options under the Existing and Replacement Share Plans and Replacement Option Plan, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

5.4 Listing Rule disclosure requirements

In accordance with Listing Rule 10.15, the following information is provided to Shareholders in relation to Resolutions 6, 7, 10, 11, 12, 13 and 14:

- (a) Evan Kirby, Edward Nealon, Melissa Sturgess, Mike Langoulant and Cedric Bredenkamp are Directors of the Company;
- (b) the maximum number of Shares that may be issued to Evan Kirby under Resolution 6 is 250,000 Shares, to Mike Langoulant under Resolution 7 is 500,000 Shares, to Edward Nealon under Resolution 10 is 1,000,000, to Melissa Sturgess under Resolution 11 is 1,000,000, to Evan Kirby under Resolution 12 is 500,000 Shares, to Mike Langoulant under Resolution 13 is 500,000 Shares and the maximum number of Options that may be granted to Cedric Bredenkamp under Resolution 14 is 500,000 Options;

- (c) no Shares have been issued under the Replacement Share Plan and no Options have been granted under the Replacement Option Plan;
- (d) Cedric Bredekamp was granted 250,000 Options under the Existing Option Plan, exercisable at \$0.52 on or before 30 June 2007 (as approved by shareholders on 28 November 2003). Edward Nealon was issued 1,000,000 shares at an issue price of \$0.52 under the Existing Share Plan (as approved by shareholders on 28 November 2003), Melissa Sturgess was issued 1,000,000 shares at an issue price of \$0.52 under the Existing Share Plan (as approved by shareholders on 28 November 2003) and Evan Kirby was issued 250,000 shares at an issue price of \$0.52 under the Existing Share Plan (as approved by shareholders on 28 November 2003);
- (e) directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries, may participate in the Existing and Replacement Share Plans and the Replacement Option Plan;
- (f) it is proposed that the Shares and Options will be issued on one date within 12 months from the date of the Meeting, but the Company reserves its right to issue the Shares and Options progressively;
- (g) the issue price of the shares being issued under the Existing Share Plan is \$0.87, being the weighted average price of Shares on ASX over the 5 trading days prior to 13 April 2005;
- (h) the issue price of the shares being issued under the Replacement Share Plan is \$1.00, being greater than the weighted average price of Shares on ASX over the 5 trading days prior to 13 April 2005, which was \$0.87;
- (i) the exercise price of the Options being granted under the Replacement Option Plan will be \$1.00;
- (j) subject to compliance with the AIM Rules and Listing Rules, the Shares to be issued to Evan Kirby, Mike Langoulant, Edward Nealon and Melissa Sturgess pursuant to Resolutions 6, 7, 10, 11, 12 and 13 will not be quoted on the Relevant Stock Market and may not be transferred or otherwise dealt with until the later to occur of the following:
 - (i) the loan in respect of those Shares has been repaid; and
 - (ii) in respect of:
 - A. one third of the Shares issued under the offer, 12 months after the date of issue of the Shares;
 - B. another one third of the Shares issued under the offer, 24 months after the date of issue of the Shares; and
 - C. the remaining one third of the Shares issued under the offer, 36 months after the date of issue of the Shares;
- (k) other than the restriction on trading referred to above, the Shares issued pursuant to Resolutions 6, 7, 10, 11, 12 and 13 will rank equally with all other Shares on issue and shares issued as a result of the exercise of Options granted pursuant to Resolution 14 will rank equally with all other Shares on issue;
- (l) the Company will provide loans to Evan Kirby and Mike Langoulant in relation to acquisition of the Shares under the Existing Share Plan. The loans are repayable

within 4 years from the date of issue of the Shares. The other terms of the loans are set out in Schedule 1 to this Explanatory Memorandum;

- (m) the Company will provide loans to Edward Nealon, Melissa Sturgess, Evan Kirby, and Mike Langoulant in relation to the acquisition of the Shares under the Replacement Share Plan. The loans are repayable within 4 years from the date of issue of the Shares. The other terms of the loans are set out in Section 4.2 of this Explanatory Memorandum;
- (n) a summary of the terms of the Existing Share Plan is set out in Schedule 1 of this Explanatory Memorandum. A summary of the terms of the Replacement Share Plan is set out in Section 4.2 of this Explanatory Memorandum. The Options will be granted on the terms and conditions set out in Schedule 2 to this Explanatory Memorandum; and
- (o) initially no funds will be raised by the issue of Shares due to the provision of the Loans to four of the Recipient Directors. However, when the Loans have been repaid, the funds raised by the issue of the Shares will be used for working capital purposes of the Company as the Board thinks fit; and
- (p) the Options will be granted for no cash consideration and accordingly, no funds will be raised by the grant of the Options to Cedric Bredenkamp. If all the Options proposed to be granted to Cedric Bredenkamp are exercised, delivered and paid for, the Company will receive \$500,000. The funds raised from time to time due to the delivery and purchase of any Shares issued as a result of the exercise of any of the Options will be used for working capital purposes of the Company as the Board thinks fit.

6. Glossary of Terms

The following terms and abbreviations used in the Notice of Meeting and this Explanatory Memorandum have the following meanings:

"**AIM**" means the AIM Market of the LSE or if the Company is no longer listed on the AIM Market of the LSE but is listed on the LSE, then the LSE.

"**AIM Rules**" means the rules applicable to companies listed on the AIM or the LSE (as applicable).

"**Annual General Meeting**" or "**Meeting**" means the general meeting of Shareholders to be held at Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 11.00 am (WST) on Wednesday 30 November 2005, or any adjournment thereof.

"**ASIC**" means the Australian Securities and Investments Commission.

"**ASX**" means Australian Stock Exchange Limited.

"**Board**" means the board of Directors.

"**Company**" and "**Dwyka**" means Dwyka Diamonds Limited, ACN 060 938 552.

"**Corporations Act**" means the *Corporations Act 2001* (Commonwealth).

"**Directors**" means the directors of the Company, from time to time.

"**Existing Option Plan**" means the Dwyka Diamonds Limited Option Plan approved by shareholders on 28 November 2003.

"**Existing Share Plan**" means the Dwyka Diamonds Limited Share Plan approved by shareholders on 28 November 2003;

"**Explanatory Memorandum**" means this explanatory memorandum.

"**Listing Rules**" means the official listing rules of ASX.

"**LSE**" means London Stock Exchange Plc.

"**Notice of Meeting**" means the notice of the Meeting which accompanies the Explanatory Memorandum.

"**Option**" means an option to apply for one fully paid ordinary share in the capital of the Company.

"**Plan Share**" means share issued pursuant to the relevant Share Plan.

"Recipient Directors" means Edward Nealon, Mike Langoulant, Melissa Sturgess, Cedric Bredenkamp and Evan Kirby.

"Relevant Stock Market" means ASX if the Company is listed on ASX, or AIM if the Company is listed on AIM and is not listed on ASX.

"Replacement Option Plan" means the Dwyka Diamonds Option Plan proposed to be established in accordance with Resolution 9.

"Replacement Share Plan" means the Dwyka Diamonds Share Plan proposed to be established in accordance with Resolution 8.

"Resolution" means a resolution in the Notice of Meeting.

"Section" means a section of this Explanatory Memorandum.

"Shareholders" means registered holders of Shares.

"Shares" means fully paid ordinary shares in the capital of the Company.

Schedule 1 - Summary of Existing Share Plan

Set out below is a summary of the terms and conditions of the Existing Share Plan.

- **Participants** - Participants in the Existing Share Plan may be directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries ("**Participants**").
- **Board** - The Board is responsible for the operation of the Existing Share Plan.
- **Eligibility** - The Board determines the eligibility of Participants, having regard to:
 - (a) the seniority of the Participant and the position the Participant occupies with the relevant company;
 - (b) the length of service of the Participant with the Company or any subsidiary;
 - (c) the record of employment of the Participant with the relevant company;
 - (d) the potential contribution of the Participant to the growth and profitability of the relevant company; and
 - (e) any other matters which the Board considers relevant.
- **Invitations** - The Board may issue invitations to Participants for the number of Plan Shares specified in the invitation. Shares offered under the Existing Share Plan must be in the name of the Participant.
- **Number of Shares** - The number of Shares that may be offered to a Participant is entirely within the discretion of the Board.
- **Issue Price** - The issue price for each Plan Share will be not less than:
 - (a) (if there was at least one transaction in the Shares on the Relevant Stock Market during the 5 trading day period immediately before the Offer Date) the weighted average of the prices at which Shares were traded on the Relevant Stock Market during that period; or
 - (b) (if there were no transactions in the Shares on the Relevant Stock Market during that 5 trading day period before the Offer Date) the last price at which an offer was made on the Relevant Stock Market to purchase a Share.
- **Loan** - A Participant who is invited to subscribe for Shares under the Existing Share Plan may also be invited to apply for a loan ("**Loan**") up to the amount payable in respect of the Shares accepted by the Participant, on the following terms:
 - (a) Loans must be made solely to the Participant and in the name of that Participant.
 - (b) Loans will be interest free.
 - (c) Any loan made available to a Participant shall be applied by the Company directly toward payment of the issue price of the Shares to be acquired under the Existing Share Plan.
 - (d) The term of the Loan, the time in which repayment of the Loan must be made by the Participant and the manner for making such payments shall be determined by the Board and set out in the invitation.

- (e) The amount repayable on the Loan by the Participant will be the lesser of:
 - (i) the issue price of the Shares, less any cash dividends paid in respect of the shares and applied by the Company in accordance with paragraph (g) below and any amount of the Loan repaid by the Participant; and
 - (ii) the last sale price of the Shares on the Relevant Stock Market on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date.
- (f) A Participant must repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not less than 1,000 Shares) at any time prior to expiry of the term of the Loan.
- (g) Cash dividends which are paid in respect of Shares the subject of a Loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the Loan and any surplus of the cash dividend will be paid to the Participant.
- (h) Any fees, charges and stamp duty payable in respect of a Loan will be payable by the Participant.
- (i) The Company shall have a lien over the Shares in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in accordance with the terms of the Existing Share Plan.
- (j) A Share issued under the Existing Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid.
- **Termination of the Loan prior to the Repayment Date** - If, prior to repayment of a loan by a Participant:
 - (a) the Participant dies, becomes bankrupt or is no longer a director or employee of, or consultant to, the Company or its subsidiaries as a result of retirement or retrenchment, then the Participant is required to either repay the loan within 12 months or allow the Company to sell the Shares and apply the proceeds of sale in repayment of the Loan; or
 - (b) the Participant is no longer a director or employee of, or consultant to, the Company or its subsidiaries other than as a result of one of the matters referred to in paragraph (a) above, then the Participant is required to either repay the loan within one month or allow the Company to sell the Shares and apply the proceeds of the sale in repayment of the loan.
- If the proceeds of sale of the Shares are less than the amount outstanding in relation to the Loan, the Company will forgive the amount of the shortfall.
- **Restriction on Transfer** - Subject to the requirements of the Listing Rules and the AIM Rules, Shares issued under the Existing Share Plan will not be quoted on ASX or AIM and may not be sold or otherwise dealt with until the loan in respect of those Shares has been repaid in full and any other qualifying period that may be imposed by the Board has expired.
- **Rights attaching to Shares issued under the Existing Share Plan** - Shares which are issued under the Existing Share Plan will rank equally in all respects (other than with respect to any restriction on transfer imposed until the Loan has been repaid or otherwise imposed by the Board and set out in the relevant invitation) with all Shares on issue and, subject to the requirements of the Listing Rules and the AIM Rules, the Company will apply for quotation

of those shares on ASX and AIM once the loan in respect of those Shares has been repaid in full and any other restrictions on transfer imposed by the Board have been satisfied.

Schedule 2 - Terms and conditions of the Options

The terms and conditions of the Options proposed to be granted to Cedric Bredenkamp pursuant to Resolution 14 are as follows:

2. The exercise of each Option will entitle the holder to one fully paid ordinary share in the capital of the Company.
3. The exercise price of each Option is \$1.00
4. The Options will expire on 30 June 2009.
5. The shares issued pursuant to the exercise of Options can only be delivered and paid for after the expiry of the following periods ("**Qualification Period**") and in the following proportions:
 - after 12 months have lapsed from the acceptance date, in respect of not more than one third of the total number of shares; and
 - after 24 months have lapsed from the acceptance date, in respect of another one third of those shares; and
 - after 36 months have lapsed from the acceptance date, in respect of the balance of those shares;

except that a Participant may take delivery of and be liable to pay for shares in the event of the announcement by the Company of a takeover bid for Shares in the Company in accordance with Chapter 6 of the Corporations Act 2001 (Cth) ("**Act**") or a merger by scheme of arrangement in accordance with Part 5.1 of the Act.

6. Exercise of the Options is effected by completing the "Election Form to Exercise Options" attached to the invitation to apply for the grant of Options, in each case following expiry of the Qualification Period, and delivering it together with the payment for the number of Shares in respect of which the Options are exercised to the registered office of the Company.
7. An Option holder is required to exercise the Option in order to participate in a bonus or entitlement issue of shares made by the Company. Option holders will be provided with written notice of the terms of the issue to shareholders and afforded that period as determined by the Listing Rules to exercise their Options if they wish to participate in the bonus or entitlement issue.
8. If, prior to the expiry of an Option, there is a reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Shares subject to the Option and/or the exercise price will be adjusted in the manner required by the Listing Rules.
9. All shares issued upon exercise of the Options will, from the date they are issued, rank equally in all respects with the Company's then issued Shares.
10. Shares allotted and issued pursuant to the exercise of an Option will be allotted within the time prescribed by the Listing Rules. The Company will apply for official quotation of shares issued pursuant to the exercise of Options in accordance with the Listing Rules.
11. A certificate will be issued for Options, which certificate must take effect as a deed.
12. Application will not be made for official quotation of the Options on ASX or AIM.
13. Options are not transferable except with the prior written approval of the board of Directors.

14. The Company is not obliged to give an Option holder copies of any notices, circulars and other documents sent by the Company to its shareholders until the Option holder becomes a shareholder by exercising any or all of its Options.