



Dwyka
Diamonds
Limited

28 September 2004

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

Dear Sir,

RE: Progress of acquisition of kimberlite mines in South Africa

Dwyka Diamonds Limited has moved to further formalise its option agreements to acquire three kimberlite diamond mines in South Africa. All three of the mines, Blaauwbosch, Newlands and New Elands are privately owned and have current mining permits in place.

The De Beers Dancarl Mine, for which Dwyka tendered, was awarded to a 60% BEE (black economic empowerment) mining consortium. Dwyka proposed a BEE structure which complied with the tender requirements but was 51% BEE and 49% Dwyka.

Under the terms of the option agreements Dwyka will take effective control of the first mine, Blaauwbosch, for a three-month trial period, commencing on 4 October 2004. During this period Dwyka will monitor mining methods, underground production levels, grade, plant throughput and diamond recoveries. The trial will also involve separate treating of underground and tailings ore to determine relative grades and values of the diamonds. In addition two independent valuations of recovered diamonds will be obtained to verify diamond values.

Independent Experts, Venmyn Rand, based in Johannesburg are assisting Dwyka with the review and financial valuation process. A final purchase price for Blaauwbosch and the other mines, which form part of the agreement, will be determined during the trial period. Dwyka does not anticipate the need to raise additional capital to fund the acquisition of the projects.

Blaauwbosch Mine

The Blaauwbosch Mine is located approximately 100 km to the east of Kimberley in the well known diamond producing area of Boshoff. Historically Blaauwbosch was the 19th largest known pipe (3.71 acres) and was mined to a depth of about 110 metres producing an estimated 967,000t of ore, yielding some 338,000 carats, at an average recovered grade of 34.95 cpht. Operations were ceased in 1967 due to flooding. A resource of 1.7mt is considered to exist in the pipe, with the potential to increase this tonnage by the addition of mining known fissures on the property. Approximately 600,000 tonnes of tailings are also available for reprocessing.

The mine was re-opened this year and production has recommenced. The current operators have invested considerable time and private capital into reopening the mine in a disciplined fashion to effect long term, low cost extraction of the ore body. Tailings have been processed since May 2003 and underground operations recommenced earlier this year with first ore produced in June. Mining is being carried out from a depth of 131 metres. The shaft is being deepened and a production level is being established at 145 metres.

The current owners of the mine had initial plans to treat underground ore at a rate of 6,000 tonnes per month for up to 25 years. During the trial period Dwyka will assess the potential to significantly increase production to achieve a net profit result from this and the other optioned properties of approximately US\$8m per annum.

Yours faithfully
Dwyka Diamonds Limited



Melissa Sturgess
Chief Executive Officer

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