

## **QUARTERLY REPORT 30 SEPTEMBER 2006**

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### **DWYKA DIAMONDS LIMITED (ASX:DWY.AX; AIM:DWY.L)**

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#### **HIGHLIGHTS**

- **Dwyka announces proposed move to 70% ownership of De Beers Tailings Joint Venture as part of BEE restructure**
  - **De Beers Tailings Retreatment (DBTR) plant performance continued to improve**
  - **Diamond production 2 438 carats**
  - **1 883 carats rough diamond stock on hand at quarter end**
  - **R7.2 million Industrial Division sales**
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#### **AFRICAN OPERATIONS**

##### **Production**

##### **DBTR - De Beers Diamond Tailings Retreatment Project – RSA**

Following the first ore being processed in April 2006, commercial recovery of diamonds commenced in this quarter. Throughput increased progressively throughout the period and first revenue payments were received from De Beers.

Under the terms of Dwyka's agreement with De Beers, Dwyka is paid a fixed amount to treat the material on a contract basis. Thus, Dwyka's exposure to operating costs at designed throughput is minimal. Dwyka shares the diamond revenue – less operating costs – with De Beers.

The project is a joint venture between Dwyka's wholly owned subsidiary Supermix Mining (Pty) Ltd ('Supermix'), and Black Economic Empowerment ('BEE') entity Kolong Investment Holdings (Pty) Ltd ('Kolong'). Dwyka has an effective 40 per cent interest in the joint venture vehicle, Superkolong (Pty) Limited. The project will be supplied with tailings from De Beers Consolidated Mines Limited's Kimberley mines.

##### **Nooitgedacht Alluvial Diamond Mine – RSA**

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During the quarter, 35511 tonnes of gravel were treated to recover 247 carats at an average grade of 0.7 carats per hundred tonnes ('cpht'). Diamonds on hand from Nootgedacht at period end totalled 180 carats.

### **Newlands Kimberlite Mine – RSA**

During the quarter, 8572 tonnes of kimberlite were treated to recover 1006 carats at an average grade of 12 cpht. A number of large stones were recovered, among them stones of the following sizes: 3.88, 3.23, 3.01, 3.88, 3.16, 3.10, 4.73, 4.85, 3.48, 3.08 carats. 3983 tons of tailings were treated to recover 321 carats at an average grade of 8 cpht.

Diamonds on hand from Newlands at period end totalled 785 carats.

### **Blaauwbosch Kimberlite Mine – RSA**

Development continued in preparation for stoping that will commence in the next quarter. 2467 tonnes of kimberlite development material was treated to recover 397 carats at an average grade of 16 cpht. This grade is expected to increase once processing of development material is completed and only undiluted ore is processed. A number of large stones were recovered, among them stones of the following sizes: 3.04, 3.38, 9.68, 3.65, 4.27, 5.81, 5.25, 3.49, and 3.37 carats.

19320 tonnes of tailings were treated to recover 885 carats at an average grade of 4.58 cpht. A number of large stones were recovered, among them stones of the following sizes: 4.27 and 4.12 carats.

Diamonds on hand from Blaauwbosch at period end totalled 918 carats.

### **Industrial Division – RSA**

Dwyka's Industrial Division achieved combined concrete and brick sales of R7.2 million for the September quarter. Rising demand for bricks has resulted in the implementation of two shift operations of the brick plant subsequent to the end of the quarter.

## **EXPLORATION AND DEVELOPMENT**

### **Bosele Exploration – RSA**

On 29 June 2006, Dwyka announced that it would fast-track its prospective Bosele exploration project. Further ground based surveys have been completed in preparation for drilling.

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Previous drilling by Dwyka revealed that the volcanoclastic sediments filling the crater exceed a vertical thickness of 200 metres; however, none of the holes drilled penetrated the base of the sedimentary sequence. Bulk sampling of the sandy sediments in the upper part of the sequence showed them to be diamondiferous.

### **Mahene and Itanana Kimberlites – Tanzania (JV with De Beers)**

Dwyka's second joint venture with De Beers involves assessment of the diamondiferous Mahene and Itanana kimberlite pipes in the Nzega District of Tanzania.

Under the terms of its agreement with De Beers, Dwyka will bulk-sample the pipes, at a cost of about US\$1.5 million. Dwyka's Tanzanian partner, Thorntree Minerals Limited ('Thorntree'), is assisting with logistical, managerial and government liaison support within Tanzania. Thorntree has the right to participate in 20 per cent of Dwyka's equity interest in these projects once the decision to progress to feasibility study is made, but will have to fund its share of costs to maintain its equity position.

De Beers has the option to acquire a 51 per cent shareholding in Dwyka Tanzania Limited, the Dwyka subsidiary holding the project, by reimbursing Dwyka three times the costs incurred by Dwyka to evaluate the projects. Alternatively, De Beers can elect to remain 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 this agreement, Dwyka Tanzania will sell all diamonds recovered in the licence areas to De Beers.

### **New Elands Kimberlite Mine – RSA**

Dwyka has engaged contractors to process tailings from historic operation of the New Elands mine. Dewatering of the old workings has commenced. The water pumped from the underground workings will be used in the De Beers Tailings Retreatment Project (DBTR).

### **Indian Exploration**

Laboratory testing of all outstanding samples collected during the 2006 Indian field campaign was completed during the quarter. This programme completed the formal obligations under the terms of the BHP Billiton Framework Agreement and has resulted in two areas which will be assessed for further exploration. Less prospective ground will be relinquished.

## **CORPORATE**

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### **Dwyka to move to 70% of De Beers Tailings Joint Venture as part of BEE restructure**

On 26 July 2006 the company announced that it would move to 70% ownership of the De Beers Tailings joint venture, under the terms of a letter agreement with Kolong. The restructure of Dwyka's South African investments will result in Kolong controlling a 30% interest in each of the Company's underground mines, the Nooitgedacht Alluvial Mine, the Industrial Division and the Tailings joint venture, with Dwyka controlling 70%.

Under the terms of the letter agreement, which is being documented more fully in a formal share sale agreement:

- Kolong's existing 60% interest in the De Beers Tailings re-treatment project will be reduced to 30%;
- the existing 30% BEE interest in each of the Bosele Exploration Project and the Kimberley-based bricks business operated by Dwyka's subsidiary Biz Afrika 546 (Pty) Ltd, will remain;
- Kolong will acquire a 30% interest in each of the Kimberley-based cement business operated by Dwyka's wholly-owned subsidiary Supermix Mining (Pty) Ltd, the Nooitgedacht Alluvial Mine and the Blaauwbosch, Newlands and New Elands underground diamond mines; and
- Kolong will be paid a one-off cash payment of R2, 000,000.

The restructure will be effected through the creation of a South African subsidiary company which will be owned 70% by Dwyka and 30% by Kolong. All operations will then be owned 100% by this entity.

The restructure which is scheduled for completion in the December quarter will result in Dwyka being fully compliant with the South African BEE legislation.



**ADRIAN GRIFFIN**  
Chief Executive Officer

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The technical exploration and mining information contained in this report was compiled by Adrian Griffin (CEO of Dwyka Diamonds), who is a member of the Australasian Institute of Mining and Metallurgy and is considered to be a Competent Person in his respective area of expertise pursuant to the Australasian Code for Reporting of Mineral Resources and Ore Reserves.

For further information please contact:

Adrian Griffin  
Dwyka Diamonds Limited  
+61 (0) 8 9324 2955

Richard Brown  
Ambrian Partners Limited  
+44 (0) 20 7776 6417

Laurence Read/ Leesa Peters  
Conduit PR  
+44 (0) 20 7429 6605/  
+44 (0) 20 7979 955 923

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98.

Name of entity

DWYKA DIAMONDS LIMITED

ACN or ARBN

098 060 938 552

Quarter ended ("current quarter")

30 September 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	1,799	1,799
1.2 Payments for (a) exploration and evaluation	(192)	(192)
(b) development	(759)	(759)
(c) production	(2,601)	(2,601)
(d) administration	(552)	(552)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	57	57
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other FOREX variance	349	349
<b>Net Operating Cash Flows</b>	<b>(1,899)</b>	<b>(1,899)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects		
(b)equity investments		
(c) other fixed assets		
1.9 Proceeds from sale of: (a)prospects	5	5
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities	(319)	(319)
1.11 Loans repaid by other entities		
1.12 Other		
<b>Net investing cash flows</b>	<b>(314)</b>	<b>(314)</b>
1.13 Total operating and investing cash flows (carried forward)	(2,213)	(2,213)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(2,213)	(2,213)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	56	56
1.17	Repayment of borrowings	(46)	(46)
1.18	Dividends paid		
1.19	Other – capital raising costs		
	<b>Net financing cash flows</b>	10	10
	<b>Net increase (decrease) in cash held</b>	(2,203)	(2,203)
1.20	Cash at beginning of quarter/year to date	6,286	6,286
1.21	Exchange rate adjustments to item 1.20	(4)	(4)
1.22	<b>Cash at end of quarter</b>	4,079	4,079

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	168
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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+ See chapter 19 for defined terms.

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	400
<b>Total</b>	<b>500</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	202	9
5.2 Deposits at call	3,877	6,277
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>4,079</b>	6,286

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 <b>Preference +securities</b> <i>(description)</i>	-	-		
7.2 Changes during quarter				
7.3 <b>+Ordinary securities</b>	92,737,135	92,737,135	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	1,000 GBP100 notes convertible at GBP0.36 on or before 22 June 2010	-	100 GBP	100 GBP
7.6 Changes during quarter (a) Increases through issues  (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,100,000	-	<i>Exercise price</i> \$0.52	<i>Expiry date</i> 30/6/2007
	250,000	-	\$0.87	30/6/09
	1,250,000	-	\$1.00	30/6/09
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired (cancelled) during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.



Sign here: .....

Date: 16 October 2006

Company Secretary

Print name: Michael Langoulant

## Notes

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1 This quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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