

QUARTERLY REPORT 30 JUNE 2004

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

HIGHLIGHTS

- **Preliminary regional sampling results from India are positive for kimberlitic indicator minerals**
 - **Nooitgedacht mine returns to full production capacity in June**
 - **Record average prices achieved for Nooitgedacht diamonds sold during the quarter**
 - **Exploration at Bosele reveals the project could host a number of kimberlitic intrusions**
 - **Industrial division continues to experience strong demand**
 - **Group cash on hand at the end of the quarter A\$7 million (last quarter A\$6.2 million)**
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Indian Diamond Exploration Programme

- ❖ Initial results from March quarter regional sampling indicate that several intrusive sources, including previously unknown sources, have been sampled

During the quarter to June, exploration has proceeded within the Dwyka /BHP Billiton Indian Alliance with initial results beginning to come in from the extensive regional sampling campaign carried out during the March quarter, on recently granted licences in the states of Andhra Pradesh, Karnataka, and Madhya Pradesh.

With only 40 per cent of results returned, a large percentage of samples have been identified as being positive for kimberlitic indicator minerals. Several of these positive samples have been identified as sourced from known kimberlites and intrusives of the Narayanpet kimberlite cluster. However, two suites of abundant indicator minerals of different chemistry have been obtained from regions distant from the known kimberlites, and suggest the presence of new intrusives.

Further drainage samples from these new regions are currently being processed and are expected to be completed by the end of August. Follow up sampling to identify the new indicator mineral sources is scheduled to commence during the September quarter. Results from drainage sampling of licences in the vicinity of the operating Panna Diamond mine in Madhya Pradesh are as yet unavailable.

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SOUTH AFRICAN OPERATIONS

It should be noted that the profits from the South African operations have funded the exploration programme at Bosele.

Combined South African operations from 1 July, 2003 to 30 June, 2004:

	Revenue (Rand)	Costs (Rand)	Profit (Rand)
Industrials	37,039,910	35,700,657	1,339,253
Nooitgedacht	4,478,077	3,213,809	1,264,268
TOTAL	41,517,987	38,914,466	2,603,521

Dwyka has made considerable progress in the last quarter on both the exploration and potential acquisition front. Dwyka's main focus over the coming weeks is to gain control of a producing or near producing hard rock asset. The following are Dwyka's target projects and the rationale behind the Company's interest in them.

Dancarl

Dancarl is 100 per cent owned by De Beers who have now put it up for tender. Dwyka is part of a short list of six applicants who have been chosen to tender for the mine, which is currently on care and maintenance. Dwyka will submit its tender on 5th August 2004.

Dancarl is located adjacent to Bosele, which is Dwyka's currently active exploration area so there is a natural fit for Dwyka to gain ownership over Dancarl.

Bosele

Drilling at Dwyka's Bosele project has shown that the Dancarl system extends onto Dwyka's ground. Further drilling of the fissure system has however been temporarily halted to await a decision on the Dancarl disposal by De Beers.

Of significance however, is the discovery of a new kimberlite 'blow' on Bosele which has been intersected by drilling. Results of laboratory tests are awaited.

Blaaubosch Mine

The Blaubosch mine is located to the east of Kimberley in the well known diamond producing area of Boshoff. Dwyka has an option to purchase this mine.

Historically Blaubosch was the 19th largest pipe in the world (3.71 acres). The mine was flooded in 1967 when all operations ceased. The mine was re-opened this year and production has just re-started. The property has significant exploration potential.

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New Elands

Dwyka has an option to purchase this project which is located within view of the Blaaubosch mine. New Elands historically produced some 1.7 million tonnes from dykes and kimberlite blows. The old shafts are well preserved and it is Dwyka's plan to re-develop this mine.

A major attraction of New Elands is that it lies adjacent to a property called Zoet en Zuur, over which Dwyka also has an option. Ownership of New Elands will provide cheap access to Zoet en Zuur.

Zoet en Zuur

Dwyka has an option to purchase this project which is a high grade fissure system. The orebody is virtually untouched (only 80,000 tonnes mined to date); the property has one equipped shaft, one un-equipped shaft and a good quality plant and recovery room.

The fissure system has potential to extend a further 1.5 kms from the current site and Dwyka has applied for the ground covering this extension.

Newlands

This property is located some 60 kms North-West of Kimberley on the Harts river. It is an operating mine and Dwyka has an option to purchase the mine.

Four kimberlite blows occur on two North-East striking fissures, with only one blow producing at present. The property has significant exploration potential.

Nooitgedacht Alluvial Mine

The June quarter saw the arrival of the purpose-built new scalping machine that was introduced to deal with oversize stone that had previously been removed by the Finlay scalping machines. The commissioning of this new scalping plant is now complete and production has returned to budgeted levels in the month of June 2004.

During the quarter diamonds weighing 218 carats were recovered from 29,228 tonnes of gravel treated at Nooitgedacht. This equates to a grade of 0.75 carats per one hundred tonnes. The grade is expected to return to around 1cpt with the introduction of the new scalping machine.

The Company achieved a record average price for diamonds sold during the quarter from the Nooitgedacht mine. A parcel of diamonds weighing 355.64 carats was sold for a total of US\$124,197.

Included in the parcel of diamonds sold were a number of special stones which received the following prices:

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1 x 18.64 ct stone was sold for US\$40,010 (US\$2,146.5 per carat)
1 x 20.40 ct stone was sold for US\$10,660 (US\$522.55 per carat)
1 x 2.36 ct stone was sold for US\$3,388 (US\$1,435.60 per carat)
1 x 5.30 ct stone was sold for US\$7,440 (US\$1,403.77 per carat)

The remainder of the parcel (288.94 carats) achieved US\$62,699 (US\$217 per carat)

Industrial Division

The Industrial division has again experienced strong demand and the brick plant continued to operate 24 hours per day. The last two weeks of June saw a temporary lull in Government orders until July 2004. The Company has utilised this opportunity to satisfy the demand of small customers in the community and to build up some stock on the floor in anticipation of heavy demand over the remainder of the year.

Revenue year to date is R37 million and costs are R35.7 million.

The Northern Cape region has experienced an increase in building projects during the past six months. This is largely related to low cost housing projects initiated by the government and is expected to be maintained for at least the next two years.

Sale of Melkvei

During the quarter, Dwyka sold its 100% shareholding in its South African subsidiary, MountClarke (Pty) Ltd, which owns the Melkvei project located near Kimberley in South Africa. The cash consideration for the sale was R1 million.



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Chief Executive Officer

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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 June 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	1,609	7,344
1.2 Payments for (a) exploration and evaluation	(247)	(1,255)
(b) development		
(c) production	(1,425)	(5,940)
(d) administration	(302)	(1,667)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	72	283
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other FOREX variance	37	(18)
Net Operating Cash Flows	(256)	(1,253)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects		(100)
(b)equity investments		(50)
(c) other fixed assets	(8)	(16)
1.9 Proceeds from sale of: (a)prospects	222	222
(b)equity investments	201	1,350
(c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities	489	489
1.12 Other (provide details if material)		
Net investing cash flows	904	1,895
1.13 Total operating and investing cash flows (carried forward)	648	642

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	648	642
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.		1,787
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		(1)
1.18	Dividends paid		
1.19	Other – capital raising costs		(130)
	Net financing cash flows	-	1,656
Net increase (decrease) in cash held			
		648	2,298
1.20	Cash at beginning of quarter/year to date	6,211	4,494
1.21	Exchange rate adjustments to item 1.20	163	230
1.22	Cash at end of quarter	7,022	7,022

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	59
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	200
4.2 Development	-
Total	200

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	5,234	4,630
5.2 Deposits at call	1,788	1,581
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	7,022	6,211

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	Melkvlei	Owned via a subsidiary that was sold during the quarter	100%	Nil
6.2 Interests in mining tenements acquired or increased	Blaaubosch	Option to acquire	-	-
	New Elands NWR	Option to acquire	-	-
	Zoet en Zeur	Option to acquire	-	-
	Newlands	Option to acquire	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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 Preference securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	63,907,696	61,057,696	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	2,000,000	-	<i>Exercise price</i> \$1.47	<i>Expiry date</i> 30/6/2006
	1,100,000	-	\$0.52	30/6/2007
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired (cancelled) during quarter				
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <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: 29 July 2004
Print name: Company Secretary
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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