



Dwyka  
Diamonds  
Limited

# **DWYKA DIAMONDS LIMITED**

**A.C.N. 060 938 552**

HALF-YEARLY REPORT  
31<sup>ST</sup> DECEMBER 2005

## **DIRECTORS' REPORT**

The Directors present their report for the half-year ended 31 December 2005.

### **REVIEW AND RESULTS OF OPERATIONS**

#### **Highlights**

- **De Beers Tailings Retreatment Project in construction**
- **Two diamondiferous kimberlites secured in Tanzania in second deal with De Beers**
- **Diamond processing recommenced at Newlands and Blaauwbosch, with first sale of diamonds from Newlands sold in October 2005**
- **Sale of 18.11 carat stone for US\$130,000 (US\$7,100 per carat) from the Nooitgedacht Alluvial Mine**
- **42 carat Nooitgedacht stone sold for US\$301,018 (US\$7,167 per carat)**
- **Rough diamond stock on hand 2201 carats**
- **Indian field exploration continuing with stream sediment sampling in the state of Orissa and Andhra Pradesh**
- **Appointment of Chief Executive Officer**

#### **African Operations**

##### **De Beers Diamond Tailings Retreatment Project**

At the end of the half year, the status of the project was as follows:

- Debt finance of ZAR17.2 million was being negotiated
- Construction of project was scheduled to be completed first half 2006
- Enhancements to the plant design had been included in construction to increase feed capacity and enhance recoveries
- Plant to treat minimum of 50,000 tonnes per month from De Beers Kimberly operations

The plant has been designed for feed rates of over 80,000 tonnes per month and further increases in capacity should be possible at relatively low cost. De Beers have indicated that additional feed, above the agreed 50,000 tonnes per month, will be available subject to satisfactory plant performance. Such increased throughput could substantially boost project economics.

Dwyka and its black economic empowerment ("BEE") partner Kolong Investments Holdings ("Kolong"), have an agreement with De Beers Consolidated Mines ("De Beers") to re-treat diamond tailings from its Kimberley mines in South Africa. Under the agreement De Beers will supply agreed monthly tonnages for processing at contracted diamond feed grades and market diamond prices. The initial production throughput contracted with De Beers is 50,000 tonnes per month.

The tailings project is a joint venture between Dwyka's wholly owned subsidiary Supermix Mining (Pty) Ltd ("Supermix"), and Kolong Investment Holdings (Pty) Ltd ("Kolong"). Kolong is a BEE entity. Dwyka has an effective 40% interest in the joint venture vehicle, Superkolong (Pty) Limited.

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

On the 27<sup>th</sup> October 2005 the company announced that it had secured a second joint venture with De Beers. The joint venture includes the diamondiferous Mahene and Itanana kimberlite pipes in the Nzega District of Tanzania.

Under the terms of the transaction Dwyka will bulk sample the pipes at a cost of about US\$1.5m. Dwyka's Tanzanian partner, Thorntree Minerals Limited is assisting with logistical, managerial and government liaison support within Tanzania. Thorntree Minerals has the right to participate in 20 per

cent of Dwyka's equity interest in the projects once the decision to progress to feasibility study is taken. Thorntree will be required to fund their share of costs to maintain their equity position.

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

### **Newlands**

Treatment of ore recommenced at the Newlands Diamond Mine on the 21<sup>st</sup> September 2005. Whilst the plant was off-line, a total of 7,000 tonnes of underground ore was stockpiled which the plant will treat during the ramp up of mining operations.

In October 2005 the first parcel of diamonds from tailings processed at Newlands Diamond Mine was sold to Diamdel, De Beers' rough diamond trading subsidiary. The parcel of 347 carats of predominantly white diamonds achieved a price of US\$95 per carat for a total sale value of US\$ 32,930. The value per carat is in line with the Company's expectations for the Newlands Mine.

During the December 05 quarter 6,603 tonnes of kimberlite were treated recovering 1,627 carats at an average grade of 24.64 cpht.

### **Blaauwbosch**

The refurbished plant recommenced operations on 10 October 2005, on a feed of tailings material.

Development on the main haulage shaft and second egress has progressed well. At the end of the half year, sinking had advanced to a depth of 50 metres. The shaft has been concrete lined to a depth of 46 metres. The depth of the main shaft at the end of the half year was 222 metres. A station has been developed at the 205 metre level.

Production from underground will commence in the June quarter 2006 ramping up to full production later in the year. The production target is approximately 3,500 carats per month with a value of approximately US\$3m per annum.

At the end of the half year tailings retreatment was expanded from a single shift operation to two shifts to improve diamond output prior to the availability of underground ore. From the recommencement of operations to the end of the half year, 6,541 tonnes of tailings were treated recovering 609 carats at an average grade of 9.30 cpht.

### **Nooitgedacht Alluvial Mine**

During the half year 54,957 tonnes of gravel were treated recovering 773 carats at an average grade of 1.2 cpht for the September 05 quarter and 1.05 cpht for the December 05 quarter. A number of large stones were recovered including stones of the following sizes: 3.11, 3.13, 3.35, 3.61, 4.10, 4.25, 4.32, 4.54, 4.60, 4.83, 5.72, 10.96 and 18.89 carats.

In July 2005 the Company sold an 18.11 carat for US\$7,100 per carat.

In October 2005 the Company sold a 42 carat stone for US\$7,167 per carat, a 17 carat stone for US\$2,105 per carat and an 11 carat stone for US\$1,616.00 per carat.

Additional run-of-mine production of 468 carats achieved a sale price of US\$132,805 (US\$285 per carat).

Diamonds on hand from Nooitgedacht at period end totalled 243.2 carats.

### **New Elands**

The New Elands mine will be brought into production once Blaauwbosch and Newlands are operating at target levels.

### **Bosele Exploration**

To assess the potential of the Bosele system to contain diamonds, two bulk samples were extracted and processed. Over forty diamonds were recovered. The Company is planning further bulk sampling to determine the benefits of independently continuing exploration or attracting a partner to assist in the assessment.

A number of targets with similar superficial expressions to the Bosele volcanoclastic body have been identified in the surrounding areas using aerial photography and satellite imagery. Prospecting right applications have been submitted over the identified target areas.

### **Industrial Division**

The Industrial division continues to perform to expectations with combined concrete, brick and paver sales for the December half being R15m compared with R14.5m for the same period last year. Trading conditions were generally tighter during the second half of 2005 but have become more buoyant in 2006 and the Division is expecting to increase volumes in the current six month period.

### **Indian Diamond Exploration Programme**

Exploration activity increased during the period. Field activity concentrated on stream sediment sampling to detect the presence of indicator minerals. 262 samples were collected; three in Andhra Pradesh, 180 in Uttar Pradesh and 79 in Orissa. These samples were all sent to Diotech laboratories in Perth, Western Australia for treatment and observation for diamond and kimberlitic indicator minerals.

Preliminary results from Diotech have shown that there are six positive samples containing kimberlitic indicator minerals. The indicator minerals observed include chrome diopside, pyrope garnet and chrome spinel. The positive samples have been sent for microprobe analysis to assess their chemistries; analysis of the results is ongoing.

Since the end of the reporting period sampling has continued on a regular basis. The project now has three sampling teams which will be operating in the field on a campaign style basis collecting reconnaissance and follow up samples until June 2006.

## **DIRECTORS**

The names of the Directors of the Company in office during the half-year and until the date of this report are:

Melissa Sturgess, Adrian Griffin, Cedric Bredenkamp, Michael Langoulant, Ed Nealon and Evan Kirby.

## **CORPORATE**

### **Share Issues**

#### Mine Purchase

As part of the purchase price for the underground mines acquired during the period 2,747,802 fully paid ordinary shares were issued at an issue price of 35 pence (A\$0.84) per share being the market price on the date of issue.

#### Placement

During the half-year, Dwyka issued 4,500,000 fully paid ordinary shares to institutional clients of Williams de Broë Plc at a price of 30 pence (A\$0.72) per share to raise £1.3 million (A\$3.1 million) in working capital and a further 749,137 fully paid ordinary shares at a price of A\$0.685 per share in lieu of consulting services rendered.

#### Employee share plans

During the period 750,000 and 3,350,000 shares were issued under the Company's employee share plans at A\$0.87 and A\$1.00 per share respectively. These share issues were funded by non-recourse loans to employees in accordance with the terms of the share plans. Under AIFRS these shares do not get recognised as equity nor do the employee loans get recognised as receivables until such time as the employee loans are re-paid or the Company sells the underlying shares.

## **MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR**

No matters or circumstances have arisen since 31 December 2005 that have significantly affected, or may significantly affect:

- a) the consolidated entity's operations in the future financial periods,
- b) the results of those operations in future financial periods, and
- c) the consolidated entity's state of affairs in future financial periods.

## **ROUNDING OF AMOUNTS**

The amounts contained in this Report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class order 98/0100. The Company is an entity to which the class order applies.

## **AUDITORS' INDEPENDENCE DECLARATION**

Section 307C of the Corporations Act 2001 requires our auditors, PricewaterhouseCoopers, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on the following page.

Dated at Perth this 16th day of March 2006.

Signed in accordance with a resolution of the Directors.



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M Sturgess  
Executive Chairman

PricewaterhouseCoopers  
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## Auditor's Independence Declaration

As lead auditor for the review of Dwyka Diamonds Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

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

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



David Smith  
Partner  
PricewaterhouseCoopers

Perth  
16 March 2006

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>Half-year Ended 31 Dec 2005 \$'000s</b>	<b>Half-year Ended 31 Dec 2004 \$'000s</b>
Revenue from sale of goods	3,866	2,366
Cost of sales	<u>(2,783)</u>	<u>(1,920)</u>
<b>Gross profit</b>	1,083	446
Other income	269	598
Other expenses from ordinary activities		
Administration	(2,237)	(1,793)
Share based compensation	(139)	(191)
Exploration, evaluation and project generation costs written off	<u>(699)</u>	<u>(811)</u>
<b>(Loss) before income tax</b>	(1,723)	(1,751)
Income tax (expense)	<u>-</u>	<u>(1)</u>
<b>(Loss) for half year</b>	(1,723)	(1,752)
(Loss) attributable to minority interest	<u>-</u>	<u>-</u>
<b>(Loss) attributable to members of Dwyka Diamonds Limited</b>	<u>(1,723)</u>	<u>(1,752)</u>
Basic (loss) cents per share	(2.15)	(2.41)
Diluted (loss) cents per share	(2.07)	(2.32)

*The above Consolidated Income Statement should be read in conjunction with the accompanying notes.*

**CONSOLIDATED BALANCE SHEET  
AS AT 31 DECEMBER 2005**

	Note	31 Dec 2005 \$'000s	30 June 2005 \$'000s
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		5,519	9,582
Receivables		4,844	1,003
Inventories		610	542
<b>Total Current Assets</b>		<u>10,973</u>	<u>11,127</u>
<b>NON-CURRENT ASSETS</b>			
Receivables		894	2,124
Other financial assets		424	76
Property, plant & equipment		2,512	1,773
Exploration and evaluation expenditure		5,073	1,092
Mining properties		2,518	-
<b>Total Non-Current Assets</b>		<u>11,421</u>	<u>5,065</u>
<b>TOTAL ASSETS</b>		<u>22,394</u>	<u>16,192</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		601	1,101
Provisions		690	561
<b>Total Current Liabilities</b>		<u>1,291</u>	<u>1,662</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liability		(971)	-
<b>Total Non-Current Liabilities</b>		<u>(971)</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>2,262</u>	<u>1,662</u>
<b>NET ASSETS</b>		<u>20,132</u>	<u>14,530</u>
<b>EQUITY</b>			
Contributed equity	3	56,627	50,726
Reserves		2,264	920
Accumulated losses		(38,759)	(37,116)
<b>Total parent entity interest</b>		20,132	14,530
Minority interest		-	-
<b>TOTAL EQUITY</b>		<u>20,132</u>	<u>14,530</u>

*The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR HALF YEAR ENDED 31 DECEMBER 2005**

	<b>Half-year Ended 31 Dec 2005 \$'000s</b>	<b>Half-year Ended 31 Dec 2004 \$'000s</b>
<b>Total equity at beginning of the half year</b>	<u>14,530</u>	<u>7,549</u>
Adjustment on adoption of AASB 132 and AASB 139, net of tax		
Reserves	(82)	-
Accumulated losses	82	-
Re-valuation of other financial assets	99	-
Exchange differences on translation of foreign corporations	<u>557</u>	<u>(273)</u>
Net income recognised directly in equity	656	(273)
Loss for the half year	<u>(1,723)</u>	<u>(1,752)</u>
<b>Total recognised income and expense for the half year</b>	<u>(1,067)</u>	<u>(2,025)</u>
Transactions with equity holders in their capacity as equity holders		
Contributions of equity, net of transaction costs (note 3)	5,901	10,313
Share based compensation reserve	139	191
Deferred share consideration on purchase of subsidiaries	629	-
	<u>6,669</u>	<u>10,504</u>
<b>Total equity at end of the half year</b>	<u>20,132</u>	<u>16,028</u>
Total recognised income and expense for the half year is attributable to:		
Members of Dwyka Diamonds Limited	(1,067)	(2,025)
Minority interest	-	-
	<u>(1,067)</u>	<u>(2,025)</u>

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>Half-year Ended 31 Dec 2005 \$'000s</b>	<b>Half-year Ended 31 Dec 2004 \$'000s</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers (inclusive of GST)	3,852	2,247
Payments to suppliers and employees (inclusive of GST)	(5,396)	(4,588)
Interest received	188	269
Interest paid	29	-
	<b>(1,327)</b>	<b>(2,072)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Payments for plant & equipment	(277)	(636)
Proceeds from sale of plant and equipment	1	24
Payments for other financial assets	(250)	-
Rehabilitation bonds	(8)	(11)
Payment for acquisition of subsidiaries, net of cash acquired	(1,021)	-
Proceeds from sale of other financial assets	2	-
Payment for exploration/mine development	(2,107)	(961)
	<b>(3,660)</b>	<b>(1,584)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loans to other parties	(69)	-
Loan to associates	(2,429)	-
Proceeds from borrowings	-	31
Proceeds from issue of shares	3,187	10,856
Payment for equity issue costs	(107)	(543)
	<b>582</b>	<b>10,094</b>
Net increase/(decrease) in cash held	(4,405)	6,438
<b>Cash at the beginning of the reporting period</b>	9,582	6,632
Effect of exchange rate changes on cash	342	1
	<b>5,519</b>	<b>13,071</b>
<b>Cash at the end of the reporting period</b>	<b>5,519</b>	<b>13,071</b>

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Dwyka Diamonds Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

#### (a) **Basis of preparation of half-year financial report**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

##### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This interim financial report is the first Dwyka Diamonds Limited interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRSs). AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Dwyka Diamonds Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Dwyka Diamonds Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 6.

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and certain classes of property, plant and equipment and investment property.

#### (b) **Principles of consolidation**

##### (i) *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Dwyka Diamonds Limited ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the half-year then ended. Dwyka Diamonds Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

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

*(ii) Associates*

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

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

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

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

**(c) Segment reporting**

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

**(d) Foreign currency translation**

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

*(iii) Group companies*

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

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

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

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

**(e) Revenue recognition**

Revenue from sale of goods is measured at fair value of consideration received, while interest revenue is measured on an effective interest rate basis. The following specific recognition criteria must also be met before the revenue is recognised:

*(i) Sales*

Control of the goods has passed to the buyer.

*(ii) Interest*

Control of the right to receive the interest payment.

**(f) Income tax**

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

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

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

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

The Australian tax consolidation regime does not apply to the Company.

**(g) Acquisitions of assets**

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

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

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

**(h) Impairment of assets**

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

**(i) Cash and cash equivalents**

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

**(j) Trade receivables**

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

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

**(k) Inventories**

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

**(l) Investments and other financial assets**

*From 1 July 2004 to 30 June 2005*

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

*Adjustments on transition date: 1 July 2005*

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

*From 1 July 2005*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*(i) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

*(ii) Loans and receivables*

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

*(iii) Available-for-sale financial assets*

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

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

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

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

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

**(m) Fair value estimation**

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

**(n) Property, plant and equipment**

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

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

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

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

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

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

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

**(o) Exploration and evaluation expenditure**

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

- (i) Each area of interest is considered separately when deciding whether and to what extent to carry forward or write off exploration and evaluation costs;
- (ii) Exploration and evaluation costs related to an area of interest may be carried forward provided that rights to tenure of the area of interest are current and provided further that one of the following conditions are met:
  - such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sale; or
  - exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Exploration and evaluation costs accumulated in respect to each particular area of interest includes only net direct expenditure;

- (iii) The carrying values of exploration and evaluation costs are reviewed by directors where results of exploration and/or evaluation of an area of interest are sufficiently advanced to permit a reasonable estimate of the costs expected to be recouped through successful development and exploitation of the area of interest or by its sale. Expenditure in excess of this estimate is written off to the profit and loss account in the year in which the review occurs;
- (iv) When development of an area of interest is complete and production commences, all exploration, evaluation and development costs carried forward as an asset (including the cost of extractive rights acquired) are transferred to proven properties.  
Development costs related to an area of interest are carried forward as an asset to the extent that they are expected to be recovered either through sale or successful exploitation; and
- (v) The carrying values of exploration, evaluation and development expenditure are carried forward and amortised over the expected useful life of each project.

**(p) Mining properties**

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

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

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

**(q) Trade and other payables**

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

**(r) Provisions**

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

**(s) Borrowings and borrowing costs**

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

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

Borrowing costs are recognised as expenses in the period in which they are incurred.

**(t) Employee benefits**

(i) Wages and salaries, annual leave and sick leave

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

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

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

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

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

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

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

The value of shares issued to employees financed by way of a non-recourse loan under the employee share scheme is recognised with a corresponding increase in equity when the Company receives funds from either the employees repaying the loan or upon the loan termination.

**(u) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

**(v) Earnings per share**

**(i) Basic earnings per share**

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

**(ii) Diluted earnings per share**

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

**(w) Financial instrument transaction costs**

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

**(x) Rounding of amounts**

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

**2. SEGMENT INFORMATION**

The consolidated entity operates primarily in three geographical segments being Africa, India and Australia where it conducts primarily diamond mining and exploration.

	Africa \$'000s	Australia \$'000s	India \$'000s	Inter-segment eliminations/ unallocated \$'000s	Consolidated \$'000s
<b>Half-year 2005</b>					
Total segment revenue	3,896	1	-	188	4,085
Segment result	(682)	(1,272)	(8)	239	(1,723)
	Africa \$'000s	Australia \$'000s	India \$'000s	Inter-segment eliminations/ unallocated \$'000s	Consolidated \$'000s
<b>Half-year 2004</b>					
Total segment revenue	2,413	-	-	269	2,682
Segment result	(824)	(1,469)	(10)	551	(1,752)

**3. EQUITY SECURITIES ISSUED**

Movements in ordinary share capital during the period were:

Date	Details	Issue price	Number of shares	\$
Fully paid ordinary shares				
1/7/2004	Opening balance		61,057,696	40,352,044
10/8/04-13/9/04	Placement	GBP0.26 (\$A0.67)	16,532,500	10,856,115
	Total issue costs		-	(542,809)
31/12/2004	Balance		77,590,196	50,665,350

Employee Share plan shares issued with limited recourse employee loans

1/7/2004	Opening balance		2,850,000	-
<b>31/12/2004</b>	<b>Total ordinary shares on issue</b>		<b>80,440,196</b>	<b>50,665,350</b>

Fully paid ordinary shares				
1/7/2005	Opening balance		77,706,862	50,726,016
30/8/05	Mine purchase consideration	GBP0.35 (A\$0.84)	2,747,802	2,308,154
4/11/05	Placement	GBP0.30 (\$A0.72)	4,500,000	3,187,067
22/12/05	Placement in lieu of services rendered	A\$0.685	749,137	513,159
	Total issue costs			(107,416)
31/12/2005	Balance		85,703,801	56,626,980

Employee Share plan shares issued with limited recourse employee loans

1/7/2005	Opening balance		2,733,334	-
21/12/05	Employee share plan issue	*(a)	750,000	-
21/12/05	Employee share plan issue	*(b)	3,350,000	-
31/12/2005	Balance		6,833,334	-
<b>31/12/2005</b>	<b>Total ordinary shares on issue</b>		<b>92,537,135</b>	<b>56,626,980</b>

\* Shares issued at (a) \$0.87 and (b) \$1.00 in accordance with the Dwyka Diamonds Employee Share Plan funded by way of a limited recourse loan repayable in 3 years from the date of issue. The equity contribution from these shares will be recognised upon receipt of funds by the Company at the later of the loan being repaid by the employee or from funds recovered at the termination of the loan in accordance with the Share Plan terms and conditions.

#### **4 BUSINESS COMBINATION**

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

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

The acquired business contributed revenues of \$299,094 and a net loss of \$41,614 to the Group for the period from 1 October 2005 to 31 December 2005. If the acquisition had occurred on 1 July 2005, the acquired business would have contributed revenues of \$299,094 and a net loss of \$112,978 to the Group.

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

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

At the date of acquisition it is considered probable that at least a further 749,400 parent company shares will be issued as additional consideration for the acquisition. This deferred share issue has been valued at the market price of those shares as at the date of acquisition. Further in the event that certain pre-determined mine performance hurdles are achieved by the subsidiary, additional consideration in the form of shares and options may be payable. It is not possible to determine if additional shares and/or options will be issued.

The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created. There were no acquisitions in the half-year ended 31 December 2004.

The assets and liabilities arising from the acquisition are as follows :

	<b>Carrying amount \$'000s</b>	<b>Fair value \$'000s</b>
Receivables	207	35
Inventories	345	345
Plant and equipment	818	818
Exploration	-	3,476
Mine property/development	170	1,074
Deferred tax asset	149	-
Trade payables	(45)	(45)
Deferred tax liability	-	(971)
Non-current liabilities	(2,167)	(774)
Net identifiable assets acquired	(523)	3,958

**5. SUBSEQUENT EVENTS**

No matters or circumstances have arisen since 31 December 2005 that have significantly affected, or may significantly affect:

- a) the consolidated entity's operations in the future financial periods,
- b) the results of those operations in future financial periods, and
- c) the consolidated entity's state of affairs in future financial periods.

**6. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS'S**

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

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

	Notes	Previous AGAAP \$'000s	Effect of transition to AIFRS \$'000s	AIFRS \$'000s
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		6,632	-	6,632
Receivables		547	-	547
Inventories		250	-	250
Total current assets		<u>7,429</u>	<u>-</u>	<u>7,429</u>
<b>Non-current assets</b>				
Receivables	4(a)	1,627	(1,482)	145
Other financial assets		89	-	89
Property, plant and equipment	4(b), 4(c)	3,054	(1,683)	1,371
Total non-current assets		<u>4,770</u>	<u>(3,165)</u>	<u>1,605</u>
Total assets		<u>12,199</u>	<u>(3,165)</u>	<u>9,034</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables		982	-	982
Provisions		503	-	503
Total current liabilities		<u>1,485</u>	<u>-</u>	<u>1,485</u>
Total liabilities		<u>1,485</u>	<u>-</u>	<u>1,485</u>
Net assets		<u>10,714</u>	<u>(3,165)</u>	<u>7,549</u>
<b>EQUITY</b>				
Contributed equity	4(a)	41,834	(1,482)	40,352
Reserves	4(a)	-	173	173
Accumulated losses	4(a), 4(b), 4(c)	(31,120)	(1,856)	(32,976)
Parent entity interest		10,714	(3,165)	7,549
Minority interest		-	-	-
Total equity		<u>10,714</u>	<u>(3,165)</u>	<u>7,549</u>

**(b) At the end of the last half-year reporting period under previous AGAAP: 31 December 2004**

	Notes	Previous AGAAP \$'000s	Effect of transition to AIFRS \$'000s	AIFRS \$'000s
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		13,071	-	13,071
Receivables		776	-	776
Inventories		367	-	367
Total current assets		14,214	-	14,214
Non-current assets				
Receivables	4(a)	1,888	(1,482)	406
Other financial assets		89	-	89
Property, plant and equipment	4(b), 4(c)	3,515	(1,709)	1,806
Exploration, evaluation and mining properties		631	-	631
Total non-current assets		6,123	(3,191)	2,932
Total assets		20,337	(3,191)	17,146
<b>LIABILITIES</b>				
Current liabilities				
Payables		594	-	594
Interest bearing liabilities		31	-	31
Provisions		493	-	493
Total current liabilities		1,118	-	1,118
Total liabilities		1,118	-	1,118
Net assets		19,219	(3,191)	16,028
<b>EQUITY</b>				
Contributed equity	4(a)	52,147	(1,482)	50,665
Reserves	4(a), 4(c)	-	91	91
Accumulated losses	4(a), 4(b), 4(c)	(32,928)	(1,800)	(34,728)
Parent entity interest		19,219	(3,191)	16,028
Minority interest		-	-	-
Total equity		19,219	(3,191)	16,028

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

	Notes	Previous AGAAP \$'000s	Effect of transition to AIFRS \$'000s	AIFRS \$'000s
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		9,582	-	9,582
Receivables		1,003	-	1,003
Inventories		542	-	542
Total current assets		<u>11,127</u>	<u>-</u>	<u>11,127</u>
Non-current assets				
Receivables	4(a)	3,545	(1,421)	2,124
Other financial assets		76	-	76
Property, plant and equipment	4(b), 4(c)	3,582	(1,809)	1,773
Exploration, evaluation and mining properties		1,092	-	1,092
Total non-current assets		<u>8,295</u>	<u>(3,230)</u>	<u>5,065</u>
Total assets		<u>19,422</u>	<u>(3,230)</u>	<u>16,192</u>
<b>LIABILITIES</b>				
Current liabilities				
Payables		1,101	-	1,101
Provisions		561	-	561
Total current liabilities		<u>1,662</u>	<u>-</u>	<u>1,662</u>
Total liabilities		<u>1,662</u>	<u>-</u>	<u>1,662</u>
Net assets		<u>17,760</u>	<u>(3,230)</u>	<u>14,530</u>
<b>EQUITY</b>				
Contributed equity	4(a)	52,147	(1,421)	50,726
Reserves	4(a), 4(c)	-	920	920
Accumulated losses	4(a), 4(b), 4(c)	(34,387)	(2,729)	(37,116)
Parent entity interest		17,760	(3,230)	14,530
Minority interest		-	-	-
Total equity		<u>17,760</u>	<u>(3,230)</u>	<u>14,530</u>

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

**(a) Reconciliation of profit for the half-year ended 31 December 2004**

	Notes	Previous AGAAP \$'000s	Effect of transition to AIFRS \$'000s	AIFRS \$'000s
Revenue				
Revenue from sale of goods		2,366	-	2,366
Cost of sales	4(b)	(1,904)	(16)	(1,920)
		462	(16)	446
Other income		316	-	316
Other expenses from ordinary activities				
Administration		(1,793)	-	(1,793)
Share based compensation	4(a)	-	(191)	(191)
Exploration, evaluation and project generation costs		(811)	-	(811)
Foreign exchange gains/(losses)	4(c)	19	263	282
Loss before income tax		(1,807)	56	(1,751)
Income tax expense		(1)	-	(1)
Loss for the half-year		(1,808)	56	(1,752)
Loss attributable to minority interest		-	-	-
Loss attributable to members of Dwyka Diamonds Limited		(1,808)	56	(1,752)

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

	Notes	Previous AGAAP \$'000s	Effect of transition to AIFRS \$'000s	AIFRS \$'000s
Revenue				
Revenue from sale of goods		5,164	-	5,164
Cost of sales	4(b)	(3,891)	(31)	(3,922)
		1,273	(31)	1,242
Other income		628	-	628
Other expenses from ordinary activities				
Administration		(3,994)	-	(3,994)
Share based compensation	4(a)	-	(346)	(346)
Charges against assets		(212)	-	(212)
Exploration, evaluation and project generation costs		(580)	-	(580)
Foreign exchange gains/(losses)	4(c)	(382)	(496)	(878)
Loss before income tax		(3,267)	(873)	(4,140)
Income tax expense		-	-	-
Loss for the year		(3,267)	(873)	(4,140)
Loss attributable to minority interest		-	-	-
Loss attributable to members of Dwyka Diamonds Limited		(3,267)	(873)	(4,140)

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

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

**(4) Notes to the reconciliations**

**(a) Share-based payments**

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those shares and options that were issued to employees under the Dwyka Diamonds Employee Share and Option Plan after 7 November 2002 but that had not vested by 1 January 2005. In addition the treatment of the shares issued under the Plan changes in that as the shares are financed by a limited recourse loan there is no equity recognised until the employee loan is repaid in accordance with the Plan terms (Refer Note 3) The effects of these changes are:

*(i) At 1 July 2004*

For the Group there has been an increase in accumulated losses of \$173,000 and a corresponding increase in reserves. Non-current receivables decreases by \$1,482,000 and contributed equity decreases by the same amount.

*(ii) At 31 December 2004*

For the Group there has been an increase in accumulated losses of \$364,000 and a corresponding increase in reserves. Non-current receivables decreases by \$1,482,000 and contributed equity decreases by the same amount.

*(iii) At 30 June 2005*

For the Group there has been an increase in accumulated losses of \$519,000 and a corresponding increase in reserves. Non-current receivables decreases by \$1,421,000 and contributed equity decreases by the same amount.

*(iv) For the half-year ended 31 December 2004*

For the Group there has been an increase in employee benefits expense of \$191,000.

*(v) For the year ended 30 June 2005*

For the Group there has been an increase in employee benefits expense of \$346,000

**(b) Impairment**

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

*(i) At 1 July 2004*

For the Group there has been a decrease in plant and equipment of \$25,000 while accumulated losses has increased by the same amount.

*(ii) At 31 December 2004*

For the Group there has been a decrease in plant and equipment of \$41,000 while accumulated losses has increased by the same amount.

*(iii) At 30 June 2005*

For the Group there has been a decrease in plant and equipment of \$56,000 while accumulated losses has increased by the same amount.

*(iv) For the half-year ended 31 December 2004*

For the Group depreciation expense has increased by \$16,000.

*(v) For the year ended 30 June 2005*

For the Group depreciation expense has increased by \$31,000.

**(c) Foreign currency translation reserve**

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

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

The effects of the above are:

*(i) At 1 July 2004*

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

*(ii) At 31 December 2004*

For the Group plant and equipment is reduced by \$1,668,000 while accumulated losses are increased by \$1,395,000 and the foreign currency translation reserve is recognised at \$(273,000).

*(iii) At 30 June 2005*

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

*(iv) For the half-year ended 31 December 2004*

For the Group, accumulated losses have reduced by \$263,000.

*(v) For the year ended 30 June 2005*

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

**(d) Accumulated losses**

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

		1 July 2004	31 December 2004	30 June 2005
	Notes	\$'000s	\$'000s	\$'000s
Foreign currency translation reserve	4(c)	(1,658)	(1,395)	(2,154)
Impairment	4(b)	(25)	(41)	(56)
Share-based payments	4(a)	(173)	(364)	(519)
Total adjustment		<u>(1,856)</u>	<u>(1,800)</u>	<u>(2,729)</u>

## Independent review report to the members of Dwyka Diamonds Limited

### Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Dwyka Diamonds Limited (the Company) for the half-year ended 31 December 2005 included on Dwyka Diamonds Limited's web site. The Company's directors are responsible for the integrity of the Dwyka Diamonds Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

### Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Dwyka Diamonds Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Dwyka Diamonds Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

### Scope

#### The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Dwyka Diamonds Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Dwyka Diamonds Limited (the company) and the entities it controlled during that half-year.

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

## Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

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

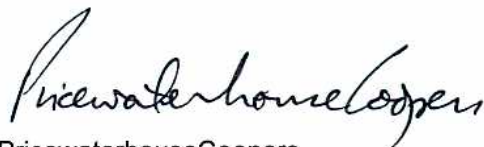
These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

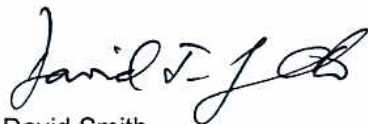
Our review did not involve an analysis of the prudence of business decisions made by directors or management.

## Independence

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



PricewaterhouseCoopers



David Smith  
Partner

Perth  
16 March 2006

**DWYKA DIAMONDS LIMITED  
AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

In the Directors' opinion:

- a) the financial statements and notes set out on pages 7 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) comply with Accounting Standards the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- b) there are reasonable grounds to believe that Dwyka Diamonds Limited will be able to pay its debts as and when they become due and payable.

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



M Sturgess  
Executive Chairman

Dated at Perth, this 16<sup>th</sup> day of March 2006.

**DWYKA DIAMONDS LIMITED  
AND ITS CONTROLLED ENTITIES**

**CORPORATE DIRECTORY**

<b>DIRECTORS</b>	M.J. Sturgess A Griffin C Bredenkamp E.F.G Nealon E. Kirby M.J. Langoulant
<b>COMPANY SECRETARY</b>	M.J. Langoulant
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<b>LAWYERS TO THE COMPANY</b>	Australia: Clayton Utz QV1 250 St Georges Tce PERTH WA 6000  South Africa: Werksmans Attorneys 155 – 5 <sup>th</sup> Street Sandown Sandton 2196 SOUTH AFRICA

**SHARE REGISTRY**

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Bristol BS99 1XZ  
UNITED KINGDOM

**ASX CODE**

Shares: DWY

**AIM CODE**

Shares: DWY