

DWYKA DIAMONDS LIMITED
ACN 060 938 552

NOTICE OF ANNUAL GENERAL MEETING
and
EXPLANATORY MEMORANDUM

Date of Meeting: Thursday 30 November 2006
Time of Meeting: 10.00 am (WST)
Place of Meeting: Sandalwood Room
Ground Floor
Holiday Inn Centre
788 Hay Street
Perth, Western Australia

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

DWYKA DIAMONDS LIMITED
ACN 060 938 552

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an annual general meeting of shareholders of Dwyka Diamonds Limited ACN 060 938 552 ("**Company**") will be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 10.00 am (WST) on Thursday 30 November 2006.

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

AGENDA

FINANCIAL STATEMENTS AND REPORTS

To receive and consider the financial statements, the Directors' report and auditor's report for the Company and its controlled entities for the year ended 30 June 2006.

RESOLUTIONS

1. Adoption of Remuneration Report

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

"That the remuneration report for the Company and its controlled entities for the year ended 30 June 2006 be adopted."

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

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

"That Mr Adrian Griffin, who was appointed as a director of the Company to fill a casual vacancy on 1 December 2005, retires in accordance with the Company's constitution and being eligible, offers himself for re-election, be re-elected as a Director."

3. Re-election of Ms Melissa Sturgess as a Director

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

"That Ms Melissa Sturgess, who retires by rotation in accordance with the Company's constitution and being eligible, offers herself for re-election, be re-elected as a Director."

4. Ratification of convertible note issue

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

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, the Company ratifies and approves the issue on 22 June 2006 of convertible notes to the value of GBP 1,000,000, convertible into fully paid ordinary shares in the capital of the Company at GBP 0.36 per share on or before 22 June 2010 to Westpac Custodian Nominees Ltd, on the terms and conditions contained in the Explanatory Memorandum."

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

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

"That, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 1,000,000 shares in the capital of the Company at an issue price of \$1.00 per share to Adrian Griffin in accordance with the Dwyka Diamonds Share Plan (which was approved by shareholders on 30 November 2005) and otherwise on the terms and conditions set out in the Explanatory Memorandum."

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

BY ORDER OF THE BOARD



Michael Langoulant
Company Secretary
DATED: 30 October 2006

PROXY AND VOTING ENTITLEMENT INSTRUCTIONS

PROXY INSTRUCTIONS

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

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be deposited at or sent by facsimile transmission to the Company's office, 98 Colin Street, West Perth WA 6005, +61 8 9324 2977, not less than 48 hours before the time for holding the Meeting, or adjourned meeting as the case may be, at which the individual or body corporate named in the proxy form proposes to vote.

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

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

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

A proxy form is attached to this Notice.

VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00 pm on Tuesday 28 November 2006. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

DWYKA DIAMONDS LIMITED
ACN 060 938 552

PROXY FORM

Dwyka Diamonds Limited, 98 Colin Street, West Perth WA 6005, Facsimile +61 8 9324 2977

I/We _____

of _____

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

_____ shares in the Company

hereby appoint _____

of _____

or failing him/her/it _____

of _____

or failing him/her/it the Chairman as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 10.00 am (WST) on Thursday 30 November 2006 and at any adjournment thereof in respect of _____ of my/our shares or, failing any number being specified, **ALL** of my/our shares in the Company.

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

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

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

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

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

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

DWYKA DIAMONDS LIMITED
ACN 060 938 552

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be considered at the annual general meeting of Shareholders to be held at the Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 10.00 am (WST) on Thursday 30 November 2006.

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

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

1. Resolution 1 - Adoption of Remuneration Report

The remuneration report of the Company for the financial year ended 30 June 2006 is set out on pages 14 to 19 of the Company's 2006 annual report.

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

2. Resolutions 2 and 3 - Re-election of Directors

It is a requirement under the Company's constitution that Mr Adrian Griffin, who was appointed to fill a casual vacancy on 1 December 2005, retires at the Annual General Meeting. Mr Griffin, being eligible for re-election pursuant to the Company's constitution, offers himself for re-election.

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

It is a requirement under the Company's constitution that Ms Melissa Sturgess retires by rotation at the Annual General Meeting. Ms Sturgess, being eligible for re-election pursuant to the Company's constitution, offers herself for re-election.

The remaining Directors recommend to shareholders that Ms Sturgess be re-elected.

3. Resolution 4 – Ratification of convertible note issue

3.1 Listing Rule 7.4

The Company seeks shareholder approval and ratification for the issue on 22 June 2006 of 1,000 convertible notes (convertible into Shares in the capital of the Company) with an aggregate face value of GBP 1 million to Westpac Custodian Nominees Ltd for the purposes of Listing Rule 7.4.

The Notes, which are unsecured, attract a yield of 8 per cent, payable quarterly in arrears, from the issue date of 22 June 2006 to the maturity date of 22 June 2010.

Each of the Notes may be converted into 2,778 Shares in the Company, at any time until 22 June 2010, at a conversion price of GBP 0.36. In the event of any reorganisation (including consolidation, bonus issues, share splits) of the issued capital of the Company, the Notes will be reorganised in accordance with the Listing Rules.

Application will not be made for official quotation of the Notes on ASX. The Company will apply for official quotation of Shares issued pursuant to the conversion of the Notes, in accordance with the Listing Rules.

Upon a change of control resulting from the acquisition of more than 50 per cent of the Company's Shares, the Note holders can require the Company to repurchase the Notes at a price equal to 101 per cent of the principal amount plus interest. From 12 months after the issue date, the Company can call the Notes for conversion if the 20-day average price of its Shares is at least GBP 0.55. The Notes are transferable.

The purpose of seeking shareholder approval and ratification of the issue of the Notes is to effectively reinstate the maximum limit under the Listing Rules on the number of securities that the Company may issue in any 12 month period without shareholder approval.

3.2 Disclosure Requirements

Set out below is the information required to be disclosed in relation to the Notes in compliance with Listing Rule 7.5:

- (a) The Company issued 1,000 Notes with each Note being convertible (at a price of GBP 0.36 per Share) into a maximum of 2,778 Shares (subject to any adjustments in accordance with the terms and conditions of the Notes) on or before 22 June 2010.
- (b) Each Note was issued with a face value of GBP 1,000. The aggregate face value of the Notes is GBP 1,000,000. The Notes are convertible into Shares at a price of GBP 0.36 per Share.
- (c) The terms of the Notes are set out in section 3.1 of this Explanatory Memorandum. Any Shares allotted and issued on conversion of the Notes will rank equally with all existing Shares.
- (d) The Notes were issued to Westpac Custodian Nominees Ltd.
- (e) The funds raised from the issue of the Notes will be used to advance exploration activities in relation to the Company's Bosele fissure project in South Africa and for working capital to assess other opportunities. No funds will be raised from the issue of Shares on conversion of the Notes.

4. Resolution 5 - Issue of Shares to Adrian Griffin under the Share Plan

4.1 Details of proposed Share issue

The Company proposes to issue Shares to Adrian Griffin, a director of the Company, in accordance with the terms of the Share Plan. The proposed issue of Shares under the Share Plan is intended to:

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

The Recipient Director will only benefit from an issue of Shares under the Share Plan when there is an improvement in the Company's share price since the date on which he was offered the Shares.

Resolution 5 seeks shareholder approval for the issue of 1,000,000 Shares to the Recipient Director.

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

The issue price of the Shares offered to the Recipient Director under the Share Plan is \$1.00, being greater than the weighted average price of shares on ASX during the 5 day trading period immediately before 22 December 2005, the date of the offer, which was \$0.61.

The Shares to be issued pursuant to Resolution 5 may not be transferred or otherwise dealt with and will not be quoted until the later to occur of the following:

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

The Shares to be issued pursuant to Resolution 5 are in addition to the fee and remuneration package payable by the Company to the Recipient Director. In calculating the fee and remuneration package provided to the Recipient Director as set out in section 4.2(h) of the Explanatory Memorandum, the Board has taken into consideration the issues of securities proposed in Resolution 5. The Board considers that the appropriate remuneration package for the Recipient Director comprises both the remuneration set out in section 4.2(h) of the Explanatory Memorandum and the securities to be issued if Resolution 5 is passed by shareholders. Given the size of the Company, the Board considers it appropriate for part of the remuneration package to comprise non-cash, incentive-based remuneration.

4.2 Chapter 2E of the Corporations Act

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

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

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

In accordance with the requirements of Chapter 2E, and in particular with section 219, of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Shares to the Recipient Director and the provision of a loan by the Company to the Recipient Director to fund payment of the subscription price for the Shares:

- (a) the Recipient Director is a related party of the Company to whom proposed Resolution 5 would permit the financial benefit to be given;
- (b) the nature of the financial benefit to be given to the Recipient Director is the issue of 1,000,000 Shares and a loan in respect of those Shares, being \$600,000, based on the last sale price of Shares before the Notice of Meeting was lodged with ASIC, under the Share Plan;
- (c) it is proposed that the Shares to be issued under the Share Plan will be issued on one date within 12 months from the date of the Annual General Meeting, but the Company reserves its right to issue the Shares progressively;
- (d) the terms of the Share Plan (approved by shareholders on 30 November 2005), under which Shares will be issued to the Recipient Director, are summarised in Schedule 1 to this Explanatory Memorandum;
- (e) initially no funds will be raised by the issue of Shares to the Recipient Director under the Share Plan due to the provision of the Loan to the Recipient Director. However, when the Loan has been repaid, the funds raised by the issue of the shares will be used for working capital purposes, as the Board thinks fit;
- (f) as at the date of this Notice, the capital structure of the Company is as follows:

Capital	Number
Ordinary shares	92,737,135
Options (unquoted) (\$0.52 exercisable on or before 30 June 2007)	1,100,000
Options (unquoted) (\$0.87 exercisable on or before 30 June 2009)	250,000
Options (unquoted) (\$1.00 exercisable on or before 30 June 2009)	1,250,000
Convertible Notes (unquoted) (each convertible into a maximum of 2,778 shares at GBP0.36 per share on or before 22 June 2010)	1,000 (convertible into 2,778,000 Shares)
Total ordinary shares if all options and convertible notes on issue are exercised	98,115,135

If Shareholders approve Resolution 5 and all 1,000,000 Shares in relation to Resolution 5 are issued under the Share Plan, as contemplated by this Notice, the issued capital of the Company would be as follows:

Capital	Number
Ordinary shares	93,737,135
Options (unquoted) (\$0.52 exercisable on or	1,100,000

before 30 June 2007)	
Options (unquoted) (\$0.87 exercisable on or before 30 June 2009)	250,000
Options (unquoted) (\$1.00 exercisable on or before 30 June 2009)	1,250,000
Convertible Notes (unquoted) (each convertible into a maximum of 2,778 shares at GBP0.36 per share on or before 22 June 2010)	1,000 (convertible into 2,778,000 Shares)
Total ordinary shares if all options and convertible notes on issue are exercised	99,115,135

If Shareholders approve the issue of 1,000,000 Shares to the Recipient Director under the Share Plan, the effect will be to dilute the shareholding of existing members by approximately 1.06%, based on the existing number of Shares as at the date of this Notice, or 1.00% based on the existing number of Shares as at the date of this Notice and assuming all existing options and convertible notes are exercised.

- (g) as at the date of this Notice, the Recipient Director does not hold any securities in the Company (whether directly or indirectly).

If Shareholders approve Resolution 5 and all Shares are issued as contemplated by this Notice, the Recipient Director will hold the following securities in the Company, representing 1.08% of the issued capital of the Company based on the existing number of Shares as at the date of this Notice, or 1.02% based on the existing number of Shares as at the date of this Notice and assuming all existing options and convertible notes are exercised:

Recipient Director	Number of Shares held Directly	Number of Shares held Indirectly	Number of Options held Directly	Number of Options held Indirectly
Adrian Griffin	1,000,000	nil	nil	nil

- (h) details of the Recipient Director's remuneration for the year ended 30 June 2006 (based on information extracted from the Company's 2006 Annual Report) are as follows:

Recipient Director	Directors' Fees (\$)	Salary (\$)	Superannuation (\$)	Non-monetary benefits (\$)	Equity Options (\$)	Total (\$)
Adrian Griffin	20,417	83,653	9,366	nil	nil	113,436

Details of the estimated remuneration payable to the Recipient Director for the year beginning 1 July 2006 are as follows:

Recipient Director	Directors' Fees (\$)	Salary (\$)	Superannuation (\$)	Non-monetary benefits (\$)	Equity Options (\$)	Total (\$)
Adrian Griffin	35,000	125,000	14,400	-	44,000	354,400

- (i) the subscription price at which 1,000,000 Shares may be issued to the Recipient Director under the Share Plan will be \$1.00 per Share (being greater than the weighted average price of Shares on ASX over the 5 trading days immediately before the date on which the Recipient Director was offered the Shares, which was \$0.61), with the subscription price being loaned to the Recipient Director on the key terms set out in Schedule 1, in accordance with the terms of the Share Plan;
- (j) during the last 12 months before the date of lodgement of this Notice with the ASIC, the highest trading price of the Shares was \$0.945 on 13 March 2006 and the lowest trading price of the Shares was \$0.49 on 28 August 2006. There have been no market sales Company's Shares over the 5 days of trading on ASX up to and including 13 October 2006 being the day this Notice of Meeting was lodged with the ASIC. The last sale price of the Shares before this Notice of Meeting was lodged with the ASIC, was \$0.60 per Share on 5 October 2006;
- (k) assuming a market price on the date of repayment of the loan of \$0.60, being the last sale price before the date of lodgement of this Notice with ASIC, the Company will receive \$600,000 from the issue of the 1,000,000 shares under the Share Plan;
- (l) the primary purpose of the issue of the Shares to the Recipient Director under the Share Plan is to provide an incentive to the Recipient Director. Given this purpose, the Directors do not consider that there is any opportunity cost or benefit foregone to the Company in issuing the Shares proposed by Resolution 5;
- (m) the issue of securities to the Recipient Director is a more cost effective incentive for the Company as opposed to the payment of cash compensation;
- (n) Adrian Griffin has a material personal interest in the outcome of Resolution 5, as the recipient of the Shares proposed to be issued;
- (o) the Recipient Director does not wish to make a recommendation to Shareholders about Resolution 5 because he has an interest in the outcome of some of that Resolution, as set out in paragraph (n) above;
- (p) a valuation of the Shares proposed to be issued to the Recipient Director under the Share Plan has been calculated by the Company using the Black and Scholes option pricing model and based upon the following assumptions:
- the underlying value of each share in the Company is based on the closing share price of \$0.60 as at 11 October 2006;
 - Risk free rate of return –5.8% (based on the 180 day bond indicator rate as at 11 October 2006);
 - share price volatility of 60%;
 - issue price of the Shares of \$1.00;
 - the Shares may not be transferred or otherwise dealt with, and will not be quoted on ASX or AIM, until the following conditions are met:

- A. in respect of one third of the Shares issued under the offer, the expiry of 12 months from the date of issue of the Shares;
- B. another one third of the Shares issued under the offer, the expiry of 24 months from the date of issue of the Shares;
- C. the remaining one third of the Shares issued under the offer, the expiry of 36 months after the date of issue of the Shares; and
- D. any loan in respect of the Shares is repaid.

Based on the above factors, the Black and Scholes Option Pricing Model attributes a theoretical value to each Share of \$0.18.

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

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

The Company has calculated an indicative fair value of the Shares, based on a discount factor of 30% applied to the theoretical valuation of the Shares, of \$0.126. The total value of the Shares to be issued to the Recipient Director under the Share Plan is deemed to be \$126,000.

- (q) additional information in relation to Resolution 5 is set out throughout this Explanatory Memorandum. Shareholders should therefore read the Explanatory Memorandum in its entirety before making a decision on how to vote on Resolution 5;
- (r) the Company will incur no liabilities or costs in respect of the proposed issue of the Shares to the Recipient Director other than:
 - (i) the fees payable to ASX or AIM for quotation of the shares. At the rates applying at the date of this notice, these fees would be approximately \$3,943. However, these fees will not be payable until after the Loan in respect of the Shares has been repaid;
 - (ii) a value equal to the weighted average trading price of shares on the Relevant Stock Market in the five days immediately before the date of valuation, will be included as wages for the purposes of the *Pay-roll Tax Act 2002 (WA)*, *Pay-roll Tax Assessment Act 2002 (WA)* and the *Taxation Administration Act 2003(WA)*. If this value in addition to other wages paid or payable by the Company during a month is in excess of the monthly pay-roll tax threshold, the Company may be required to register for pay-roll tax in the relevant jurisdiction. If this value in addition to other wages that are taxable in the jurisdiction is in excess of the annual pay-roll tax threshold, the Company will have a liability in respect of pay-roll tax in that jurisdiction;

- (iii) the cost of the Shares will be expensed through the Company's income statement in accordance with AASB2 Share Based Payments; and
- (s) neither the Board nor the Company is aware of any other information that would reasonably be required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolution 5, other than as stated in this Explanatory Memorandum.

4.3 Listing Rule 10.14

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

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

The Recipient Director is a Director of the Company for the purpose of Listing Rule 10.14. Accordingly, in order for the Recipient Director to acquire Shares under the Share Plan, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

4.4 Listing Rule disclosure requirements

In accordance with Listing Rule 10.15, the following information is provided to Shareholders in relation to Resolution 5:

- (a) Adrian Griffin is a Director of the Company;
- (b) the maximum number of Shares that may be issued to Adrian Griffin under Resolution 5 is 1,000,000 Shares;
- (c) No person referred to in Listing Rule 10.14 received any securities under the Share Plan since the date of the last approval;
- (d) directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries, may participate in the Share Plan;
- (e) it is proposed that the Shares will be issued on one date within 12 months from the date of the Meeting, but the Company reserves its right to issue the Shares progressively;
- (f) the issue price of the shares being issued under the Share Plan is \$1.00, being greater than the weighted average price of Shares on ASX over the 5 trading days prior to 22 December 2005, which was \$0.61;
- (g) subject to compliance with the AIM Rules and Listing Rules, the Shares to be issued to Adrian Griffin pursuant to Resolution 5 will not be quoted on the Relevant Stock Market and may not be transferred or otherwise dealt with until the later to occur of the following:
 - (i) the loan in respect of those Shares has been repaid; and
 - (ii) in respect of:

- A. one third of the Shares issued under the offer, 12 months after the date of issue of the Shares;
 - B. another one third of the Shares issued under the offer, 24 months after the date of issue of the Shares; and
 - C. the remaining one third of the Shares issued under the offer, 36 months after the date of issue of the Shares;
- (h) other than the restriction on trading referred to above, the Shares issued pursuant to Resolution 5 will rank equally with all other Shares on issue;
 - (i) the Company will provide a loan to Adrian Griffin in relation to acquisition of the Shares under the Share Plan. The loan is repayable within 4 years from the date of issue of the Shares. The other terms of the loan are set out in Schedule 1 to this Explanatory Memorandum;
 - (j) a summary of the terms of the Share Plan is set out in Schedule 1 of this Explanatory Memorandum; and
 - (k) initially no funds will be raised by the issue of Shares due to the provision of the Loan to the Recipient Director. However, when the Loan has been repaid, the funds raised by the issue of the Shares will be used for working capital purposes of the Company as the Board thinks fit.

5. Glossary of Terms

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

"\$" means Australian dollars.

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

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

"Annual General Meeting" or "Meeting" means the annual general meeting of Shareholders to be held at Sandalwood Room, Ground Floor, Holiday Inn City Centre, 788 Hay Street, Perth, Western Australia at 10.00 am (WST) on Thursday 30 November 2006, or any adjournment thereof.

"ASIC" means the Australian Securities and Investments Commission.

"ASX" means Australian Stock Exchange Limited.

"Board" means the board of Directors.

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

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

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

"Explanatory Memorandum" means this explanatory memorandum.

"GBP" means Pound Sterling.

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

"LSE" means London Stock Exchange Plc.

"Notes" means the convertible notes issued by the Company on 22 June 2006, having a total value of GBP 1,000,000, and on the terms set out in section 3.1.

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

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

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

"Recipient Director" means Adrian Griffin.

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

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

"Section" means a section of this Explanatory Memorandum.

"Shareholders" means registered holders of Shares.

"Share Plan" means the Dywka Diamonds Limited Share Plan approved by shareholders on 30 November 2005.

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

Schedule 1 - Summary of Share Plan

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

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

- (d) The term of the Loan, the time in which repayment of the Loan must be made by the Participant and the manner for making such payments shall be determined by the Board and set out in the invitation.
- (e) The amount repayable on the Loan by the Participant will be the lesser of:
 - (i) the issue price of the Shares, less any cash dividends paid in respect of the Shares and applied by the Company in accordance with paragraph (g) below and any amount of the Loan repaid by the Participant; and
 - (ii) the last sale price of the Shares on the Relevant Stock Market on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.
- (f) A Participant must repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not less than 1,000 Shares) at any time prior to expiry of the term of the Loan.
- (g) Cash dividends which are paid in respect of Shares the subject of a Loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the Loan and any surplus of the cash dividend will be paid to the Participant.
- (h) Any fees, charges and stamp duty payable in respect of a Loan will be payable by the Participant.
- (i) The Company shall have a lien over the Shares in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in accordance with the terms of the Share Plan.
- (j) A Share issued under the Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid and the Company will retain the Share Certificate in respect of the Loan Shares until the Loan amount has been repaid.

- **Termination of the Loan prior to the Repayment Date** - If, prior to repayment of a Loan by a Participant:

- (a) the Participant dies, becomes bankrupt or is no longer a director or employee of, or consultant to, the Company or its subsidiaries as a result of retirement or retrenchment, then the Participant is required to either repay the loan within 12 months or allow the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the Shares and apply the proceeds of sale in repayment of the Loan; or
- (b) the Participant is no longer a director or employee of, or consultant to, the Company or its subsidiaries other than as a result of one of the matters referred to in paragraph (a) above, then the Participant is required to either repay the loan within one month or allow the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the Shares and apply the proceeds of the sale in repayment of the loan.

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

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