

QUARTERLY REPORT 30 SEPTEMBER 2004

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

HIGHLIGHTS

- Further regional sampling results from India are positive for kimberlitic indicator minerals
 - New Reconnaissance permit recommended for grant in the State of Orissa. Several other tenements being considered for grant in Orissa
 - Dwyka announces option agreements to acquire kimberlite diamond mines in South Africa
 - Further exploration at Bosele reveals the project could host a number of large kimberlitic intrusions
 - Industrial division continues to experience strong demand
 - Placement of 16.5 million shares at 26 pence (Aus\$0.67) to raise net proceeds of £4.1 million (Aus\$10.6 million)
 - Group cash on hand at the end of the quarter A\$15.13 million (last quarter A\$7 million)
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INDIAN DIAMOND EXPLORATION PROGRAMME

All results from the March and April sampling programme have now been received and analysed. Indicator mineral results, including numerous grains derived from the diamond stability field within the mantle, have been recovered from several prospect areas. These results are from areas of known kimberlites as well as in areas without recorded kimberlite occurrences. In all cases however, the highly prospective chemistry of the abundant grains recovered suggests the occurrence of diamondiferous kimberlites undiscovered by previous explorers. Continued sampling to discover the new kimberlitic sources of these recently recovered grains will be carried out during the December quarter.

A new Reconnaissance permit has been recommended for Grant to Dwyka Diamonds' wholly owned subsidiary AMIL India Pvt Ltd, in the state of Orissa. This permit, to be executed during the December quarter, is amongst the first tenements to be granted in this highly prospective state, with several other tenement applications currently being considered for grant by the Orissa State Government.

QUARTERLY REPORT 30 SEPTEMBER 2004

SOUTH AFRICAN OPERATIONS

Dwyka's focus during the quarter has been to identify and gain control of producing or near production hard rock diamond assets. Venmyn Rand were retained to assist Dwyka with the evaluation of the prospectivity of the projects, Blaauwbosch, New Elands, Newlands and Zoet en Zuur. In October the option agreement over the three properties was extended to include the West End Mine, which is now the subject of a prospectivity report by Venmyn Rand.

Dwyka has since implemented an independent monitoring system at Blaauwbosch and Newlands as part of its due diligence process ahead of finalising the agreements to purchase the projects.

Blaauwbosch Mine

The Blaauwbosch mine is located approximately 90 km east of Kimberley in the well known diamond producing area of Boshoff. Historically, Blaauwbosch was the 19th largest known pipe (3.71 acres) and was mined to a depth of about 110 metres producing an estimated 967,000t of ore, yielding some 338,000 carats at an average grade of 34.95 carats per hundred tonne ("cpht"). Operations were ceased in 1967 due to flooding.

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

Under the terms of the option agreement, Dwyka took effective control of the Blaauwbosch mine on 4 October 2004, for a three-month trial period. During this period Dwyka will monitor mining method application, underground mining conditions, diamond grade, stone size distribution, plant throughput and diamond recoveries. The trial will also involve separate treating of underground and tailings ore to determine relative grades and values of diamonds. In addition, two independent valuations of recovered diamonds will be obtained to verify diamond values.

The current owners of the mine had initial plans to treat underground ore at a rate of 6,000 tonnes per month for up to 25 years. During the trial period Dwyka will assess the potential to significantly increase this rate of production.

The Company's consultants, Venmyn Rand (Pty) Ltd, have established an Inferred Resource of 1.67Mt within the Main Pipe to a depth of 500m at Blaauwbosch.

QUARTERLY REPORT 30 SEPTEMBER 2004

New Elands

Dwyka has an option to purchase this project which is located within view of the Blaauwbosch mine. New Elands historically produced some 1.5 million tonnes from dykes and kimberlite blows, yielding approximately 464,000 carats at an estimated grade of 34.24 cph. The old shafts are well preserved and it is Dwyka's plan to re-develop this mine.

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

Zoet en Zuur

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

The fissure system has potential to extend a further 1.5 kms from the current site.

Newlands

This project is located some 60 kms North-West of Kimberley on the Harts river. It is currently being mined at a rate of 3,000 tonnes per month on a single shift basis.

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

Bosele (Dwyka 70%)

The Bosele project is located near Barkly West in the Northern Cape Province of South Africa, approximately 110 km north-west of Kimberley.

The Bosele project covers an area of 1135Ha contiguous with the Dancarl Diamond Mine owned by a De Beers subsidiary company. The Dancarl Diamond mine has mined the Bobbejaan Fissure right up to the boundary of Dwyka's Bosele tenements.

Of significance however, is the discovery of a new kimberlite 'blow' on Bosele which has been intersected by drilling. A total of 6 holes have been drilled for a total of 463.56 metres. Drill core is to be air freighted to Australia for testing.

Nooitgedacht Alluvial Mine

Nooitgedacht has continued to produce good grades as long as the selective mining methods are maintained, in areas of the farm which contain large boulders within a sand and gravel matrix. There has also been a very noticeable increase in the number of larger stones recovered. Dwyka will continue to selectively mine in areas

QUARTERLY REPORT 30 SEPTEMBER 2004

of big boulders to maintain this increase in diamond recovery grade as well as stone size.

During the quarter, 177.67 carats were recovered from 28,034 tonnes of gravel treated at an average grade of 0.63 cpht.

Nooitgedacht production will be held back from tender until the end of December 2004. Stones recovered during this period will be independently valued as part of Dwyka's reassessment of its diamond marketing strategy going forward.

Industrial Division

The Industrial division has again experienced strong demand and the brick plant continued to operate 24 hours per day. Whilst there has been a reduction in demand from Government housing projects this has been offset by an increase in private housing demand.

The concrete division has experienced strong demand which is well ahead of budget. Demand would appear to be strong for the foreseeable future as a number of large commercial construction projects commence over the next year.

Corporate

During the quarter Dwyka announced that 16,532,500 fully paid ordinary shares were placed with institutional and other investors by Williams de Broë Plc at a price of 26 pence (Aus\$0.67) per share.

Net proceeds of the placing were approximately £4.1 million (Aus\$10.6 million) and the funds will be utilised primarily to expand Dwyka's operations through the acquisition and development of one of several projects it currently has under option.



MELISSA STURGESS
Chief Executive Officer

The technical exploration and mining information contained in this report was compiled by Ed Nealon, a Dwyka Diamonds Ltd director, and Mrs Catherine Telfer, a director and employee of Venmyn Rand (Pty) Ltd. Mr Nealon provides consulting services via his company Athlone International Pty Ltd while Venmyn Rand (Pty) Ltd are consultants to Dwyka Diamonds in South Africa. Both Mr Nealon and Mrs Telfer are members of the Australasian Institute of Mining and Metallurgy and are each considered to be a Competent Person in their respective areas of expertise pursuant to the Australasian Code for Reporting of Mineral Resources and Ore Reserves.

QUARTERLY REPORT 30 SEPTEMBER 2004

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Appendix 5B

Mining exploration entity quarterly report

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

Name of entity

DWYKA DIAMONDS LIMITED

ACN or ARBN

098 060 938 552

Quarter ended ("current quarter")

30 September 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	1,545	1,545
1.2 Payments for (a) exploration and evaluation (b) development (c) production (d) administration	(730)	(730)
	((1,525))	((1,525))
	(687)	(687)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	106	106
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other FOREX variance		
Net Operating Cash Flows	(1,291)	(1,291)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a)prospects (b)equity investments (c) other fixed assets	(525)	(525)
1.9 Proceeds from sale of: (a)prospects (b)equity investments (c)other fixed assets		
1.10 Loans to other entities		
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net investing cash flows	(525)	(525)
1.13 Total operating and investing cash flows (carried forward)	(1,816)	(1,816)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,816)	(1,816)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	10,856	10,856
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		
1.17	Repayment of borrowings		
1.18	Dividends paid		
1.19	Other – capital raising costs	(543)	(543)
	Net financing cash flows	10,313	10,313
	Net increase (decrease) in cash held	8,497	8,497
1.20	Cash at beginning of quarter/year to date	6,632	6,632
1.21	Exchange rate adjustments to item 1.20	1	1
1.22	Cash at end of quarter	15,130	15,130

Payments to directors of the entity and associates of the directors

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

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	83
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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Non-cash financing and investing activities

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

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+ See chapter 19 for defined terms.

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

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Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	300
4.2 Development	-
Total	300

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	3,950	5,234
5.2 Deposits at call	11,180	1,788
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	15,130	7,022

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

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

	Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1 Preference + securities <i>(description)</i>	-	-		
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	80,440,196	77,590,196	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	16,532,500	16,532,500	\$0.67	\$0.67
7.5 +Convertible debt securities <i>(description)</i>	-	-		
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	2,000,000	-	<i>Exercise price</i> \$1.47	<i>Expiry date</i> 30/6/2006
	1,100,000	-	\$0.52	30/6/2007
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired (cancelled) during quarter				
7.11 Debentures <i>(totals only)</i>	-	-		
7.12 Unsecured notes <i>(totals only)</i>	-	-		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 29 October 2004
Company Secretary
Print name: Michael Langoulant

Notes

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- 1 This quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
 - 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
 - 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
 - 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
 - 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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