



Dwyka
Diamonds
Limited

DWYKA DIAMONDS LIMITED

A.C.N. 060 938 552

HALF-YEARLY REPORT
31ST DECEMBER 2004

DIRECTORS' REPORT

The Directors present their report for the half-year ended 31 December 2004.

REVIEW AND RESULTS OF OPERATIONS

Highlights

- **Industrial and mining division operations continue to produce positive gross profits (A\$462,000 gross profit)**
- **Rough diamond inventory of 4,111 carats at 14th March 2005 expected to be sold in March 2005 (including stones from Nooitgedacht, Blaauwbosch and Newlands)**
- **Since October 2004 an average grade of 1.05 cpht has been achieved at Nooitgedacht. Last years improved average grade of 0.75 cpht at Nooitgedacht was maintained over the full half year period**
- **New X-Ray diamond processing machine yields immediate positive results, with 5 Diamonds totalling over 3 carats recovered from five tonnes of grease room tailings**
- **Dwyka enters into and subsequently extends option agreements to acquire kimberlite diamond mines in South Africa**
- **Placement of 16.5 million shares at 26 pence (A\$0.67) to raise net proceeds of £4.1 million (A\$10.3 million)**
- **Group cash on hand at the end of the half year A\$13.1 million**
- **Detailed follow-up of positive new targets revealed by Indian Reconnaissance Permit sampling program**
- **Sampling at recently granted Orissa tenements, India, expected to commence during March 2005**
- **Drill core from Bosele exploration programme (South Africa) sent to Australia for analysis, results confirm volconoclastic crater facies has been sampled**
- **Industrial division continues to experience strong demand**

South African Operations

Dwyka's focus during the half-year has been to identify and analyse producing or near production hard rock assets. During the half-year Dwyka entered into an option agreement to purchase four hard rock diamond prospects, Blaauwbosch, New Elands, Newlands and West End. All of the four mines have historical production but were closed at varying times due to flooding, inappropriately applied capital, and inappropriate mining methods being utilised.

Venmyn Rand and Resource Finance Associates have been retained to assist Dwyka with the evaluation of the prospectivity of the four projects. The period of exclusivity, in which Dwyka may assess the performance and prospectivity of each project, as set out in the option period, has been extended until 31 March 2005.

Mining and processing at two of the mines, Blaauwbosch and Newlands, have been monitored since late October 2004. This has involved measuring the tonnes mined from underground and the recovery grade achieved at the plant. Tailings are being processed separately to ascertain the relative grades and values of the underground and tailings ore. Actual on-mine costs are also being measured.

Bosele (Dwyka Diamonds 70%)

The Bosele project is located near Barkly West in the Northern Cape Province of South Africa, approximately 110 km north-west of Kimberley. Dwyka has 70% ownership of the project with the remaining 30% held by its Black Economic Empowerment partner, Kolong Investments.

The Bosele project covers an area of 1,135Ha contiguous with the Dancarl Diamond Mine owned by De Beers. The Dancarl Mine has exploited the Bobbejaan Fissure right up to the boundary of Dwyka's Bosele tenements.

Dwyka commenced exploration activities in December 2003 with the objective of tracking the extension of the Bobbejaan Fissure onto the Bosele property. Dwyka's drilling activities during the half-year showed that the Bobbejaan fissure extends onto the Bosele property below the surface.

A decision on the economic value of the fissure extension will be made during the coming months.

Bosele South (Dwyka Diamonds 70%)

On the southern part of the Bosele property a drilling programme on new targets has been undertaken. Core from this program was recently air freighted to Australia for testing. This test work commenced after the end of the half-year and results are expected shortly. Early results show that the material is crater facies resedimented volcanoclastic with abundant chromites. Reconnaissance, ground magnetic and electromagnetic surveys revealed a number of anomalous targets which will be tested in the near future.

Nooitgedacht Alluvial Mine

Activities at Nooitgedacht were limited during the latter part of the half-year as staff focussed on the due diligence being undertaken on the four hard rock properties under option. Staffing at Nooitgedacht has since year end returned to normal now that the assessment systems are in place on these properties.

During the latter part of the half-year, Dwyka targeted mining areas containing large boulder trap sites. From November, the mobile scalping plant was positioned adjacent to the mining pit to eliminate the double handling and transport of oversize rock. This has had a marked impact on performance through a reduction in machine hours and the costs associated with production.

Over the half-year, diamonds weighing 289.13 carats were recovered from 38,614 tonnes of gravel fed to the treatment plant at an average grade of 0.75 cpht. There were two distinct periods of operations with a reduction in costs, and diamond production improving dramatically to 1.3 cpht, once the new scalping machine was optimally utilised in conjunction with the new mining focus.

The Nooitgedacht mine is located on the farm Nooitgedacht and the project area extends for 6km along the eastern bank of the Vaal River, covering an area of 4,671 hectares.

Processing Plant Developments

In September 2004, Dwyka decommissioned the grease room at De Hoop and placed orders for a new wet X-ray diamond sorting system. All of the equipment was delivered to site and successfully commissioned by the end of December.

The total cost of the new plant was just under ZAR2 million. Dwyka anticipates recovering this capital cost within a short period through improved diamond recoveries from fresh gravel feed, and from re-treatment of stockpiled grease room tailings. During plant commissioning on grease room tailings, five diamonds totalling over three carats in weight were recovered from the five tonnes of material re-treated.

The installation consists of a feed preparation section followed by two "Flowsort" X-Ray sorters. The Flowsorts with their associated control and security systems are all mounted in a standard 20 foot sea container. They are designed for complete "hands-off" operation with diamonds being recovered into

tamper-proof stainless steel boxes. The security system incorporates links to the computerised control systems plus digital surveillance for 24 hour remote monitoring of operations.

The new plant has been used to recover diamonds from concentrates produced by the Nooitgedacht gravel treatment plant during the final quarter of 2004. Over the next half-year it will also re-treat the grease room tailings from previous operations at the Nooitgedacht and De Hoop mines. When Dwyka establishes new mines in the Kimberley area, the new plant will form the basis of a centralised concentrate treatment facility.

Industrial Division

The Industrial division has experienced strong demand for the majority of the half-year. As is usual, demand decreased as the holiday season approached and the brick plant was reduced to one shift per day during December.

Since Half-year end, the brick plant has returned to two shifts per day as demand returned to normal.

Indian Diamond Exploration Programme

Dwyka has an Alliance Agreement with BHP Billiton to explore for and develop world-class hard rock diamond deposits in India.

Positive results have been achieved from Dwyka's alliance permits in three Indian states. Assessment of several early completed samples returned significant quantities of kimberlitic indicator minerals. The ongoing sampling program has already collected 65 samples and narrowed potential indicator source areas to two prospects. Detailed ground geophysics and geochemical sampling of these prospects will be pursued during the first half of 2005. Final laboratory results from the batch of samples already taken are expected next month.

During the half-year, a new Reconnaissance Permit was recommended to be granted to Dwyka Diamonds' wholly owned subsidiary AMIL India Pvt Ltd, in the state of Orissa. This tenement was amongst the first tenements to be granted in this highly prospective State, with several other tenement applications by the Company currently being considered for grant by the Orissa State Government.

Initial sampling of the newly awarded permits in Orissa is due to commence during March 2005. This program of sampling new permits in close spatial and geological proximity to recently discovered diamondiferous kimberlites is amongst the first to be carried out by modern explorers in this state.

DIRECTORS

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

Ed Nealon, Melissa Sturgess and Evan Kirby.

CORPORATE

Placement

During the half-year, 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 (A\$0.67) per share.

Net proceeds of the placing were approximately £4.1 million (A\$10.3 million) and the funds will be utilised primarily to expand Dwyka's operations through project acquisition and development.

MATTERS SUBSEQUENT TO THE END OF THE HALF-YEAR

No matters or circumstances have arisen since 31 December 2004 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 2005.

Signed in accordance with a resolution of the Directors.



M Sturgess
Chief Executive Officer

Auditors' Independence Declaration

As lead auditor for the review of Dwyka Diamonds Limited for the half year ended 31 December 2004, 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 the entities it controlled during the period.



David J Smith
Partner
PricewaterhouseCoopers

Perth
16 March 2005

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Note	Half-year Ended 31 Dec 2004 \$'000s	Half-year Ended 31 Dec 2003 \$'000s
Revenue from sale of goods		2,366	3,682
Cost of sales		<u>(1,904)</u>	<u>(2,335)</u>
Gross profit		462	1,347
Other revenue from ordinary activities			
Proceeds from sale of plant and equipment		24	1,064
Proceeds from sale of investments	4	-	1,147
Foreign exchange gains	4	19	7
Other		292	233
Other expenses from ordinary activities			
Administration		(1,793)	(1,458)
Borrowing costs expense		-	(3)
Cost of investments sold	4	-	(363)
Mining properties and exploration expenditure written off		(336)	-
Projection generation		(475)	-
Written down book value of plant and equipment sold		<u>-</u>	<u>(845)</u>
(Loss)/profit from ordinary activities before income tax (expense)/benefit		(1,807)	1,129
Income tax (expense)/benefit		<u>(1)</u>	<u>11</u>
Net (loss)/profit from ordinary activities		<u>(1,808)</u>	<u>1,140</u>
Net profit attributable to outside equity interest		<u>1</u>	<u>-</u>
Net (loss)/profit attributable to members of Dwyka Diamonds Limited		<u>(1,809)</u>	<u>1,140</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>(1,809)</u>	<u>1,140</u>
Basic (loss)/earnings cents per share		(2.40)	1.88
Diluted (loss)/earnings cents per share		(2.40)	1.88

The above Consolidated Statement of Financial Performance should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

	Note	31 Dec 2004 \$'000s	30 June 2004 \$'000s
CURRENT ASSETS			
Cash		13,071	6,632
Receivables		776	547
Inventories		367	250
Total Current Assets		<u>14,214</u>	<u>7,429</u>
NON-CURRENT ASSETS			
Investments		89	89
Receivables		1,732	1,482
Property, plant & equipment		3,515	3,054
Exploration and evaluation expenditure		631	-
Other		156	145
Total Non-Current Assets		<u>6,123</u>	<u>4,770</u>
TOTAL ASSETS		<u>20,337</u>	<u>12,199</u>
CURRENT LIABILITIES			
Accounts payable		594	982
Interest bearing liabilities		31	-
Provisions		493	503
Total Current Liabilities		<u>1,118</u>	<u>1,485</u>
TOTAL LIABILITES		<u>1,118</u>	<u>1,485</u>
NET ASSETS		<u>19,219</u>	<u>10,714</u>
EQUITY			
Contributed equity	5	52,147	41,834
Accumulated losses		<u>(32,928)</u>	<u>(31,120)</u>
Total Equity		<u>19,219</u>	<u>10,714</u>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR HALF-YEAR ENDED 31 DECEMBER 2004**

	Half-year Ended 31 Dec 2004 \$'000s	Half-year Ended 31 Dec 2003 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers (inclusive of GST)	2,247	3,174
Payments to suppliers and employees (inclusive of GST)	(4,588)	(4,317)
Interest received	269	131
Interest paid/finance costs	-	(3)
Net cash outflow from operating activities	(2,072)	(1,015)
CASH FLOW FROM INVESTING ACTIVITIES		
Payments for plant & equipment	(636)	(46)
Proceeds from sale of plant and equipment	24	1,064
Rehabilitation bonds	(11)	-
Proceeds from sale of investments	-	1,147
Payment for exploration expenditure	(961)	(460)
Net cash (outflow)/inflow from investing activities	(1,584)	1,705
CASH FLOWS FROM FINANCING ACTIVITIES		
Loans to other parties	(250)	-
Borrowings	31	-
Repayment of borrowings	-	(2)
Proceeds from Issue of Shares	10,856	1,787
Payment for equity issue costs	(543)	(130)
Net cash inflows from financing activities	10,094	1,655
Net increase/(decrease) in cash held	6,438	2,345
Cash at the beginning of the reporting period	6,632	4,494
Exchange rate adjustments	1	7
Cash at the end of the reporting period	13,071	6,846

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 2004

1. **BASIS OF PREPARATION OF HALF-YEAR REPORT**

This general purpose financial report for the interim half-year reporting period ended 31 December 2004, has been prepared in accordance with Accounting Standard AASB 1029: *Interim Financial Reporting*, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) other authoritative pronouncements of the Australian Accounting Standards Board 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 2004 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.

2. **ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial periods commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year. The adoption of Australian equivalents to IFRS will be first reflected in the Consolidated Entity's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006.

The Consolidated Entity has allocated internal resources to manage the implementation project and will engage external consultants should they be required in the future. To date the project has not identified any accounting policy changes that will be required other than those disclosed in the 30 June 2004 Annual Report or below. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standards AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed for the most appropriate accounting policy for the Consolidated Entity. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents of IFRS on the Consolidated Entity's financial position and reported results.

AASB 6 Exploration for and Evaluation of Mineral Resources was released in December 2004 and is not expected to have any significant impact on the Consolidated Entity's existing accounting policy.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

3. SEGMENT INFORMATION

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

Half-year 2004	South Africa \$'000s	Australia \$'000s	India \$'000s	Unallocated \$'000's	Consolidated \$'000s
Total segment revenue	2,408	-	24	269	2,701
Segment result	(813)	(1,278)	14	269	(1,808)
Half-year 2003					
Total segment revenue	4,872	1,261	-	-	6,133
Segment result	1,409	(247)	(22)	-	1,140

4. PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX

Profit from ordinary activities after related income tax expense includes the following items of revenue and expense which, together with other disclosures in this report, are relevant in explaining the financial performance for the half-year:

	31/12/04 \$'000	31/12/03 \$'000
Profit on sale of investments	-	784
Foreign currency exchange gain	19	7

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

5. EQUITY SECURITIES ISSUED

	<u>31/12/04</u>	<u>31/12/03</u>
	\$	\$
The following equity securities were issued by the parent entity during the period:		
16,532,500 ordinary shares at GBP0.26 (\$AUD0.67) to raise general working capital	10,856,115	-
5,255,000 ordinary shares at \$AUD0.34 each to raise general working capital	-	1,786,700

Movements in ordinary share capital:

Date	Details	Issue price	Number of shares	\$
1/7/2003	Opening balance		55,802,696	38,695,676
16/7/03	Placement	\$A0.34	5,255,000	1,786,700
	Total issue costs			(130,332)
31/12/2003	Balance		61,057,696	40,352,044
1/7/2004	Opening balance		63,907,696	41,834,044
10/8/04-13/9/04	Placement	GBP0.26 (\$AUD0.67)	16,532,500	10,856,115
	Total issue costs			(542,809)
31/12/2004	Balance		80,440,196	52,147,350

6. SUBSEQUENT EVENTS

No matters or circumstances have arisen since 31 December 2004 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.

7. CONTINGENT LIABILITIES

There were no known contingent liabilities as at 31 December 2004.

**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 12 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying 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 2004 and of its performance, as represented by the results of its operations 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 Director

Dated at Perth, this 16th day of March 2005.

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 2004 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 Limited Group (defined below) as at 31 December 2004 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 1029: *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 statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the Dwyka Diamonds Limited Group (the consolidated entity), for the half-year ended 31 December 2004. 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 1029: *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 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.

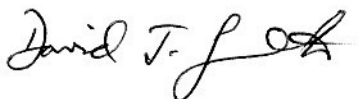
Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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



PricewaterhouseCoopers



David J Smith
Partner

Perth
16 March 2005

**DWYKA DIAMONDS LIMITED
AND ITS CONTROLLED ENTITIES**

CORPORATE DIRECTORY

DIRECTORS	E.F.G Nealon M.J. Sturgess E. Kirby
COMPANY SECRETARY	M.J. Langoulant
REGISTERED OFFICE	Level 4, HPPL House 28-42 Ventnor Avenue WEST PERTH WA 6005 Telephone: (+61 8) 9324 2955 Facsimile: (+61 8) 9324 2977
ADVISER AND BROKER	Williams de Broë Plc 6 Broadgate London EC2M 2RP United Kingdom
AUDITORS	PricewaterhouseCoopers QV1 250 St. Georges Tce PERTH WA 6000 AUSTRALIA
LAWYERS TO THE COMPANY	Australia: Clayton Utz QV1 250 St Georges Tce PERTH WA 6000 South Africa: Werksmans Attorneys 155 – 5 th Street Sandown Sandton 2196 SOUTH AFRICA

SHARE REGISTRY

Australia:
Computershare Investor Services Pty Ltd
Reserve Bank Building
Level 2
45 St George's Terrace
PERTH WA 6000

United Kingdom:
Computershare Investor Services Pty Ltd
Po Box 859
The Pavillions
Bridgewater Road
Bristol BS99 1XZ
UNITED KINGDOM

ASX CODE

Shares: DWY

AIM CODE

Shares: DWY