

**QUARTERLY REPORT 30 JUNE 2006**

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

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**HIGHLIGHTS**

- **Diamond processing commences and first diamonds recovered at De Beers Tailings JV, South Africa.**
  - **Rough diamond stock on hand at quarter end – 2,125.11 carats.**
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**AFRICAN OPERATIONS****Exploration and development****De Beers Diamond Tailings Retreatment Project – RSA**

With the first ore processed on 21 April 2006, commercial recovery of diamonds began on 14 June 2006. Throughput increased progressively throughout the period, and it is anticipated that design capacity will be achieved during the September quarter. Once this occurs, the performance of major plant components will be assessed, with a view to extending plant performance beyond the design capacity of 50,000 tonnes per month and optimising operating costs.

Under the terms of Dwyka's agreement with De Beers, Dwyka is paid a fixed amount to treat the material on a contract basis. Thus, Dwyka's exposure to operating costs at designed throughput is minimal. Dwyka shares the diamond revenue – less operating costs – with De Beers.

The project is a joint venture between Dwyka's wholly owned subsidiary Supermix Mining (Pty) Ltd ('Supermix'), and Black Economic Empowerment ('BEE') entity Kolong Investment Holdings (Pty) Ltd ('Kolong'). Dwyka has an effective 40 per cent interest in the joint venture vehicle, Superkolong (Pty) Limited. The project will be supplied with tailings from De Beers Consolidated Mines Limited's Kimberley mines.

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

Dwyka's second joint venture with De Beers involves assessment of the diamondiferous Mahene and Itanana kimberlite pipes in the Nzega District of Tanzania.

Under the terms of its agreement with De Beers, Dwyka will bulk-sample the pipes, at a cost of about US\$1.5 million. Dwyka's Tanzanian partner,

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Thorntree Minerals Limited ('Thorntree'), is assisting with logistical, managerial and government liaison support within Tanzania. Thorntree has the right to participate in 20 per cent of Dwyka's equity interest in these projects once the decision to progress to feasibility study is made, but will have to fund its share of costs to maintain its 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 Dwyka to evaluate the projects. Alternatively, De Beers can elect to remain 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 this agreement, Dwyka Tanzania will sell all diamonds recovered in the licence areas to De Beers.

### **Bosele Exploration – RSA**

On 29 June 2006, Dwyka announced that it will fast-track its prospective Bosele exploration project. Assessment will commence with geophysical surveys, scheduled for August 2006. The geophysical programme, if successful, will be followed by drilling to locate the source of diamonds previously recovered from bulk sampling of the crater-fill sediments; it is believed that the latter are derived from an extrusive kimberlite eruption.

Previous drilling by Dwyka revealed that the volcanoclastic sediments filling the crater exceed a vertical thickness of 200 metres; however, none of the holes drilled penetrated the base of the sedimentary sequence. It was bulk sampling of the sandy sediments in the upper part of the sequence that showed them to be diamondiferous.

### **New Elands Kimberlite Mine – RSA**

Dwyka has engaged contractors to process tailings from historic operation of the New Elands mine. Dewatering of the old workings will begin in the September quarter, with the water utilised for contract processing. Revenue from the contract operations should cover the cost of the dewatering, which will enable access to the underground workings.

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**Production assets****Nooitgedacht Alluvial Diamond Mine – RSA**

During the quarter, 31,291.98 tonnes of gravel were treated to recover 187.28 carats at an average grade of 0.60 carats per hundred tonnes ('cpht').

It is anticipated that diamonds recovered during the quarter will be sold in July 2006. Diamonds on hand from Nooitgedacht at period end totalled 153.36 carats.

**Newlands Kimberlite Mine – RSA**

During the quarter, 12,195.00 tonnes of kimberlite were treated to recover 1,518.69 carats at an average grade of 12.45 cpht. A number of large stones were recovered, among them stones of the following sizes: 7.02; 6.30; 3.53; 4.12; 3.27; 4.76; 4.63; 3.21; 5.96; 3.14; 3.44; 3.58; 3.97 carats

It is anticipated that diamonds recovered during the quarter will be sold in July 2006. Diamonds on hand from Newlands at period end totalled 1,334.86 carats.

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### **Blaauwbosch Kimberlite Mine – RSA**

During the quarter, 20,194.27 tonnes of tailings were treated to recover 905.93 carats at an average grade of 4.48 cpht. A number of large stones were recovered, among them stones of the following sizes: 5.73; 3.58; 4.61 carats

It is anticipated that diamonds recovered during the quarter will be sold in July 2006. Diamonds on hand from Blaauwbosch at period end totalled 636.89 carats.

### **Industrial Division – RSA**

Dwyka's Industrial Division achieved combined concrete and brick sales of R5,989,289.38 for the June quarter. Rising demand for bricks has resulted in the implementation of two shift operations of the brick plant subsequent to the end of the quarter.

## **INDIAN DIAMOND EXPLORATION PROGRAMME**

During the quarter, Dwyka announced further positive results from its recent regional stream sediment sampling programmes in Uttar Pradesh, India.

Microprobe analysis of three samples from the Uttar Pradesh programme suggests that the indicator minerals were derived from a diamondiferous source rock.

Among material derived from the first sample, a chrome spinel and a pyrope garnet exhibit compositions typical of the diamond inclusion field.

In addition, the second and third positive reconnaissance samples contain chrome spinels with kimberlitic geochemistry. The sample sites are adjacent to each other but more than 30 kilometres from the location of positive results released by Dwyka in March 2006. Follow-up sampling has also been completed at the site of one of those positive samples. The samples are being sent to Perth for treatment, observation and micro probing on a high-priority basis.

The future direction of exploration in India will be determined following the assessment of laboratory results from the last exploration programme.

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### CORPORATE

#### **Issue of a series of unsecured convertible loan notes to the value of GB£1 million**

At the end of the quarter, Dwyka announced its issue of a series of unsecured convertible loan notes to the value of GB£1 million. The aim is to fast-track its prospective Bosele Exploration Project, rather than waiting to fund the programme from future operating cashflows. The funds may also be used for more underground development at both the Newlands and Blaauwboch Diamond Mines and as general working capital.

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

Each of the convertible loan notes can be converted to fully paid ordinary shares of Dwyka, at any time until 22 June 2010, at a conversion price of GB£0.36. The number of shares issued upon conversion of the convertible loan notes is subject to proportionate adjustment for bonus issues, share splits, etc. Upon a change of control resulting from the acquisition of more than 50 per cent of Dwyka's ordinary shares, the note holders can require Dwyka to repurchase the notes at a price equal to 101 per cent of the principal amount plus interest.

From 12 months after the deemed issue date, Dwyka can call the loan notes for conversion if the 20-day average price of its ordinary shares is at least GB£0.55.

#### **Restructure of Dwyka's South African investments**

Dwyka, through its wholly owned South African subsidiary, Supermix Mining has negotiated a restructure of its black economic empowerment ("BEE") arrangements with its principal BEE partner, Kolong Investments. The key terms of the agreement, are:

- Kolong's existing 60% interest in the De Beers Tailings re-treatment project will be reduced to 30%;
- the existing 30% BEE interest in each of the Bosele Exploration Project and the Kimberley-based bricks business operated by Dwyka's subsidiary Biz Afrika 546 (Pty) Ltd, will be unchanged;
- Kolong will acquire a 30% interest in each of the Kimberley-based cement business operated by Dwyka's wholly-owned subsidiary

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Supermix Mining (Pty) Ltd, the Nooitgedacht Alluvial Mine and the Blaauwbosch, Newlands and New Elands underground diamond mines; and

- Kolong will be paid a once-off cash payment of R2,000,000.

The restructure will be effected through the creation of a South African subsidiary company which will be owned 70% by Dwyka and 30% by Kolong. All operations will then be owned 100% by this entity.

**ADRIAN GRIFFIN****Chief Executive Officer**

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The technical exploration and mining information contained in this report was compiled by Adrian Griffin (CEO of Dwyka Diamonds), who is a member of the Australasian Institute of Mining and Metallurgy and is considered to be a Competent Person in his respective area of expertise pursuant to the Australasian Code for Reporting of Mineral Resources and Ore Reserves.

## Appendix 5B

### Mining exploration entity quarterly report

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

Name of entity

DWYKA DIAMONDS LIMITED

ACN or ARBN

098 060 938 552

Quarter ended ("current quarter")

30 June 2006

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	2,414	8,368
1.2 Payments for (a) exploration and evaluation	(350)	(1,549)
(b) development	(361)	(2,140)
(c) production	(2,582)	(9,070)
(d) administration	(485)	(2,516)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	60	368
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other FOREX variance	115	84
<b>Net Operating Cash Flows</b>	<b>(1,189)</b>	<b>(6,455)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a)prospects		(1,185)
(b)equity investments		(255)
(c) other fixed assets	(19)	(99)
1.9 Proceeds from sale of: (a)prospects		
(b)equity investments	223	251
(c)other fixed assets		
1.10 Loans to other entities	(1,016)	(5,604)
1.11 Loans repaid by other entities		4,516
1.12 Other		
<b>Net investing cash flows</b>	<b>(812)</b>	<b>(2,376)</b>
1.13 Total operating and investing cash flows (carried forward)	(2,001)	(8,831)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(2,001)	(8,831)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.		3,204
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings	2,458	2,458
1.17	Repayment of borrowings		(12)
1.18	Dividends paid		
1.19	Other – capital raising costs		(107)
	<b>Net financing cash flows</b>	2,458	5,543
	<b>Net increase (decrease) in cash held</b>	457	(3,288)
1.20	Cash at beginning of quarter/year to date	5,936	9,582
1.21	Exchange rate adjustments to item 1.20	(150)	(51)
1.22	<b>Cash at end of quarter</b>	6,243	6,243

**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	282
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	100
<b>Total</b>	<b>400</b>

### 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	580	1,062
5.2 Deposits at call	5,663	4,874
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>6,243</b>	<b>5,936</b>

### 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			

+ See chapter 19 for defined terms.

6.2 Interests in mining  
tenements acquired or  
increased

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+ See chapter 19 for defined terms.

### 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 <b>Preference +securities</b> <i>(description)</i>	-	-		
7.2 Changes during quarter				
7.3 <b>+Ordinary securities</b>	92,537,135	92,537,135	N/A	N/A
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	1,000 GBP100 notes convertible at GBP0.36 on or before 22 June 2010	-	100 GBP	100 GBP
7.6 Changes during quarter (a) Increases through issues  (b) Decreases through securities matured, converted	1,000 GBP100 notes convertible at GBP0.36 on or before 22 June 2010	-	100 GBP	100 GBP
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,100,000	- -	<i>Exercise price</i> \$0.52	<i>Expiry date</i> 30/6/2007
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired (cancelled) during quarter	2,000,000	-	\$1.47	30/6/2006
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <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: 28 July 2006

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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+ See chapter 19 for defined terms.