Namakwa Diamond Company

SECTION 2

2004 FINANCIAL REPORT

NAMAKWA DIAMOND COMPANY NL ABN 77 085 806 284
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Namakwa Diamond Company

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This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. The functions reserved to the board and those delegated to senior management have not, at the date of this report, been formally documented.

The board has delegated responsibility for operation and administration of the company to the Executive Chairman and executive management.

Board Processes

The board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and appropriate ethical standards.

The full board schedules meetings, including strategy meetings and any extraordinary meetings, as necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman and Company Secretary. Standing items include the Chairman's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

The consolidate entity is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of separate board committees, including a Nomination Committee, Remuneration Committee and an Audit Committee. Accordingly, all matters that may be considered by such committees are dealt with by the full board. Nevertheless, the board may from time to time form committees that it considers appropriate to assist in carrying out its responsibilities to shareholders. Details of the board's procedures in respect to each of these areas are further outlined within the Corporate Governance Statement below - see Nomination of new directors, Remuneration of directors and Audit functions respectively.

Director education

The consolidated entity educates new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the board.

Composition of the board

The names of the directors of the company in office at the date of this report are set out in the Directors' report on page 6 of this report.

The composition of the board is determined using the following principles:

- A minimum of three directors, with broad range of expertise both nationally and internationally
- A majority of directors having extensive knowledge of the consolidated group's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies
- A majority of independent non-executive directors. The board currently comprises three independent non-executive directors
- Directors are re-elected every three years (except for the Executive Chairman and Chief Executive Officer (South Africa)).

Board members have significant expertise in public companies, along with extensive experience in the mining industry. The directors consider that the current number of non-executive board members is appropriate for the effective execution of the board's responsibilities, without the need to appoint an independent Chairman. The directors consider that, given the size and stage of development of the Company, to effectively execute the board's responsibilities it is appropriate that the Chairman is also the Chief Executive Officer. The Directors periodically monitor the appropriateness of the composition of the Board.

Nomination of new directors

The board considers that a formally constituted Nomination Committee is not appropriate as the board, as part of its usual role, oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the company's executive officers. The board considers the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates and may take advice from an external consultant. The board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

The Chairman of the board continually reviews the effectiveness of the board, individual directors, and senior executives. The other directors have an opportunity to contribute to the review process. The reviews generate recommendations to the board, which votes on them. Directors displaying unsatisfactory performance are requested to retire.

Remuneration of directors

The board considers that a formally constituted Remuneration Committee is not appropriate as the board, as part of its usual role, oversees the appointment and remuneration of directors and the company's executive officers. The role of the board also includes responsibility for share option schemes, superannuation entitlements, retirement and termination entitlements, fringe benefit policies, professional indemnity and liability insurance policies, and other terms of employment.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The board may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration. Non-executive directors do not receive bonuses. Directors' fees cover all board related activities.

The remuneration structures explained below are designed to attract suitably qualified candidates, and to affect the broader outcome of maximising the consolidated entity's return to shareholders. The remuneration structures take into account:

- Overall level of remuneration for each director and executive.
- The executive's ability to control the performance of the relevant area.
- The amount of incentives within each executive's remuneration.

Shares and options can only be issued to company directors pursuant to a resolution at a general meeting of shareholders.

The board has no established retirement or redundancy schemes.

The board meets at least annually, as required, usually on the anniversary date of each service agreement for the particular director and/or executive. At the meetings, the particular director and/or executive will declare their interest and not vote, as well as depart from the meeting, so as not to be present whilst the issue is being discussed.

In the event that share options are allotted to a director, the allotment will be ratified at a general meeting of shareholders.

Audit functions

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Audit Committee. Whilst the company does not have a formally constituted Audit Committee, the board, as part of its usual role, undertakes audit related responsibilities including:

- Reviewing the annual and interim financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholders needs
- Assessing corporate risk assessment processes
- Reviewing the company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005.
- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies
- Reviewing the nomination and performance of the external auditor. The external auditors were appointed on 31 October 2001. The external audit engagement partner was last rotated in 2003.
- Assessing the adequacy of the internal control framework and the company's code of ethical standards
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements

- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange (ASX) and financial institutions.

The executive directors review the performance of the external auditors on an annual basis and normally meet with them during the year to:

- Discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed
- Review the annual and half-year reports prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend board approval of these documents, prior to announcement of results
- Finalise annual and half-year reporting to:
    - Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
    - Review the draft financial report and recommend board approval of the financial report
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

The board monitors the need to form an Audit Committee on a periodic basis.

The Chairman has declared to the board that the company's financial reports for the year ended 30 June 2004 present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

RISK MANAGEMENT

Overview of the risk management system

The board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the consolidated entity's risk profile. This includes assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The Chairman and the appropriate persons responsible for preparing the financial report have declared, to the board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk profile

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a separate Risk Management Committee. Instead, the board, as part of its usual role and through direct involvement in the management of the consolidated entity's operations ensures risks are identified, assessed and appropriately managed. Where necessary, the board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Major risks arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements on diamond sales, difficulties in sourcing goods and services, environment, occupational health and safety, financial reporting, and the purchase, development and use of information systems.

Risk management and compliance and control

The board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The board's internal control processes are comprehensive and comprise:

- Operating unit controls – Operating units confirm compliance with financial controls and procedures including information system controls.
- Functional speciality reporting – Key areas subject to regular reporting to the board include operations, safety, environmental, legal and insurance matters.
- Investment appraisal – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures and levels of authority.

Practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior board approval
- Financial exposures are controlled, including the potential use of derivatives
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- Business transactions are properly authorised and executed
- The quality and integrity of personnel (see below)
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below)
- Environmental regulation compliance (see below).

Quality and integrity of personnel

The consolidated entity conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals are conducted regularly with continuous feedback and on the job monitoring and training for all employees. Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

Financial reporting

The Chairman has declared, to the board that the company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly. Convergence with International Financial Reporting Standards (IFRS) is a key current financial reporting project, and the board has established procedures to ensure a smooth transition to IFRS reporting, beginning with the half-year ended 31 December 2005. One of the first tasks will be to prepare an opening statement of financial position, under IFRS, as at 1 July 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.

The broad IFRS convergence procedures will include:

- Identification of likely significant changes in accounting policies
- Calculation of the opening IFRS-based statement of financial position as at 24 months prior to the first full IFRS year end (to facilitate first year IFRS comparatives)
- Calculation of an IFRS-based statement of financial performance in the lead-up year to the first full year of IFRS-based reporting, in addition to the non-IFRS financial reporting, (to facilitate first year IFRS comparatives)
- IFRS-only complete financial reporting in the first full year of IFRS financial reporting that commences from 1 January 2005 (for the consolidated entity this is the year ending 30 June 2006).

Environmental regulation

The consolidated entity's operations are subject to significant environmental regulation under both South African and International Law in relation to its exploration and mining activities. The company's exploration and mining activities are concentrated on the west coast of South Africa. The consolidated entity has an Environmental Management Program in place for each prospecting and mining permit.

The consolidated entity is committed to achieving a high standard of environmental performance. The board is responsible for the regular monitoring of environmental exposures and compliance with environmental regulations.

Compliance with the requirements of environmental regulations and with specific requirements of site environmental licences was achieved across all areas.

The board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Internal audit

The consolidated entity does not have a formally established internal audit function. The board ensures compliance with the internal controls and risk management procedures previously mentioned.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer issues arising from their employment.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the consolidated entity. The board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the company and consolidated entity are set out in note 20.

Code of conduct

The consolidated entity is not currently considered to be of a size, nor is its affairs of such complexity to justify the establishment of a documented Code of Conduct. The consolidated entity has adopted certain induction procedures to inform newly appointed directors, managers and employees of their rights and their duty to act with utmost integrity and objectivity.

Trading in consolidated entity securities by directors and employees

The Constitution permits directors to acquire and dispose of securities in the Company. Company policy and the law prohibit directors from dealing in securities whilst in possession of price sensitive information. Directors must notify the Company Secretary once they have bought or sold securities in the Company or exercised options over ordinary shares. In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Stock Exchange, the Company on behalf of the directors must advise the Australian Stock Exchange of any transactions conducted by them in shares and / or options of the Company.

Communication with shareholders

Whilst the board has not formally documented the consolidated entity's continuous disclosure procedures, the board, as part of its usual role, provides shareholders with information using comprehensive continuous disclosure processes which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website, and issuing media releases.

In summary, the continuous disclosure processes operate as follows:

- The Chairman and the Company Secretary are responsible for all communications with the ASX. Matters that may have an effect on the price of the company's securities are advised to the ASX on the day they are discovered. Senior executives monitor all areas of the company's internal and external environment
- The full annual financial report is made available to all shareholders and is lodged with the Australian Securities and Investments Commission and the ASX. The full annual financial report includes relevant information about the operations of the company during the year, changes in the state of affairs and details of future developments
- The half-yearly report contains summarised financial information and a review of the operations of the company during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it
- Proposed major changes in the company which may impact on share ownership rights are submitted to a vote of shareholders
- All announcements made to the market, and related information (including information provided to analysts and the media), are released to the ASX and placed on the company's website
- The full texts of notices of meetings and associated explanatory material are placed on the company's website, along with the results of such meetings
- The external auditor attends the Annual General Meeting to answer any questions concerning the audit and the content of the auditor's report
- All of the above information is made available on the company's website in a timely manner.

The board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

The directors present their report together with the consolidated financial report for the year ended 30 June 2004 and the independent auditor's report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial period were:

Karl M Simich, Executive Chairman (40 years)
B.Comm, CA, ASIA

Appointed 12 January 1999. Mr Simich is responsible for the corporate, financial, marketing and day-to-day affairs of the Company in Australia. He has had considerable international business experience, (including in South Africa) and in the management and administration of publicly listed companies. Mr Simich has had 17 years experience in publicly listed companies, specialising in resource finance and corporate management. Mr Simich is an executive director of Kimberley Diamond Company NL, a director of Blina Diamonds NL, a director of Tiger International Limited and holds directorships in private companies, some of which have acted as underwriters to capital raisings by resource companies. He is a Chartered Accountant and a member of Securities Institute of Australia, and has completed post-graduate studies in business and finance.

John LG Firth, Executive Director, Chief Executive Officer (South Africa) (35 years)
B.Agric.Admin, MBA

Appointed 12 January 1999. Mr Firth is responsible for the day-to-day operations in South Africa. He has had extensive experience in the exploration, production and marketing of rough diamonds in various countries, including Angola, Democratic Republic of Congo, South Africa, Namibia, and the Ivory Coast. Mr Firth has a degree in agriculture administration from the University of Stellenbosch, South Africa and a MBA from the Thames Valley University in London, UK.

Peter D Danchin, Non-Executive Director (58 years)
B.Sc (Hons), Pr.Sci.Nat. – RSA

Appointed 1 November 2001. Mr Danchin has extensive experience in the exploration, mining and marketing of rough diamonds and has an intimate knowledge of the Namaqualand and Kimberley areas of South Africa. He has held senior technical and managerial positions with the Union Carbide Corporation of USA and the Anglo American Corporation of South Africa. He was also Group Managing Director – Operations with the Trans Hex organisation, which is the second largest diamond producer in South Africa. Mr Danchin is the Managing Director of Kimberley Diamond Company NL. Mr Danchin has special responsibilities including providing advice and managing certain aspects relating to technical issues, relations with the Department of Industry and Resources, environmental matters, black empowerment liaison and project generation. Mr Danchin holds an honours degree in exploration geology from the University of Witwatersrand, Johannesburg.

John R Hutton, Non-Executive Director (38 years)

Appointed 12 January 1999. Mr Hutton is Managing Director of Tiger International Limited in Western Australia, a listed company researching technologies and developing markets for the cultivation of fish and prawns. With a background in accounting, Mr Hutton has experience in merchant banking, budgeting, financial planning and tax related matters. He is a director of a number of successful private companies involved in the resources, pearling and tourism industries and is closely involved in the management of a highly successful pearl farm, producing Australian South Sea Pearls.

Richard J Linnell, Non-Executive Director (60 years)

Appointed 15 July 2003. Mr Linnell is a former senior executive with Billiton PLC and Samancor. As a recent non-executive director of BHP Billiton SA Ltd, Mr Linnell was actively involved with BHP Billiton on special assignments relating to risk amelioration and risk management in the African context. He was an originator of the Bakubung Initiative, a forum designed to revive the South African mining industry that led to the establishment of the New Africa Mining Fund. He has acted for the Company over the past year and played a key role in brokering the Company's Black Economic Empowerment (BEE) transaction.

DIRECTORS' MEETINGS

The number of directors' meetings held and number of meetings attended by each of the directors of the Company during their period of office within the financial year are:

	Board Meetings	
Director	**Number Held**	**Number Attended**
K Simich	3	3
J Firth	3	3
P Danchin	3	3
J Hutton	3	2
R Linnell (appointed 15 July 2003)	3	3

Due to its small size, scope and complexity, the Company does not have any formally appointed committees of directors (such as an audit or remuneration committee).

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year consisted of exploration, evaluation and development of the Namakwa Diamond Project in South Africa.

REVIEW AND RESULTS OF OPERATIONS

The consolidated loss after tax attributable to members of the Company for the year ended 30 June 2004 was $1,613,688 (2003: $956,957).

A detailed review of the Company's activities is contained in Section 1 of this Annual Report (see *Review of Operations).*

DIVIDENDS

The directors have not recommended the declaration of a dividend. No dividends were paid or declared during the period.

STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial period were as follows:

- On 10 October 2003, the Company raised $532,500 by issuing 3,550,000 ordinary shares and granted 1,775,000 options for $35,500 pursuant to a placement.
- As settlement for advice provided by a director on the Black Economic Empowerment (BEE) transaction, 650,000 shares were issued on 11 December 2003 at fair value of $143,000.
- At the Annual General Meeting of 26 November 2003, the shareholders approved the grant, for nil consideration, of 4,000,000 options to the directors; 200,000 to an employee of a company providing services to the Company and the grant of 5,000,000 options to New Africa Mining Fund (NAMF).
- On 16 December 2003, 34,263,873 options were granted under a one for five rights issue for consideration of $0.02 per option and 3,500,000 options were granted for nil consideration.
- On 26 February 2004 the Company, by private placement, raised $2,400,000 through the issue of 8,000,000 ordinary shares and granted 4,000,000 options.
- As part of the BEE transaction, New Africa Mining Fund and Zaico Holdings (Pty) Limited acquired a 36% interest in NDC Mining Company (Pty) Ltd, a wholly owned subsidiary of Namakwa Diamond Company NL, thereby reducing the Company's interest from 100% to 64%. Refer to note 19 for full disclosure of the BEE transaction.
- During the course of the financial year, 2,172,848 options were exercised for $437,570 resulting in the issue of 2,172,848 shares.

EVENTS SUBSEQUENT TO BALANCE DATE

On 15 September 2004, the Company announced that it had commenced diamond production from its mine operation on South Africa's west coast following completion of its $1.5 million plant and facilities upgrade and removal of overburden and topsoil for the first two mining blocks.

Subsequent to balance date 503,437 options have been exercised resulting in the issue of 503,437 fully paid ordinary shares for $99,187.

LIKELY DEVELOPMENTS

On 15 September 2004, the consolidated entity commenced stage 1 open pit alluvial diamond mining and processing operations on the Klipvei Karoo Kop 153 and Graauwduinen 152 tenements. Following a commissioning stage the consolidated entity will ramp up activity to a targeted 95,000 carats per annum, based on an initial resource of 411,000 carats. Over the next 12 months, the consolidated entity, using funds from mining operations, plans to enter stage 2 of the exploration program. Stage 2 involves exploring the remaining 97% of the tenements that are not covered within the initial resource.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Remuneration Policy

The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

DIRECTORS' REMUNERATION

Details of the nature and amounts of each major element of the remuneration of each director of the Company and each of the four named officers of the Company and the consolidated entity are:

	Base remuneration and directors' fees	Super contributions	Options issued (i)	Other payments	Total
	$	$	$	$	$
Director					
K Simich (ii)	-	-	62,090	90,000	152,090
J Firth	51,307	-	62,090	-	113,397
P Danchin	20,000	2,004	46,568	-	68,572
J Hutton	24,000	2,160	31,045	-	57,205
R Linnell	36,620	-	46,568	-	83,188

Further details of the remuneration of directors are set out in note 20 of the Financial Statements.

(i) The notional fair value of options, being $0.103 per option, has been calculated as at the grant date based upon the Black Scholes option-pricing model using an exercise price of $0.20, a share price of $0.235 at grant date, a volatility of 50% and a discount of 40% to reflect that the options are not listed. The grant date is the date the options were approved by the shareholders. This model provides a theoretical value of the options with a high volatility resulting in a higher option price. The value disclosed above is not what has been realised and the options may ultimately result in more, less or no value being realised.

(ii) Mr Simich is a director associated with Resource Development Company Pty Ltd (RDC). Other payments were made to RDC for RDC providing advice on corporate, financial and other commercial matters. Refer Note 20 for further details.

Other than the executive directors, the Company had no executive officers during the period.

Options issued to directors and executives during the financial year are disclosed in note 20.

OPTIONS GRANTED TO DIRECTORS AND SENIOR EXECUTIVES

Refer to note 20 for details of movements in options held during the financial year.

DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the Company (as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001), at the date of this report is as follows:

	Ordinary shares	Options
K Simich (i)	9,254,191	7,131,779
J Firth	1,067,817	2,850,533
J Hutton	1,400,150	1.966,316
P Danchin (i)	1,553,000	1,750,000
R Linnell	650,000	750,000

(i) Includes 1,553,000 shares held by Kimberley Diamond Company NL of which Mssrs Simich and Danchin are directors.

UNISSUED SHARES UNDER OPTION

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Number of options	Exercise price $	Type
31 December 2004	585,000	0.25	Unlisted - employee
31 December 2005	915,000	0.15	Unlisted - employee
30 September 2006	58,457,687	0.20	Unlisted
31 December 2006	1,115,000	0.30	Unlisted - employee

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During the course of the financial year, 2,172,848 options were exercised and since the end of the financial year 503,437 options were exercised in exchange for 2,676,285 ordinary shares in the Company.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has entered into deeds of indemnity and access ("Deeds") with each of its Directors and the Company Secretary.

Under these Deeds, the Company indemnifies each director or officer to the maximum extent permitted by the Corporations Act 2001 from liability to third parties (unless the liability arises out of conduct involving lack of good faith), and in successfully defending legal and administrative proceedings and applications for such proceedings. The Company must use its best endeavours to insure a director or officer against any liability, which does not arise out of a conduct constituting a wilful breach of duty or a contravention of the Corporations Act 2001. The Company must also use its best endeavour to insure a director or officer against liability for costs and expenses incurred in defending proceedings whether civil or criminal.

The consolidated entity has not provided any insurance or indemnity for the auditor of the Company or any related body corporate.

ENVIRONMENTAL REGULATIONS

The consolidated entity's exploration and mining activities are subject to South African Mining Laws. Mining and exploration is an industry that has become subject to increasing environmental responsibility and liability. Given the environmental sensitivity of the west coast region of South Africa, the Company conducts its activities in a professional and environmentally conscious manner and in accordance with applicable laws and permit requirements.

The Company has an Environmental Management Program in place for each prospecting and mining permit and is unaware of any breaches of any environmental laws.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in this section of the Annual Report (see *Corporate Governance Statement*).

INSURANCE PREMIUMS

Since the end of the previous financial year, the Company has paid insurance premiums of $26,760 in respect of directors and officers liability and legal expenses, insurance contracts for current directors including executive officers of the Company and directors, executive officers and secretaries of its controlled entities.

Signed in accordance with a resolution of the directors.

K M SIMICH
CHAIRMAN

Dated this 29th day of September 2004

Namakwa Diamond Company

Consolidated Statements of Financial Performance
For The Financial Year Ended 30 June 2004

	Note	Consolidated 2004 $	Consolidated 2003 $	Company 2004 $	Company 2003 $
Other revenue from ordinary activities	4	77,730	65,757	435,118	348,726
Total revenue from ordinary activities		77,730	65,757	435,118	348,726
Administration, corporate, overhead and indirect expenditure		(1,625,059)	(892,035)	(887,712)	(655,572)
Provision for non-recovery of controlled entity loan		-	-	(1,100,266)	(554,728)
Borrowing costs	5	-	(12,391)	-	(12,391)
Other expenses from ordinary activities		(66,359)	(118,288)	(60,828)	(82,992)
Loss from ordinary activities before related income tax expense	5	(1,613,688)	(956,957)	(1,613,688)	(956,957)
Income tax expense relating to ordinary activities	6	-	-	-	-
Net loss attributable to members of the parent entity		(1,613,688)	(956,957)	(1,613,688)	(956,957)
Basic loss per share	8	$0.019	$0.015		
Diluted loss per share	8	$0.019	$0.015		

The statements of financial performance are to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

	Note	*Consolidated* 2004 $	*Consolidated* 2003 $	*Company* 2004 $	*Company* 2003 $
Current assets					
Cash assets	9	3,555,711	479,572	2,796,010	54,004
Receivables	10	180,948	79,156	5,869	15,459
Total current assets		3,736,659	558,728	2,801,879	69,463
Non-current assets					
Receivables	10	589,873	-	6,773,703	6,765,463
Property, plant and equipment	11	2,486,251	1,529,152	12,479	12,100
Exploration, evaluation and development	12	8,152,788	5,214,728	-	-
Total non-current assets		11,228,912	6,743,880	6,786,182	6,777,563
Total assets		14,965,571	7,302,608	9,588,061	6,847,026
Current liabilities					
Payables	13	928,960	560,165	164,201	160,797
Provisions	14	94,790	56,214	-	-
Total current liabilities		1,023,750	616,379	164,201	160,797
Non-current liabilities					
Other liabilities	15	4,517,961	-	-	-
Total non-current liabilities		4,517,961	-	-	-
Total liabilities		5,541,711	616,379	164,201	160,797
Net assets		9,423,860	6,686,229	9,423,860	6,686,229
Equity					
Contributed equity	16	14,144,571	10,649,434	14,144,571	10,649,434
Reserves	18	856,182	44,695	856,182	44,695
Accumulated losses	17	(5,576,893)	(4,007,900)	(5,576,893)	(4,007,900)
Total equity		9,423,860	6,686,229	9,423,860	6,686,229

The statements of financial position are to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2004

		Consolidated		*Company*	
	Note	*2004*	*2003*	*2004*	*2003*
		$	*$*	*$*	*$*
Cash flows from operating activities					
Cash payments in the course of operations		(1,180,795)	(632,427)	(788,339)	(603,797)
Interest received		72,199	30,460	46,224	19,480
Net cash outflow from operating activities	23(a)	(1,108,596)	(601,967)	(742,115)	(584,317)
Cash flows from investing activities					
Payments for exploration, evaluation and development		(2,938,060)	(2,912,124)	-	-
Receipts recovered during the exploration phase		-	671,473	-	-
Payment for environmental bond		(589,873)	-	-	-
Payments for property, plant and equipment		(1,019,143)	(223,749)	(4,587)	(7,698)
Proceeds from sale of property, plant and equipment		5,531	35,297	-	-
Net cash outflow from investing activities		(4,541,545)	(2,429,103)	(4,587)	(7,698)
Cash flows from financing activities					
Proceeds from issue of shares		3,370,070	1,507,500	3,370,070	1,507,500
Proceeds from issue of options		886,879	-	886,879	-
Payments for share issue expenses		(48,630)	(98,519)	(48,630)	(98,519)
Proceeds from borrowings		4,517,961	400,000	-	400,000
Loan to controlled entity		-	-	(719,611)	(2,599,051)
Loan from director related entity		800,000	-	800,000	-
Repayment of loan from director related entity		(800,000)	-	(800,000)	-
Net cash inflow/(outflow) from financing activities		8,726,280	1,808,981	3,488,708	(790,070)
Net increase / (decrease) in cash held		3,076,139	(1,222,089)	2,742,006	(1,382,085)
Cash at the beginning of the year		479,572	1,701,661	54,004	1,436,089
Cash at the end of the year	9	3,555,711	479,572	2,796,010	54,004

The statements of cash flows are to be read in conjunction with the accompanying notes.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general-purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in note 2, are consistent with those of the previous year.

(b) Financial position

The financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2004, the consolidated entity recorded a loss of $1,613,688 (2003: $956,957). At 30 June 2004, the consolidated entity had a net working capital surplus of $2,712,909 (2003: $57,651 deficit).

Subsequent to balance date the consolidated entity has continued to expend funds on capital expenditure relating to construction and preproduction costs of the Stage 1 production facility. This has further reduced working capital. Stage 1 Mining Operations commenced in September 2004.

The cash flow forecast of the consolidated entity anticipates a net cash flow surplus in the 12 months to 30 June 2005. The cash flow forecast is dependent upon the ability of the consolidated entity to achieve its targets and in particular diamond production, diamond prices, anticipated operating costs and estimated foreign exchange rate on Rand to US$ and Rand to A$.

The board believes its cash flow forecast is achievable. If the forecast is not achieved the group may need to supplement its working capital with other funding options which the board believes are achievable. Accordingly, the going concern basis of preparation is considered to be appropriate.

(c) Principles of consolidation

Controlled entities

The consolidated financial report incorporates the assets and liabilities of all entities controlled by Namakwa Diamond Company NL ("the Company") as at 30 June 2004 and the results of all controlled entities for that part of the period then ended that were controlled during the period. Namakwa Diamond Company NL and its controlled entities together are referred to in this financial report as the consolidated entity. Unrealised gains and loses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) or value-added tax (VAT) payable to the taxation authorities.

Sale of goods

Revenues from the sale of production diamonds are recognised when control of the goods passes to the customer. Revenue from the sale of diamonds recovered through exploration and development activities are offset against exploration and development expenditure incurred during the period.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the assets passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(e) Goods and services tax and value-added tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) in Australia and value-added tax (VAT) in South Africa, except where the amount of GST or VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST or VAT included.

Cash flows are included in the statement of cash flows on a gross basis. The GST or VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

(f) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rate of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign entities

The financial statements of foreign controlled entities that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

(g) Borrowing costs

Borrowing costs include interest and establishment costs on loans, trade creditors and finance leases and are expensed as incurred.

(h) Income tax

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax benefit is calculated on the operating loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses, when realisation is virtually certain.

Tax Consolidation

The parent entity is the only Australian company within the consolidated entity. Consequently, the consolidated entity is not affected by the introduction of the Australian tax consolidation regime. Refer to note 6 for the consolidated entity's taxation balances.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares of the Company.

Diluted loss per share is calculated by dividing the net loss attributable to members of the parent entity for the reporting period by the weighted average number of ordinary shares and dilutive options of the Company. Options are considered dilutive when the Company's average share price for the reporting period exceeds the option exercise price and the loss per share is increased.

(j) Acquisition of assets

All assets acquired are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise they are expensed.

Costs relating to the acquisition of new areas of interest are classified as exploration, evaluation and development expenditure or mine properties based on the stage of development reached at the date of acquisition.

(k) Use and revision of accounting estimates

The preparation of the financial report requires estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about varying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(l) Receivables

Receivables are carried at normal amounts due. The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

(m) Investments

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Controlled entities are consolidated as set out in note 19.

(n) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(o) Exploration, evaluation and development expenditure

Exploration and evaluation

Exploration and evaluation expenditure incurred by, or on behalf of, the consolidated entity are accumulated separately for each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and commercial exploitation of the area of interest, or, where exploration and evaluation activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves in, or relating to, the area are continuing.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Exploration, evaluation and development expenditure (Continued)

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward expenditure in relation to that area of interest. When an area of interest is abandoned or the directors decide that it is not commercially viable, any accumulated costs in respect of that area are written off in the financial period the decision is made.

Development

Development costs incurred in preparing the mine for production are carried forward to the extent that these costs are expected to be recouped through the successful exploitation of the Company's mining lease. Development costs will be amortised upon commencement of commercial production. Amortisation will be charged over the economic life of the mine based upon the geological ore reserves and resources expected to be treated.

Costs relating to the removal of waste at the open pit mine will be carried forward to be charged against future production based on the waste to ore ratio over the economic life of the mine.

(p) Recoverable amount of non-current assets valued on the cost basis

The carrying amounts of non-current assets valued on the cost basis, other than exploration and evaluation expenditure carried forward (see note 1(o)), are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(q) Depreciation

Items of property, plant and equipment are depreciated using the straight-line method over their estimated useful lives, taking into account estimated residual values. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation rates used for each class of asset are as follows:

	2004	2003
Property, plant and equipment		
Plant and equipment	20% - 40%	20% - 40%

Assets are depreciated from the date of acquisition or from the time an asset is completed and held ready for use. Depreciation charges are expensed, except to the extent that they are included in the carrying amount of carried forward exploration expenditure.

(r) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. Trade liabilities are normally settled in accordance with the terms of the relevant supplier, which is usually 30 days.

(s) Employee benefits

Wages, salaries and annual leave

Liabilities for employee benefits for wages salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation and payroll tax.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee share and option plans

Where shares or options are issued to employees, including directors, as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

Other shares or options issued to employees, including directors, are recorded in contributed equity and the option premium reserve respectively at the fair value of consideration received, if any. Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise they are expensed. Other administrative costs are expensed.

Superannuation plans

The Company and its controlled entities contribute to several defined contribution superannuation plans. Contributions are recognised as an expense as they are made.

(t) Equity – ordinary shares

Ordinary share capital is recognised at the amount paid up, adjusted for any discount at the date of issue. Details of shares issued are set out in note 16.

(u) Currency

All amounts are stated in Australian dollars unless otherwise stated. Other amounts stated in the accounts are South African Rand (amounts are prefixed R) and American dollars (amounts are prefixed US$).

2 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies.

3 SEGMENT INFORMATION

The Company is principally engaged in exploration for diamonds and development of a diamond mining operation in South Africa. The consolidated entity maintains an administrative office in Western Australia solely to support and promote the exploration and development in South Africa and, consequently, this office is not considered an individual business or geographical segment.

4 REVENUE FROM ORDINARY ACTIVITIES

	Consolidated		*Parent Entity*	
	2004	*2003*	*2004*	*2003*
	$	*$*	*$*	*$*
Other revenues:				
From operating activities				
Interest received – other persons	72,199	30,460	46,224	19,480
Management Fee[(i)]	-	-	388,894	329,246
From outside operating activities				
Proceeds from sale of plant and equipment	5,531	35,297	-	-
Total other revenues	77,730	65,757	435,118	348,726
Total revenue from ordinary activities	77,730	65,757	435,118	348,726

[(i)] Management fee represents a charge by the parent entity for the provision of specified management administration, financial and other designated services to the South African subsidiary, Namakwa Investment Holdings (SA) (Pty) Ltd.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
5 LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX				
Operating loss before income tax has been arrived at after charging/(crediting) the following items:				
Depreciation of exploration plant and equipment	18,820	14,597	4,208	3,317
Depreciation capitalised to exploration	(11,704)	(11,280)	-	-
Total depreciation expense	7,116	3,317	4,208	3,317
Foreign currency translation loss	365,658	56,212	-	-
Net loss/(gain) on disposal of plant and equipment	37,693	(4,801)	-	293
Operating lease rental expense	860	1,341	-	-
Provision for employee benefits	5,308	35,320	-	-
Interest expense	-	12,391	-	12,391

6 TAXATION

No income tax has been provided in the financial statements as the consolidated entity incurred an operating loss and has neither income tax expense nor taxable income for the year.

As at 30 June 2004, the parent entity has estimated carried forward tax losses of $1,455,791 (2003: $942,369). The overseas tax losses of the controlled entities not brought to account is estimated at $2,087,853 (2003: $1,603,189). The benefit of these losses is not being brought to account, as realisation is not certain. The benefit will only be obtained if:

i. the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;
ii. the consolidated entity continues to comply with the conditions for deductibility imposed by the Law;
iii. no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deduction for the losses; and

Overseas tax losses do not include a possible allowance for capital, exploration and evaluation expenditure.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
7 AUDITOR'S REMUNERATION				
Audit services:				
Auditors of the Company – KPMG	65,282	63,623	27,136	22,924
Other services:				
Auditors of the Company – KPMG	7,796	12,758	-	-
	73,078	76,381	27,136	22,924

8 LOSS PER SHARE

i. The basic loss per share for the year ended 30 June 2004 was $0.019 (2003: $0.015).
ii. The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share for the year ended 30 June 2004 was 86,762,439 (2003: 63,387,898).

The Company's potential ordinary shares are not considered dilutive and accordingly diluted earnings per share are the same as basic earnings per share.

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$

9 CASH ASSETS

Current				
Cash at bank	1,232,769	479,572	473,068	54,004
Bank commercial bills	2,322,942	-	2,322,942	-
	3,555,711	479,572	2,796,010	54,004

10 RECEIVABLES

Current				
Prepayments	93,037	-	-	-
Indirect and payroll taxes	71,468	15,459	5,869	15,459
Environmental bond	-	49,239	-	-
Other	16,443	14,458	-	-
	180,948	79,156	5,869	15,459
Non-Current				
Environmental bond	589,873	-	-	-
Loans to controlled entities	-	-	9,852,308	8,743,802
Provision for non-recovery of loan	-	-	(3,078,605)	(1,978,339)
	589,873	-	6,773,703	6,765,463

The ultimate recoverability of loans to controlled entities is dependent upon successful development and commercial exploitation or alternatively, the sale of respective areas of interest held by those controlled entities.

Loans to controlled entities are subordinated against the trade creditors of the controlled entities.

11 PROPERTY, PLANT AND EQUIPMENT

Non-Current				
Plant and equipment – at cost	2,532,066	1,556,148	21,313	16,725
Accumulated depreciation	(45,815)	(26,996)	(8,834)	(4,625)
	2,486,251	1,529,152	12,479	12,100

Reconciliation
A reconciliation of the carrying amounts for each class of property, plant and equipment is set out below.

Plant and equipment				
Carrying amount at the beginning of year	1,529,152		12,100	
Additions	1,019,143		4,587	
Disposals	(43,224)		-	
Depreciation	(18,820)		(4,208)	
Carrying amount at the end of year	2,486,251		12,479	

		Consolidated		Parent Entity	
		2004	*2003*	*2004*	*2003*
		$	*$*	*$*	*$*
12	**EXPLORATION, EVALUATION AND DEVELOPMENT**				
	Costs carried forward in respect of areas of interest in the exploration, evaluation and development phase	8,152,788	5,214,728	-	-
	Reconciliation				
	A reconciliation of the carried forward amount is set out below.				
	Carrying amount at the beginning of the year	5,214,728	2,948,077	-	-
	Expenditure during the period	2,938,060	2,912,124	-	-
	Exploration acquired through the issue of shares	-	26,000	-	-
	Revenue from the sale of rough diamonds recovered from exploration activities	-	(671,473)	-	-
	Carrying amount at the end of the year	8,152,788	5,214,728	-	-

The ultimate recovery of mineral exploration expenditure carried forward is primarily dependent upon successful development and commercial exploitation or, alternatively, the sale of the respective areas of interest.

13	**PAYABLES**				
	Current				
	Trade creditors and accruals	928,960	560,165	164,201	160,797
14	**PROVISIONS**				
	Current				
	Employee benefits	94,790	56,214	-	-
15	**OTHER LIABILITIES**				
	Non-Current				
	New Africa Mining Fund loan	4,517,961	-	-	-

Refer to note 19 for full disclosure of the Black Economic Empowerment transaction that included the loan noted above.

16 CONTRIBUTED EQUITY

(a) Issued and paid up capital

95,054,374 (2003: 80,681,526) ordinary fully paid shares	14,144,571	10,649,434

16 CONTRIBUTED EQUITY (Continued)

(b) Movement in issued capital

	2004 No. of shares	2004 $	2003 No. of shares	2003 $
Balance at beginning of financial year	80,681,526	10,649,434	56,590,227	8,802,062
Ordinary shares issued:				
Issue pursuant to a placement at 15 cents per share	3,550,000	532,500	-	-
Issue to a director at 22 cents per share	650,000	143,000	-	-
Exercise of options for ordinary shares at 20 cents per share	2,112,848	422,570	-	-
Exercise of options for ordinary shares at 25 cents per share	60,000	15,000	-	-
Issue pursuant to a placement at 30 cents per share	8,000,000	2,400,000	-	-
Issue pursuant to a Waiver and Termination Agreement for the acquisition of exploration interests at 13 cents per share	-	-	200,000	26,000
Issue at 10 cents per share	-	-	8,250,000	825,000
Issue at 7 cents per share	-	-	9,750,000	682,500
Issue following conversion of loan funds (including interest) to equity in accordance with the Memorandum of Loans at 7 cents per share	-	-	5,891,299	412,391
Transfer from option premium reserve	-	30,697	-	-
Share issue expenses	-	(48,630)	-	(98,519)
	95,054,374	14,144,571	80,681,526	10,649,434

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

(c) Options over shares

Exercise Date		*Parent Entity 2004* No. of options	*Parent Entity 2004* Exercise price $	*Parent Entity 2003* No. of options	*Parent Entity 2003* Exercise price $
On or before 31 July 2003	(i)	-	-	25,592,667	0.40
On or before 31 December 2004	(ii)	585,000	0.25	830,000	0.25
On or before 31 December 2005	(iii)	945,000	0.15	990,000	0.15
On or before 30 September 2006	(iv)	58,931,124	0.20	-	-
On or before 31 December 2006	(v)	1,115,000	0.30	-	-

(d) Movement in options over shares

The following options over ordinary shares were issued or lapsed during the year:

(i) All 31 July 2003 options lapsed.
(ii) 185,000 of the 31 December 2004 options lapsed and 60,000 options were exercised.
(iii) 45,000 of the 31 December 2005 options lapsed.
(iv) During the year, to raise working capital, the Company issued 61,043,972 unlisted options expiring 30 September 2006 as follows:
- 1,775,000 options issued 10 October 2003 for $0.02 consideration per option;
- 9,200,000 options granted 11 December 2003 for nil consideration of which 4,000,000 were granted to directors of the Company, 200,000 to an employee of a company providing services to the Company and 5,000,000 were granted to New Africa Mining Fund;
- 34,263,873 options were issued on 16 December 2003 under a rights issue with one option for every five shares held for $0.02 consideration per option. Of this 2,143,529 options were allotted to directors of the Company;
- 8,305,099 options were issued to directors of the Company on 16 December 2003 for $0.02 consideration per option;
- 3,500,000 options granted 16 December 2003 for nil consideration to various consultants, advisors and brokers.
- 4,000,000 options granted 26 February 2004 for nil consideration pursuant to a placement.
- 2,112,848 of the 61,043,972 unlisted options expiring 30 September 2006 were exercised into ordinary shares during the course of the year injecting $422,570 into the Company.

(v) Pursuant to the Company's Employee Option Plan, the Company granted 1,115,000 unlisted options expiring 31 December 2006 to various employees and contractors for nil consideration. The options were issued effective from 1 January 2004 and the exercisable interest of such options is subject to a period of continuous employment or engagement with the Company.

17 ACCUMULATED LOSSES

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	$	$	$	$
Accumulated loss at the beginning of the year	(4,007,900)	(3,050,943)	(4,007,900)	(3,050,943)
Net loss attributable to members of the parent entity	(1,613,688)	(956,957)	(1,613,688)	(956,957)
Expiry of options transferred from option premium reserve	44,695	-	44,695	-
Accumulated loss at the end of the year	(5,576,893)	(4,007,900)	(5,576,893)	(4,007,900)

18 RESERVES

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Option premium reserve	856,182	44,695	856,182	44,695
Movements during the year				
Balance at beginning of year	44,695	44,695	44,695	44,695
Expiry of options transferred to accumulated losses	(44,695)	-	(44,695)	-
Exercise of options transferred to share capital	(30,697)	-	(30,697)	-
Issue of 44,343,972 options at 2 cents each	886,879	-	886,879	-
Balance at end of year	856,182	44,695	856,182	44,695

Nature and purpose of reserve

The option premium reserve arose upon the granting of options for consideration. The reserve is reduced to the extent that options are exercised by their expiry date or forfeited.

19 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Name	*Abbrev*	*Country of incorporation*	*Interest* 2004	*Interest* 2003
Parent entity				
Namakwa Diamond Company NL	NDC			
Controlled entities				
Namakwa Investment Holdings (SA) (Pty) Ltd	NIH	South Africa	100%	100%
NDC Mining Company (Pty) Ltd	NDCM	South Africa	64%	100%
Rency (Pty) Ltd	Rency	South Africa	64%	100%
Geelwal Karoo Diamante (Pty) Ltd	Geelwal	South Africa	64%	100%
Namakwa West Coast Holdings (Pty) Ltd	NWCH	South Africa	100%	100%

Black Economic Empowerment Transaction

On 17 October 2003 the South African subsidiaries of Namakwa Diamond Company NL entered into a Black Economic Empowerment (BEE) transaction in accordance with South Africa's broad based Socio-Economic Empowerment Charter.

The BEE transaction was effected by a shareholders agreement between NDC, its subsidiaries NIH and NDCM, New Africa Mining Fund (NAMF) and Zaico Holdings Pty Limited (Zaico). The agreement resulted in a dilution of NDC's effective interest in NDCM and the formalisation of how funds advanced by the shareholders be treated.

Transfer of subsidiaries

As part of the shareholder agreement NDCM acquired the entire issued share capital and the shareholders loans of Rency and Geelwal from NIH.

Equity Interest

Under the shareholder agreement NDCM issued 14,900 ordinary shares to NIH, NAMF and Zaico resulting in:
- NAMF acquiring a direct 10% interest in NDCM for $306; and
- Zaico acquiring a 26% interest in NDCM for $796.

Consequently, the interest in NDCM is held as to NIH 64%, NAMF 10% and Zaico 26%. NDCM owns 100% of Rency and Geelwal.

19 PARTICULARS IN RELATION TO CONTROLLED ENTITIES (Continued)

Loans

NAMF funded $4,517,961(R19.57 million) to NDCM during the year:
- R10 million for working capital to complete stage 1 of the feasibility study and to commence initial development activities; and
- R9.57 million upon the issue of the mining licence to further development activities.

NDCM was indebted to NIH R37.07 million at 30 June 2004 as a result of funding to date of NDCM's exploration, feasibility and development activities.

As part of the shareholders agreement monies funded by NIH and NAMF and future funding by NDCM shareholders is treated as unsecured subordinated interest free uncallable shareholder loans.

There are no fixed terms for repayment of the loans.

The loans will only be repaid if there are sufficient funds in NDCM to cover all existing commitments and provisions for foreseeable costs.

Conversion of shares in NDCM to shares in NDC

NAMF and Zaico have the right to convert their shares in NDCM, at fair value, into shares of NDC subject to:
- NDC shareholders' approval;
- Compliance with all applicable statutes and regulations in South Africa and Australia; and
- Zaico maintaining sufficient interest in NDCM to satisfy the Broad-Based Black Economic Empowerment Act.

20 EMPLOYEE BENEFITS

	Note	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
Aggregate liability for employee benefits, including on-costs:					
Current					
Provisions	14	94,790	56,214	-	-
Number of employees at year end		33	33	-	-

(a) Equity-based plans

Employee share option plan

The Company has an employee share option plan that was approved at the annual general meeting held on 31 October 2001.

The plan can be used at the discretion of the board to provide incentives to employees, contractors, directors and others that fit within the definitions of the plan.

Each option is convertible into one ordinary share. The exercise price of the options at the time of issue is based on a premium above the market price of the underlying ordinary shares at the date of grant. All options expire three years from their date of issue and vest in four equal instalments based on the period of continuous employment or engagement with the Company. Options are issued for no consideration.

There are no voting or dividend rights attached to the options. Voting rights will be attached to the issued ordinary shares when the options have been exercised.

20 EMPLOYEE BENEFITS (Continued)

Details of options held, during the year, under the Company's employee share option plan are set out below:

2004

Effective grant date and exercise price	*Exercise date (on or after) and expiry date*	*Number at 1 July 2003*	*Granted*	*Exercised*	*Lapsed*	*Number at 30 June 2004 On issue*	*Vested*
1 January 2004 $0.30	1 July 2004 (i) 31 December 2006	-	1,115,000	-	-	1,115,000	-
1 January 2003 $0.15	1 July 2003 (i) 31 December 2005	990,000	-	-	(45,000)	945,000	472,500
1 January 2002 $0.25	1 July 2002 (i) 31 December 2004	830,000	-	(60,000)	(185,000)	585,000	585,000
		1,820,000	1,115,000	(60,000)	(230,000)	2,645,000	1,057,500

2003

Effective grant date and exercise price	*Exercise date (on or after) and expiry date*	*Number at 1 July 2002*	*Granted*	*Exercised*	*Lapsed*	*Number at 30 June 2003 On issue*	*Vested*
1 January 2003 $0.15	1 July 2003 (i) 31 December 2005	-	990,000	-	-	990,000	-
1 January 2002 $0.25	1 July 2002 (i) 31 December 2004	830,000	-	-	-	830,000	415,000
		830,000	990,000	-	-	1,820,000	415,000

(i) Under the terms of employee options, options become exercisable in 25% lots at the end of each six-month period of service. The exercise date shown represents the first exercisable date of the options granted. The balance of options granted has not vested.

No amounts have been recognised in the financial statements of the Company and consolidated entity in relation to employee share options. All employee options granted are unlisted.

The market price of Namakwa Diamond Company NL's shares (ASX: NDC) at 30 June 2004 was $0.27.

(b) Remuneration of specified directors and specified executives

Competitive remuneration levels are set to attract and retain appropriately qualified and experienced directors and senior executives. The board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration.

Nature and amount of remuneration for the year ended 30 June 2004

	Primary	Post employment	Equity	Other	
	Salary and directors' fees	*Super-annuation*	*Value of options (i)*	*Other payments*	*Total*
	$	*$*	*$*	*$*	*$*
Directors					
Non-executive					
P Danchin	20,000	2,004	46,568	-	68,572
J Hutton	24,000	2,160	31,045	-	57,205
R Linnell	36,620	-	46,568	-	83,188
	80,620	4,164	124,181	-	208,965
Executive					
K Simich (ii)	-	-	62,090	90,000	152,090
J Firth	51,307	-	62,090	-	113,397
	51,307	-	24,180	90,000	265,487

(i) The notional fair value of options, being $0.103 per option, has been calculated as at the grant date based upon the Black Scholes option-pricing model using an exercise price of $0.20, a share price of $0.235 at grant date, a volatility of 50% and a discount of 40% to reflect that the options are not listed. The grant date is the date the options were approved by the shareholders. This model provides a theoretical value of the options with a high volatility resulting in a higher option price. The value disclosed above is not what has been realised and the options may ultimately result in more, less or no value being realised

(ii) Mr Simich is a director associated with Resource Development Company Pty Ltd (RDC). Other payments were made to RDC for RDC providing advice on corporate, financial and other commercial matters.

20 EMPLOYEE BENEFITS (Continued)

Nature and amount of remuneration for the year ended 30 June 2003

	Primary	Post employment	Equity	Other	
	Salary and directors' fees	*Super-annuation*	*Value of options (i)*	*Payments*	*Total*
	$	*$*	*$*	*$*	*$*
Directors					
Non-executive					
P Danchin	19,999	1,832	116	-	21,947
J Hutton	24,182	2,160	-	-	26,342
	44,181	3,992	116	-	48,289
Executive					
K Simich (ii)	-	-	-	90,000	90,000
J Firth	57,263	-	-	-	57,263
	57,263	-	-	90,000	147,263

(i) The fair value of options has been calculated at the grant date based upon the Black Scholes option-pricing model.
(ii) Mr Simich is a director associated with Resource Development Company Pty Ltd (RDC). Other payments were made to RDC for RDC providing advice on corporate, financial and other commercial matters.

(c) Movement in the directors and specified executives' share holdings during their period of office

	Held at 1 July 2003	*Held at 15 July 2003*	*Purchased / granted in lieu*	*On exercise of options*	*Sold*	*Held at 30 June 2004*
Directors						
Non-executive						
P Danchin (i)	2,350,000	N/A	-	-	(797,000)	1,553,000
J Hutton	2,050,150	N/A	-	-	(650,000)	1,400,150
R Linnell (ii)	N/A	-	650,000	-	-	650,000
	4,400,150	-	650,000	-	(1,447,000)	3,603,150
Executive						
K Simich (i)	10,607,231	N/A	75,000	-	(1,428,040)	9,254,191
J Firth	1,055,817	N/A	12,000	-	-	1,067,817
	11,663,048	-	87,000	-	(1,428,040)	10,322,008

(i) Included within each of the shareholdings of Mr Simich and Mr Danchin are the full amount of shares held by Kimberley Diamond Company NL ("KDC"). Mr Simich and Mr Danchin are directors of KDC.

KDC holdings:

At 1 July 2003	2,350,000
Sold during the year	797,000
At 30 June 2004	1,553,000

(ii) Appointed a director 15 July 2003. Shares were granted as consideration for consultancy services provided, refer note 20(e).

(d) Movement in the directors and specified executives' options holdings during their period of office

	Held at 1 July 2003 (i)	*Held at 15 July 2003 (i)*	*Granted (ii)*	*Purchased (iii)*	*Exercised*	*Lapsed (i)*	*Held at 30 June 2004*
Directors							
Non-executive							
P Danchin	1,000,000	N/A	750,000	1,000,000	-	(1,000,000)	1,750,000
J Hutton	1,135,736	N/A	500,000	1,466,316	-	(1,135,736)	1,966,316
R Linnell	N/A	-	750,000	-	-	-	750,000
	2,135,736	-	2,000,000	2,466,316	-	(2,135,736)	4,466,316
Executive							
K Simich	4,577,243	N/A	1,000,000	6,131,779	-	(4,577,243)	7,131,779
J Firth	1,639,370	N/A	1,000,000	1,850,533	-	(1,639,370)	2,850,533
	6,216,613	-	2,000,000	7,982,312	-	(6,216,613)	9,982,312

(i) Options expiring 31 July 2003 at an exercise price of $0.40.
(ii) Options expiring 30 September 2006 at an exercise price of $0.20 for no consideration.
(iii) Options expiring 30 September 2006 at an exercise price of $0.20 purchased for a consideration of $0.02 per option.

20 EMPLOYEE BENEFITS (Continued)

(e) Other transactions with the company or its controlled entities

A number of specified directors and specified executives, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms' length basis.

The aggregate amounts recognised during the year relating to specific directors, specific executives and their personally related entities were as follows:

		Expense		*Current Liability*	
	Note	*2004*	*2003*	*2004*	*2003*
		$	*$*	*$*	*$*
General corporate, financial, accounting, secretarial, management services and office accommodation	(i)	182,923	181,145	46,274	31,240
Rental of office, plant and equipment	(ii)	135,446	95,438	-	-
Consultancy for the Black Economic Empowerment transaction	(iii)	143,000	-	-	-
Geological and marketing services	(iv)	38,002	41,167	6,334	41,167

(i) Mr Simich is a director associated with Resource Development Company Pty Ltd (RDC). During the course of the reporting period, RDC and its subsidiary company provided through its permanent team of 9 professionally qualified and administrative personnel, general corporate, financial, accounting, secretarial, management services and office accommodation to the Company.

(ii) Mr Firth is the principal of Firth International (Pty) Ltd a company that rented office, plant and equipment to a controlled entity.

(iii) Mr Linnell was issued 650,000 ordinary shares at a fair value of $143,000 for consulting services provided on the Black Economic Empowerment transaction, refer note 16.

(iv) Mr Danchin provided technical consulting on the geology and market development of the Company's South African diamond project as a director and shareholder of Peter Danchin Resources Consultant Pty Ltd.

Loans

During the year Kimberley Diamond Company NL, a company in which Messrs Simich and Danchin are directors, loaned $800,000 to the Company on normal terms and conditions including interest. The loan was repaid during the year.

21 NON-DIRECTOR RELATED PARTY DISCLOSURES

The classes of non-director related parties comprise only the controlling entity of the Company and its wholly owned controlled entities as disclosed in note 19.

Transactions

A loan totalling $9,852,308 (2003: $8,743,802) represents funds remitted to Namakwa Investment Holdings (SA) (Pty) Ltd for the acquisition of mining leases and to meet exploration, evaluation, development and administration costs in South Africa. The loan is unsecured and interest free.

A management fee of $388,894 (2003: $329,246) was charged to Namakwa Investment Holdings (SA) (Pty) Ltd by the parent entity for the provision of management, administration and financial services by the parent entity.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
22 COMMITMENTS FOR EXPENDITURE				
(a) Mineral tenement leases				
In order to maintain current rights of tenure to exploration tenements, the consolidated entity is required to outlay annual prospecting fees. These commitments are subject to re-negotiation upon expiry of the prospecting permits. These commitments are not provided for in the financial statements and are payable:				
Not later than 1 year	7,963	6,144	-	-
Later than 1 year but not later than 2 years	6,863	5,922	-	-
Later than 2 years but not later than 5 years	2,731	-	-	-
	17,557	12,066	-	-

The commitment for this expenditure reduces if the tenements are relinquished by the consolidated entity.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
(b) Capital expenditure commitments				
Plant and equipment	234,164	-	-	-

23 NOTES TO THE STATEMENTS OF CASH FLOWS

Refer to note 9 for the reconciliation of cash.

	Consolidated 2004 $	Consolidated 2003 $	Parent Entity 2004 $	Parent Entity 2003 $
(a) Reconciliation of loss from ordinary activities to net cash outflow from operating activities				
Loss from ordinary activities	(1,613,688)	(956,957)	(1,613,688)	(956,957)
Adjusted for:				
Non-cash items				
Shares issued in lieu of services	143,000	-	143,000	-
Shares issued in lieu of interest	-	12,391	-	12,391
Amounts set aside for provisions	5,308	35,320	-	-
Provision for non-recovery of loan to subsidiary	-	-	1,100,266	554,728
Loans written-off	-	5,545	-	5,545
Management fee	-	-	(388,894)	(329,246)
Depreciation	7,116	3,317	4,208	3,317
Financing / investing items				
Loss on sale of non current asset	37,693	-	-	-
Changes in operating assets and liabilities				
(Increase)/decrease in inventories	-	1,991	-	-
(Increase)/decrease in receivables	(101,792)	49,394	9,590	44,420
Increase/(decrease) in creditors	413,767	247,032	3,403	81,485
Net cash outflow from operating activities	(1,108,596)	(601,967)	(742,115)	(584,317)

(b) Non-cash investing and financing activities

R Linnell was issued 650,000 ordinary fully paid shares with a fair value of $143,000 during the year as consideration for consultancy services provided, refer note 20(e).

24 FINANCIAL INSTRUMENTS

(a) Interest rate

The consolidated entity's exposure to interest rate risk and the weighted average interest rate is set out below:

2004	Note	Weighted Average Interest %	Floating Interest Rate $	Fixed Rate $	Non-interest bearing $	Total $
Financial assets						
Cash	9	4.93	3,555,711	-	-	3,555,711
Receivables	10		-	-	770,821	770,821
Total financial assets			3,555,711	-	770,821	4,326,532
Financial liabilities						
Payables	13		-	-	928,960	928,960
Provisions	14		-	-	94,790	94,790
Other liabilities	15		-	-	4,517,961	4,517,961
Total financial liabilities			-	-	5,541,711	5,541,711

2003	Note	Weighted Average Interest %	Floating Interest Rate $	Fixed Rate $	Non-interest bearing $	Total $
Financial assets						
Cash	9	8.54	479,080	-	492	479,572
Receivables	10		-	-	79,156	79,156
Total financial assets			479,080	-	79,648	558,728
Financial liabilities						
Payables	13		-	-	560,165	560,165
Provisions	14		-	-	56,214	56,214
Total financial liabilities			-	-	616,379	616,379

(b) Net fair values

Recognised financial assets and liabilities
The financial assets and liabilities included in current assets and current liabilities approximate net fair value.

Unrecognised financial assets and liabilities
There are no unrecognised financial assets and financial liabilities at balance date.

(c) Credit risk exposures

Credit risk represents the loss that would be incurred if counterparties fail to perform as contracted.

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets, net of any provision for doubtful debts, as indicated in Note 24(a).

The consolidated entity minimises credit risk by holding cash in reputable banks and purchasing from approved suppliers.

(d) Foreign exchange risk exposure

The consolidated entity is exposed to variations in the South African Rand whilst the Company continues to fund its controlled entities. The Company does not use derivatives to hedge this risk.

At 30 June 2004 the following amounts are denominated in South African Rand that have not been hedged:

Cash	$759,701
Current receivables	$175,079
Current payables	$764,760

The Company is exposed to variations in the American dollar when it sells diamonds.

25 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

For reporting periods beginning on or after 1 January 2005, reporting entities must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. Namakwa Diamond Company NL will adopt IFRS for the first time when preparing its half-year report for the six months ending 31 December 2005.

Namakwa Diamond Company NL will manage the transition to IFRS, in preparation for half-year reporting on 31 December 2005, by a three-step process:

1. Assessment and planning phase
   The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.
2. Design phase
   The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to manage the transition to IFRS.
3. Implementation phase
   The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB 1 as it progresses through its transition to IFRS.

The Company has not commenced its conversion process. This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs that may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short time frame between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- The treatment of exploration expenditure under IFRS is uncertain. However, it is possible that exploration expenditure may need to be written off.
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash generating units have been impaired.
- The present value of total estimated rehabilitation provisions must be provided in full with a corresponding asset. The provision is increased annually for the impact of discounting and the asset is amortised.
- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

26 SUBSEQUENT EVENTS

On 15 September 2004, the Company announced that it had commenced diamond production from its mine operation on South Africa's west coast following completion of its $1.5 million plant and facilities upgrade and removal of overburden and topsoil for the first two mining blocks.

Subsequent to balance date 503,437 options have been exercised resulting in the issue of 503,437 fully paid ordinary shares for $99,187.

In the opinion of the directors of Namakwa Diamond Company NL:

(a) the financial statements and notes, set out on pages 10 to 30 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with the Accounting Standards and the Corporations Regulations; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at West Perth this 29th of September 2004.

Signed in accordance with a resolution of the directors:

K M SIMICH
CHAIRMAN

KPMG

Independent audit report to members of Namakwa Diamond Company NL

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 both Namakwa Diamond Company NL (the "Company") and the Consolidated Entity, for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during that 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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Independence

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

KPMG

Audit opinion

In our opinion, the financial report of Namakwa Diamond Company NL is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

KPMG

T R HART
Partner

Perth
30 September 2004