



**QUARTERLY REPORT  
FOR THE PERIOD ENDED 30 JUNE 2006**

**ASX CODE : NDC & NDCO**

**NAMAKWA DIAMOND COMPANY NL ABN 77 085 806 284**

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## HIGHLIGHTS

### Project Development

- Namakwa secures a unique opportunity to participate in the next stage of exploration of a significant new diamond discovery within Australia's rich Ellendale Diamond Field through an agreement with TSX-listed diamond explorer, Caldera Resources Inc.
- Agreement to restructure existing ownership of Caldera's Ellendale East and Ellendale South projects and establish a new joint venture with Namakwa, supported by its major shareholder, Blina Diamonds NL.
- Mr Ron Winston, of New York's Harry Winston, a highly regarded and influential figure in the international diamond industry, agrees to relinquish his rights to the Ellendale Projects in exchange for shares in Namakwa and Blina.
- Namakwa to have the right to earn a 51% interest in the projects by funding exploration, with Blina to conduct all exploration and sampling for cost plus 8%.
- Namakwa to take up a placement of shares and warrants in Caldera amounting to an aggregate 19.9% stake, with the right to maintain its interest by participating in future equity issues.

### Exploration Projects

- Namakwa appointed as independent contractor and operator of high-grade Camutue Associated Diamond Deposits in north-eastern Angola's Lunda Norte Province.
- Works, capital and operating program finalised to recommence diamond production at Camutue, to be funded by Tecmad – Mining Services SARL, with Namakwa to receive a management fee of either 20% of net cash flow or minimum US\$100,000 per month.
- Wide-spaced drilling program consisting of a total of 3,064 metres completed over the 5 highest priority AEM anomalies at the Namakwa Project on the West Coast of South Africa. Some positive features identified, awaiting geophysical interpretation.
- First phase on-ground mapping completed at the Jequitinhonha Diamond Project in Brazil, with drilling scheduled to commence in September 2006, subject to budget approval.
- Blina Diamonds to commence exploration at the Ellendale South and Ellendale East Projects in the September Quarter on behalf of the Caldera Joint Venture between Namakwa and Caldera Resources Inc.

### Corporate

- 1-for-1 non-renounceable entitlements issue completed, raising a total of \$4.3 million before costs, managed by Argonaut Securities Pty Ltd.

## 1.0 OVERVIEW

During the Quarter, Namakwa continued to progress the development of its international asset portfolio, securing the opportunity to participate in one of the most significant new diamond discoveries in Australia's East Kimberley region through a joint venture agreement with TSX-listed diamond explorer, Caldera Resources Inc.

Other highlights included the finalisation of a comprehensive Operating Agreement for the Camutue Associated Deposits in Angola under which Namakwa has been appointed as the operator of this project to manage the re-commencement of diamond production. This represents an important strategic opportunity for the Company in one of the world's most prolific diamond provinces. Exploration programs also commenced at the Namakwa and Swartzsand Projects in South Africa and the Jequitinhonha Project in Brazil.

## 2.0 PROJECT AND BUSINESS DEVELOPMENT

### 2.1 Caldera Joint Venture

During the quarter, Namakwa finalised an agreement with TSX-listed diamond explorer, Caldera Resources Inc. (TSX: CDR), to enter into farm-in joint ventures to earn up to a 51% interest in Caldera's Ellendale East and Ellendale South Projects. These tenements – which are located in close proximity to the Ellendale diamond mine in northern Western Australia, in the heart of one of the world's most prolific diamond fields – contain significant new lamproite discoveries.

Under the agreement, the existing ownership of the Ellendale East and Ellendale South Projects will be restructured prior to new Joint Venture Agreements being entered into between Namakwa and Caldera. The Ellendale East Project is currently subject to a farm-in joint venture between Caldera and Mr Ron Winston, Chairman of long-established New York-based international diamond house Harry Winston, under which Mr Winston can earn a 60% interest in the project by funding ongoing exploration expenditure. Mr Winston and Caldera are joint 50:50 contributing partners in the Ellendale South Project.

Subject to the grant of shareholder and other regulatory approvals, Namakwa will issue 5 million fully-paid Namakwa shares to Mr Winston or his nominee and will procure that its major shareholder, Blina Diamonds NL, issues 500,000 fully-paid Blina shares to Mr Winston or his nominee in return for Mr Winston relinquishing all rights and interests held in the Ellendale East and Ellendale South Projects. As a result of this transaction, Mr Winston, who is a highly regarded and influential figure in the international diamond industry, will become a strategic shareholder in both Namakwa and Blina.

Subject to the issue of Namakwa and Blina shares to Mr Winston, Namakwa will enter into two Joint Venture Agreements, respectively covering the Ellendale East and Ellendale South Projects, giving Namakwa the right to earn a 51% interest in each project under different commercial terms and conditions.

At Ellendale East, Namakwa will have the right to earn a 51% interest by:

- spending A\$5 million on exploration over a 3-year period, of which A\$1.5 million is intended to be expended during the 2006 and 2007 field seasons, including on large-diameter drilling utilising a Bauer BG 20 rig if Namakwa considers this to be warranted; or

- in lieu of this, paying to Caldera 49% of that portion of its earn-in exploration commitment not yet spent on the tenements at the time.

At Ellendale South, Namakwa will have the right to earn a 51% interest by:

- spending A\$1.5 million on exploration over a 3-year period from the date on which the tenements are granted; or
- in lieu of this, paying to Caldera 49% of that portion of its earn-in exploration commitment not yet spent on the tenements at the time.

Namakwa will have the right to relinquish its rights in relation to both projects at any stage during the earn-in period, in which case the joint ventures will terminate and all data accumulated will be handed back to Caldera. Namakwa will manage and be responsible for the development of all work programs on behalf of each joint venture and for the funding of all joint venture expenditure until it has earned its 51% interest. Mr Ron Winston will have the right to buy, at fair market value, 30% of all run-of-mine production of diamonds produced by both joint ventures from the Ellendale East and Ellendale South tenements.

Namakwa intends to procure the agreement of Blina Diamonds to conduct all exploration, drilling and any processing of samples for both joint ventures at cost plus 8% during the earn-in period, leveraging off Blina's established exploration team, infrastructure and processing facilities in the Ellendale Field.

In February this year, Caldera announced the discovery of up to 6 new lamproite pipes within the Ellendale East Project, which is located some 25 kms along strike from the Ellendale 4 mine. One large target, of in excess of 200 hectares, has similar dimensions to those of the Ellendale 4 and 9 pipes currently being mined by Kimberley Diamond Company. Geophysical modelling of this target indicates a body with large depth extent. Volcanoclastic quartz tuff, which is one of the predominant diamond bearing rocks in the Ellendale Lamproite Field has been identified at six of the targets drilled to date by Caldera within the Ellendale East tenement. Caldera's work has established a significant southern extension of the Ellendale Field as a potential diamond bearing entity in its own right.

## **2.2 Placement in Caldera Resources**

As part of the agreement, Namakwa will also subscribe for a placement of 2.5 million fully-paid Caldera shares at a price of C\$0.10 each, representing a total investment of C\$250,000. In addition, Caldera will, subject to satisfaction of regulatory conditions, issue 19.7 million new warrants to Namakwa exercisable and convertible into common Caldera shares such that the aggregate of the placement shares and warrants would give Namakwa a stake of 19.9% of the entire issued capital of Caldera on completion of that exercise or conversion, as applicable.

The new warrants will each be exercisable or convertible into one fully paid common share in the issued capital of Caldera Inc., on payment of C\$0.15 each. Namakwa will have the right to participate in any future equity issues by Caldera to maintain its 19.9% interest. The transaction and the placement and issue of warrants, including the right for Namakwa to maintain its equity interest, are all subject to relevant shareholder and regulatory approvals and the relevant listing rules and regulations of the Toronto Stock Exchange.

### 3.0 EXPLORATION PROJECTS

#### 3.1 Camutue Project – Angola

*In December 2005, Namakwa signed a Memorandum of Understanding (MOU) giving it exclusive rights to evaluate and potentially develop and mine under contract the highly sought-after Camutue Associated Diamond Deposits located in north-eastern Angola's Lunda Norte Province. The MOU was concluded with a view to Namakwa subsequently negotiating an agreement enabling it to explore and potentially acquire an interest in the nearby cluster of up to nine highly prospective kimberlite pipes.*

During the quarter, Namakwa signed an Operating Agreement with Angolan-based Tecmad – Mining Services SARL for its appointment as an independent contractor and operator to manage the planned recommissioning of the Camutue Associated Diamond Deposits. This agreement is expected to lead to the re-establishment of mining operations at Camutue.

The comprehensive operating agreement encompasses the proposed implementation of a detailed development and operating plan for the Camutue Associated Diamond Deposits developed by Namakwa over the past 6 months. This incorporates an agreed work program, capital and operating budget and production schedule.

The Camutue Project is located some 10 kms east of the town of Lucapa in the Lunda Norte Province of Angola and comprises the Camutue East, Camutue West and Caixepa Pipes. Tecmad is entitled to a 60% participation in the profits of the operations of the Concession under a consortium agreement with Angola's State-owned diamond mining company, Endiama E.P. Under the agreement, Namakwa has been appointed as an independent contractor and operator to manage all aspects of mining the high-grade Camutue Associated Deposits, including:

- design and implementation of all required modifications to the existing on-site processing plant and associated infrastructure, including procurement of equipment;
- mobilisation to site and management of mining operations as agreed between the parties;
- management and supervision of all activities relating to run-of-mine production including mining, loading, hauling, screening, processing, stockpiling and storage, as well as the weighing, sampling and determination of diamond content;
- conducting exploration within the Camutue Concession Area insofar as this is relevant for the development and mining of the Camutue Associated Deposits; and
- management and organisation of all earthmoving activities, including rehabilitation, through the use of a local contractor, Terra Plan.

All capital and operating costs in relation to the operating agreement and contained within the agreed Capital and Operating Budgets will be to the account of Tecmad. In addition, provided Namakwa has adequately supervised, managed and/or clearly instructed the mining contractor, and has done so in a conscientious, professional and/or non-negligent way, Namakwa will not be liable for any losses of any kind, or any delays or costs, or increases in costs, that may occur as a direct or indirect consequence of any act or omission by the contractor.

Tecmad will, at its own cost, assist Namakwa with logistical issues, provide office and residential accommodation for Namakwa's employees and contractors in Luanda and pay any government royalties and any other such costs which may become payable in relation to preserving the Camutue Concessions.

In consideration for its services as independent contractor and manager, Namakwa will receive a management fee of either 20% of net monthly cash flow from the re-commissioned Camutue operations or a monthly fee of US\$100,000 (whichever is greatest). The operating agreement will remain in force for an initial term of one year, and will be reviewed by the parties in good faith two months prior to the end of this initial term.

The operating agreement incorporates an initial production plan which envisages the extraction of in excess of 100,000 carats of diamonds over a 16-month period, with processing to be carried out using the existing Dense Media Separation (DMS) diamond production plant located on site. Tecmad has to date invested in excess of US\$10 million on plant and equipment at the Camutue Project, including on construction of a new Bateman 50 tonne per hour (tph) DMS plant. The existence of a modern processing plant and existence of mining and associated infrastructure underpins a relatively rapid development time for the Project.

Namakwa has conducted extensive technical due diligence on the project, including a review of the volume of high-grade alluvial material potentially available for mining. This review estimated, as a base case, that approximately 286,000m<sup>3</sup> of material will be extracted over the initial 16-month period.

The Camutue Concessions also include a kimberlite cluster of no less than nine pipes, of which five have been shown to be diamondiferous and two have been mined historically to some extent. The Camutue-west kimberlite was discovered in 1958 and was mined between 1961 and 1974, during which a total of 2.1 million m<sup>3</sup> of material was mined resulting in the recovery of 33,673 carats at an average mined grade of 9 carats per hundred tonnes (cpht). The largest stone found weighed 95.41 carats and the pipe became known for producing a high proportion of large stones.

While the kimberlite pipes are not included in the Operating Agreement, the terms of the previously announced MOU envisage that Namakwa will have the opportunity, after demonstrating its technical capabilities through mining of the Camutue Associated Deposits, to negotiate an agreement to explore and potentially acquire an interest in the nearby kimberlite cluster.

The Operating Agreement with Tecmad represents a low-risk opportunity for the Company to leverage its operating expertise and experience in the diamond industry to gain a strategic foothold in one of the world's richest diamond-mining regions and establish a long-term relationship with Tecmad, one of the key players in Angola's diamond industry.

### 3.2 Namakwa Project, West Coast – South Africa

*The Namakwa Diamond Project is located 350 kms north of Cape Town on South Africa's West Coast, in one of the world's largest alluvial diamond-producing regions. The Namakwa Project comprises seven adjacent, onshore diamond Concessions, covering a total area of 90 kms<sup>2</sup> with major operating mines both to the north (De Beers) and to the south (Trans Hex). The Project includes a DMS diamond production plant with a 500,000 tpa (100 tph) throughput capacity, plus associated infrastructure including a Flowsort X-Ray final diamond recovery plant.*

During the quarter, Namakwa commenced exploration activities under the previously announced expanded exploration program in the substantially unexplored areas outside of the resource blocks at Langstrand and Liebenberg Bay. In particular, exploration is focusing on channel features identified as priority exploration targets, as outlined in previous quarterly reports.

Wide-spaced drilling was completed covering the five highest priority AEM anomalies, which were previously interpreted by the geophysical consultant, Mr Richard Hall, as representing potential channel systems with structures similar to the fluvial channel pattern at the De Beers (Namaqualand Division) Koingnaas mining operations, located approximately 200 kms north of Namakwa's project area.

A total of 3,064 metres of drilling was completed during the quarter. Results to date have been mixed with some interesting anomalies encountered to the north east of the trial mining area LBM4. The drilling results have been referred to the SPECTREM<sub>2000</sub> geophysical consultants for further interpretation before Phase 2 of the expanded exploration program is designed.

#### **Rehabilitation**

In line with its obligations and undertakings to the South African Department of Minerals and Energy in respect to its Environmental Management Plan, Namakwa continues to monitor the progress of its rehabilitation activities. The re-establishment of vegetation present before bulk sampling activities is showing excellent results.

#### **Black Economic Empowerment and Employment**

Namakwa subscribes to and has complied with the requirements of South Africa's Mining Charter with respect to Black Economic Empowerment (BEE). In addition to the 26% shareholding of its BEE partner, Zaico, in Namakwa's subsidiary company, NDC Mining Company (Pty) Limited, the Company continues to progress relevant programs relating to skills transfer and procurement. Namakwa remains committed to all aspects of the South African Mining Charter as it relates to Black Economic Empowerment.

### 3.3 Swartsand Project, Namaqualand Region – South Africa

*Namakwa secured the highly prospective Swartsand Project, located in the Namaqualand Region of South Africa, in January 2005. Located some 450 kms north of the Namakwa Project, the Swartsand Project covers an area of 1,645 hectares within the flood plain of the Buffels River – a major source of alluvial diamonds in the area. The Swartsand Project is located immediately downstream of the Buffelsbank Mine – one of the richest alluvial diamond operations in the region which produced 1.2 million carats over a 30-year period until its closure in 1998.*

The Prospecting Permit (No. 114/2006) for the Swartsand Project was granted by the Department of Minerals and Energy in South Africa, on 20 March 2006, enabling the Company to commence its exploration program during the June Quarter.

Surface geological mapping, topographic modelling and geophysical surveying of the palaeo-gravels and basement rock was completed and planning completed for the proposed drilling program, which is scheduled to commence in July. This will be followed by broad-spaced percussion drilling and shallow trial pitting. Based on the results of this work, further in-fill drilling and geophysical surveys will be carried out to locate bulk sampling and trial mining sites.

The Company is able to utilise an existing treatment plant, located at the nearby Buffelsbank mine, to process samples extracted in exploration. This eliminates the requirement for the Company to construct its own processing plant. The overall exploration program is expected to take 12 months to complete.

### **3.4 Jequitinhonha Project – Brazil**

*The Jequitinhonha Diamond Project (Namakwa 75%) is located near the historic diamond mining centre of Diamantina in the Brazilian State of Minas Gerais and comprises two distinct types of large-scale alluvial deposits, identified as “Alluvials” and “Conglomerates”. The exploration and development potential of the Jequitinhonha Project is supported by the strong history of mining in the region and the relative proximity of the alluvial concessions to the Domingas Mine, Brazil’s largest single diamond producer, which is located some 100 kms upstream (to the south) of the alluvial concessions.*

During the Quarter, Namakwa established its operating base camp at the Jequitinhonha Project, close to the village of Terra Branca. The focus of exploration is on the Alluvial concessions on the Jequitinhonha and Macaubas Rivers.

First phase ground-based geological reconnaissance mapping of the initial targets, selected from the satellite imagery interpretation and from prior geological and geophysical reports, has been completed during the Quarter with the drilling program scheduled to commence in September 2006, subject to budget approval. This will be followed by bulk sampling, once interpretation of the drilling results is completed.

The Jequitinhonha Project is located near the historic diamond mining centre of Diamantina in the State of Minas Gerais and comprises two distinct types of large-scale alluvial deposits, identified as “Alluvials” and “Conglomerates”.

The exploration and development potential of the Jequitinhonha Project is supported by the strong history of mining in the region and the relative proximity of the Alluvial concessions to the Domingas Mine, Brazil’s largest single diamond producer, which is located some 100 kms upstream (to the south) of the Alluvial concessions.

Brazil has total recorded diamond production of some 60 million carats, all from alluvial sources, making it one of the world’s largest diamond producers. The Diamantina region has good infrastructure and access, and a well-established mining culture. The Domingas Mine has produced, on average, 70-100,000 carats per annum for more than 10 years, with diamond grades averaging 4 carats/100m<sup>3</sup> with an average price of US\$200 per carat.

### 3.5 Kimberley Project – Western Australia

*Namakwa's exploration focus at the Kimberley Project in northern Western Australia is on the large Goat Paddock (EL 80/3153 & ELA 80/3266) circular physiographic anomaly in the central Kimberley region, which represents a high priority target area. The Goat Paddock Project comprises a crater-form topographic depression some 5 kms in diameter. Previous drilling (carried out in 1972) demonstrated a crypto-explosion crater structure in-filled with some 200 metres of carbonaceous lacustrine sediments overlying brecciated sandstone. The lacustrine sediments (lake-fill) have been dated at approximately 50 million years, compared with the surrounding host rocks which have been dated at an estimated 500 million plus years.*

Planning continued during the June Quarter for a proposed drilling program at this target, subject to budget approval.

## 4.0 CORPORATE

### 4.1 Retirement of Chairman

At the end of the Quarter, Namakwa's founding Chairman, Mr Karl Simich, announced his resignation from the Board following his appointment as Managing Director of listed diamond producer, Kimberley Diamond Company. The Board thanks Mr Simich for his substantial contribution to the Company since its inception and listing on the Australian Stock Exchange.

### 4.2 Capital Raising

On 12 April 2006, the Company announced the completion of a placement of 18,600,000 ordinary fully paid shares at an issue price of \$0.03 per share to raise \$558,000.

On 26 May 2006, the Company announced the completion of a 1-for-1 non-renounceable entitlements issue offered under a prospectus and supplementary prospectus dated 20 and 21 April 2006 respectively. A total of 143,403,615 ordinary fully paid shares were issued under the entitlements issue at \$0.03 per share. Under the issue, \$3,576,541 was received in cash, with the remainder \$725,567 being applied to partly repay loans payable to Blina Diamonds NL. Under the terms of the loan agreement, Blina holds the right, at its sole discretion, to receive ordinary shares in the Company in satisfaction of the loaned funds. In accordance with that election, Namakwa issued 24,185,573 ordinary shares at \$0.03 each to Blina as sub-underwriter to the non-renounceable entitlements issue.

## JOHN FIRTH MANAGING DIRECTOR

31 July 2006

### COMPETENT PERSON

The information in this report that relates to an inferred mineral resource is based on information following a due diligence program conducted by Peter Danchin, B.Sc (Hons), Pr.Sci.Nat. (RSA), M.Aus.IMM, who is an executive director of Namakwa Diamond Company NL. Mr Danchin is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC Code). Mr Danchin consents to the inclusion in the report of the matters based upon his information in the form and context in which it appears.