



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

**ASX CODE: RNI**

## **HIGHLIGHTS**

### **Exploration Projects**

#### *Angola*

- Completion of a program of work, with capital and operating budgets, for the Camutue Associated Diamond deposits in the Lunda Norte Province, following R&I's appointment as independent contractor and operator.
- Confirmation of finance by Tecmad – Mining Services SARL ahead of planned mobilisation on site in November 2006, for refurbishment of Camutue Mine, which is expected to come into production by April 2007.

#### *Western Australia*

- Completion of farm-in joint venture agreements with TSX-listed diamond explorer, Caldera Resources Inc., for the Ellendale East and Ellendale South Projects in the East Kimberley region of Western Australia.
- Commencement of a major aircore drilling program at Ellendale East to test a number of priority magnetic targets not previously drilled.
- Approximately 1,600 metres of drilling completed to date with ~1 tonne of drill cuttings dispatched for processing and recovery of diamonds and indicator minerals.
- R&I acquired the Yule River Project and lodged applications for three Exploration Licences covering 449 square kilometres in the Pilbara Region.

#### *South Africa*

- 1,335 metres RC percussion drilling program completed at the Swartsand Project resulting in the delineation of a 900 metre long palaeo-channel, 200 to 300 metres wide.
- Planned bulk sampling of the basal gravel from Swartsand scheduled to be carried out in early 2007.

#### *Brazil*

- Planning for ground-based geophysical surveys completed, however this survey has been postponed until 2007 due to heavy rains in mid-October.

### **Corporate**

- Adoption of a new constitution and change of name from Namakwa Diamond Company NL to Resource and Investment NL (R&I).
- Consolidation of share capital completed on a 10-for-1 basis, with the Company's shares recommencing trading on the Australian Stock Exchange under the new ASX Code: RNI.
- Appointment of senior Australian mining executive, Mr Miles Kennedy, as non-executive Chairman, further strengthening the Company's Board.

## 1.0 EXPLORATION PROJECTS

### 1.1 Camutue Project – Angola

*In December 2005, R&I signed a Memorandum of Understanding 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 R&I 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.*

As reported last Quarter, R&I has signed an Operating Agreement with Angolan-based Tecmad - Mining Services SARL (Tecmad) for its appointment as an independent contractor and operator to manage the planned re-commissioning of the Camutue associated diamond deposits. This agreement is expected to lead to the re-establishment of mining operations at Camutue by April 2007.

The comprehensive operating agreement encompasses the proposed implementation of a detailed development and operating plan for the Camutue Associated Diamond Deposits developed by R&I over the past 9 months. During the Quarter, a program of work, capital and operating budgets were finalised to enable diamond production to recommence, 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, crushing, screening, transportation, processing, handling, storage, stockpiling, loading and insurance, as well as the weighing, sampling, testing and assaying of diamonds;
- conducting exploration within the Camutue Concession Area insofar as this is relevant for the development and mining of the Camutue Associated Diamond Deposits; and
- management and organisation of all earthmoving activities.

All capital and operating costs in relation to the operating agreement and contained within the agreed capital and operating budgets will be for the account of Tecmad. In addition, provided R&I has adequately supervised, managed and/or clearly instructed the mining contractor, and has done so in a conscientious, professional and/or non-negligent way, R&I 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 cost, assist R&I with logistical issues, provide office and residential accommodation for R&I'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 Concession.

It is envisaged it will take approximately 6 months to re-establish the mine, mobilise and refurbish the plant and infrastructure and commission the plant, which will all be done at Tecmad's expense. Thereafter, (subject to certain conditions) R&I will, in consideration for its services as independent contractor and manager, commence earning a management fee of either 20 per cent 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 can be renewed. The operating agreement can be terminated by either party for any or no reason on 30 days' notice.

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 the construction of a new Bateman 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.

## **1.2 Ellendale East and Ellendale South Projects – Western Australia**

In June 2006, R&I reached agreement with TSX-listed diamond explorer, Caldera Resources Inc. (Caldera) (TSX:CDR), to enter into farm-in joint ventures to earn up to a 51 per cent interest in Caldera's Ellendale East and Ellendale South Projects in Western Australia.

These adjoining projects comprise five Exploration Licences and Exploration Licence Applications covering an area of over 800 kms<sup>2</sup>, located between 20 kms and 70 kms south east of the recently commissioned Ellendale 4 mining operation. Caldera has previously announced the discovery of up to six potential new lamproite pipes within the Ellendale East Project, including a substantial target with an area of more than 200 hectares.

During the Quarter, the existing ownership of the Ellendale East and Ellendale South Projects was restructured and new Joint Venture Agreements were entered into between R&I and Caldera.

The Ellendale East Project was previously 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 could earn a 60 per cent interest in the project by funding ongoing exploration expenditure. Mr Winston and Caldera were previously 50:50 contributing partners in the Ellendale South Project.

Under the new Joint Venture Agreements established between R&I and Caldera, respectively covering the Ellendale East and Ellendale South projects, R&I has the right to earn a 51 per cent interest in each project under different commercial terms and conditions.

At Ellendale East, the Company has the right to earn a 51 per cent 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 R&I considers this to be warranted; or
- in lieu of this, paying to Caldera 49 per cent of that portion of its earn-in exploration commitment not yet spent on the tenements at the time.

At Ellendale South, the Company has the right to earn a 51 per cent 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 per cent of that portion of its earn-in exploration commitment not yet spent on the tenements at the time.

R&I 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 per cent interest. Mr Winston will have the right to buy, at fair market value, 30 per cent of all run-of-mine production of diamonds produced by both joint ventures from the Ellendale East and Ellendale South tenements.

In return for relinquishing all his rights and interests under the previous Joint Venture, R&I has received shareholder approval to issue 5 million fully-paid R&I shares to Mr Winston or his nominee. In addition, the Company's major shareholder, Blina Diamonds NL (Blina), has issued 500,000 fully-paid Blina shares to Mr Winston.

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 R&I and Blina.

As part of the agreement, the Company has taken up 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 R&I exercisable and convertible into common Caldera shares such that the aggregate of the placement shares and warrants would give R&I a stake of 19.9 per cent 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. R&I will have the right to participate in any future equity issues by Caldera to maintain its 19.9 per cent interest. The transaction and the placement and issue of warrants, including the right for the Company to maintain its equity interest, have received all relevant shareholder and regulatory approvals under the relevant listing rules and regulations of the Toronto Stock Exchange.

#### *Commencement of Exploration*

In mid-September R&I commenced a major aircore drilling program at the Ellendale East Project to test a number of priority magnetic targets under the newly established joint venture. These programs are designed both to confirm previous results and to test magnetic anomalies not yet drilled by Caldera.

To date, 17 holes and 1,569 metres of drilling have been completed, with the exploration program being funded by R&I as part of its earn-in commitment under the Joint Venture with Caldera. R&I's major shareholder, Blina Diamonds NL, is managing and operating the exploration program on a "cost plus" basis, leveraging off its extensive exploration infrastructure in the region.

Drilling has so far been concentrated on anomalies ELL8 and ELL27, where Caldera previously reported microdiamonds and indicator minerals from a "volcaniclastic quartz tuff" intersected at depths of between 50 and 70 metres below surface.

The current drilling program has successfully intersected this unit in all holes drilled to date, and approximately one tonne of drill cuttings have been dispatched to Diatech's laboratory in Perth for recovery of diamonds and indicator minerals.

Geophysical surveys completed by Caldera in 2005 identified 47 magnetic targets within the Ellendale East area. Reconnaissance drilling of a number of these targets resulted in the recovery of fragmental rocks containing diamonds and diamond-indicator minerals (chromites). Petrological studies undertaken by Geological Consultant, Dr Greg Pooley, describe the diamond host rock as a "volcaniclastic quartz tuff". The lithology is considered

one of the predominant diamond-bearing rocks in the Ellendale Field and was recognised in six of the targets drilled by Caldera.

One of the targets drilled by Caldera covers an area in excess of 200 hectares.

Detailed logging of the recently completed drill holes suggests that "volcaniclastic quartz tuff" occurs as a distinct unit within the Permian-aged, Grant Formation. This interpretation would mean that the material is 250 million years older than the Ellendale Field lamproites and unrelated to this period of volcanism. The identification of diamonds and diamondiferous indicator minerals in rocks of this age suggests the possibility that a new and previously unrecognised diamond emplacement event may exist in the West Kimberley region.

Drilling of the other magnetic targets in the Ellendale East area will continue for another month. Initial results from processing of drill chips are expected to be available within the next three weeks.

### **1.3 Swartsand Project – South Africa**

*R&I secured the highly prospective Swartsand Project, located in the Namaqualand region of South Africa, in January 2005. Located 450 kms north of the R&I West Coast Project, the Swartsand Project comprises an area of 1,645 hectares within the flood plains of the Buffels River – a major source of 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.*

An RC percussion drilling program comprising 209 holes for 1,335 metres of drilling was completed during the Quarter. This drilling has outlined a curved palaeo-channel 900 metres long and ranging between 200 and 300 metres wide. Resting on a Precambrian granite-gneiss basement, coarse, basal, diamondiferous gravels, ranging in thickness from 0.5 to 3.0 metres and averaging 1.5 metres, are overlain by an overburden of semi-calcretised sands and grits and windblown sand.

This overburden varies in thickness between 1.0 and 5.0 metres and averages 4.0 metres. Subject to the availability of the nearby processing plant located at the Buffelsbank Mine, two bulk samples of the basal gravel, totalling 5,500 cubic metres, are scheduled to be tested in early 2007.

### **1.4 Jequitinhonha Project – Brazil**

*The Jequitinhonha Project is located near the historic diamond mining centre of Diamantina in the Brazilian State of Minas Gerais, where first diamond production was recorded some 235 years ago. The Project is located some 400 kms north of the city of Belo Horizonte. Total recorded production over the past two decades from this region has been in the order of 1 million carats per annum, exclusively from alluvials. 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.*

As reported last Quarter, R&I has established an operating base camp at the Jequitinhonha Project, close to the village of Terra Branca, enabling ground-based exploration activities to commence during the Quarter.

Ground-based geological reconnaissance mapping of all the targets identified from satellite imagery interpretation and from prior geological and geophysical reports was carried out, enabling priority targets to be selected for ground-based geophysical surveys.

However, due to heavy rainfall during October, the Company has decided to defer this program of ground-based geophysics until early 2007. This will be followed by drilling and then bulk sampling commencing in April 2007, after the end of Brazil's wet season.

### **1.5 Kimberley Project – Western Australia**

*The Kimberley Project is a conceptual diamond exploration play located in the Kimberley region of Western Australia, the same region that hosts Australia's two existing commercial diamond mines, the Ellendale and Argyle operations.*

Namakwa's exploration focus 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.

Detailed ground magnetic and gravimetric surveys carried out last quarter have demonstrated an internal magnetic anomaly (1.5 kms in diameter) disposed within the much larger topographic anomaly or crater structure (5 kms in diameter). This anomaly is interpreted to reflect a 'melt pool' related to a meteorite impact or a sub-volcanic intrusive possibly related to a kimberlitic diatreme.

Planning was completed during the Quarter for a proposed drilling program at this target which, subject to site clearances, is proposed to commence during the first half of 2007.

### **1.6 Yule River Project – Pilbara Region, Western Australia**

*The Yule River Project is located 65 kms south-west of Port Hedland and 30 kms north of the recently commissioned Range Rivers Indee gold mine.*

During the Quarter, R&I acquired the Yule River Exploration Licence (E47/1131). Applications were also lodged for three Exploration Licences totalling 449 kms<sup>2</sup>, contiguous with E47/1131. These new applied for areas complement R&I's current tenement holding within the Yule River Project area.

The new tenement applications are considered to be prospective for precious (gold, platinum) and industrial (zircon, tantalite, tin) alluvial mineral assemblages. Limited previous historic exploration data also indicates that there is potential to make gold, base-metal, platinum, tantalum and tin discoveries within the basement sequences.

## **2.0 CORPORATE**

### **2.1 Change of Company Name and Restructure**

At a general meeting of shareholders held on 7 September 2006, shareholders approved a name change from Namakwa Diamond Company to Resource and Investment NL (R&I) and adopted a new constitution, in support of its new strategic direction.

### **2.2 Consolidation of Shares and Options**

The Company completed a 10-for-1 consolidation of its issued capital during the Quarter. The Company's shares resumed trading on the Australian Stock Exchange under the new code RNI on 3 October 2006.

## **2.3 Election of Chairman**

At the meeting held on 7 September, shareholders elected experienced Australian mining executive, Mr Miles Kennedy, as non-executive Chairman of R&I. Mr Kennedy is also Executive Chairman of the successful Australian diamond producer, Kimberley Diamond Company NL.

At the same meeting, shareholders approved the issue of 15 million 2009 and 15 million 2011 R&I options to Mr Kennedy.

## **2.4 Approval of Shares Issues**

R&I issued 5 million R&I shares to Mr Ron Winston, of New York's Harry Winston, as part of agreed arrangements for Mr Winston to relinquish his rights to the Ellendale Projects.

R&I also issued 8.4 million shares to major shareholder and Ellendale Projects exploration and sampling operator, Blina Diamonds NL, in repayment of previous loans.

## **2.5 Approval of Shares Issues**

As part of the Joint Venture agreements with Caldera Resources Inc., R&I has taken up 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 R&I exercisable and convertible into common Caldera shares such that the aggregate of the placement shares and warrants would give R&I a stake of 19.9 per cent 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. R&I will have the right to participate in any future equity issues by Caldera to maintain its 19.9 per cent interest. The transaction and the placement and issue of warrants, including the right for the Company to maintain its equity interest, have received all relevant shareholder and regulatory approvals under the relevant listing rules and regulations of the Toronto Stock Exchange.

## **MILES KENNEDY CHAIRMAN**

31 October 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 Resource and Investment 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.