



Namakwa Diamond Company

**QUARTERLY REPORT
FOR THE PERIOD ENDED 31 DECEMBER 2004**

ASX CODE : NDC & NDCO

NAMAKWA DIAMOND COMPANY NL ABN 77 085 806 284

12 WALKER AVENUE WEST PERTH WESTERN AUSTRALIA 6005 PO BOX 806 WEST PERTH WESTERN AUSTRALIA 6872
TEL (+61 8) 9321 5887 FAX (+61 8) 9321 5884 EMAIL general@namakwa.com.au WEBSITE www.namakwa.com.au

HIGHLIGHTS

Namakwa Diamond Project, South Africa

- Processing plant ramp-up to design capacity of 500,000 tpa (100 tph) achieved during project commissioning.
- Mining operations commenced at southern end of Liebenberg Bay resource area, with new mining blocks currently being developed at the northern end to access higher grade ore.
- First sale of production diamonds completed (2,792 carats at US\$121 per carat).
- 87,410 tonnes of gravels processed during the quarter at an average treated grade of 9.74 cpht resulting in the production of 8,515 carats of gem quality diamonds.
- Official opening ceremony held on site to launch the Elandsvy Mine attended by senior representatives of the South African Government and members of the local community.

Exploration

- Information licence agreement signed with De Beers giving Namakwa access to extensive and detailed historical exploration and sampling database.
- 2005 exploration program prepared combining information from De Beers database and new target areas generated by the SPECTREM survey. Program to commence during the March 2005 Quarter.

Project Development

- Highly prospective alluvial diamond project secured in South Africa's Namaqualand District, located adjacent to the world-class Buffelsbank Mine (1.2 million carats historic production).
- Interest acquired in 8 diamond exploration projects in the Kimberley region of Western Australia, further broadening Namakwa's international diamond portfolio.

Corporate

- Placement of 10 million shares at 28 cents together with 5 million unlisted options at 2 cents each completed raising \$2.9 million to underpin ongoing exploration programs and boost working capital.
- Cash reserves of \$2.5 million plus diamond inventory of 6,293 carats of gem quality diamonds (worth an estimated \$1.006 million) as at 31 December 2004.
- Quotation of the Company's unlisted options on the Australian Stock Exchange.

1.0 REVIEW OF OPERATIONS - NAMAKWA DIAMOND PROJECT

1.1 Overview

During the quarter, Namakwa's operating subsidiary, NDC Mining Company (Pty) Limited (NDC), commenced continuous mining and processing operations at the Namakwa Diamond Project after completing a \$1.5 million upgrade of the process plant and infrastructure.

An official opening ceremony was held on site during October, which was attended by high-level representatives of the South African Government and members of the local community. The Namakwa Diamond Project mining operation was officially named the 'Elandsvy Mine'.

The quarter to December 2004 is considered a ramp-up commissioning period and the Project is still to achieve steady state production.

Production commenced in October 2004, with a total of 80,476 tonnes of gravels mined during the quarter and 87,410 tonnes of gravels processed through the Dense Media Separation (DMS) diamond production facility on site. Apart from minor teething difficulties during the plant commissioning process, the plant achieved its design capacity of 500,000 tonnes per annum (tpa) throughput (100 tonnes per hour) during the quarter.

8,515 carats of gem quality diamonds were produced for the 3 month period at an average grade of 9.74 carats per hundred tonnes (cpht), reflecting grade variability during the early phases of mining in the southern portion of the Liebenberg Bay resource area. New mining blocks are currently being developed at the northern end to access higher-grade ore. The quarterly production figures also reflected limited activity during the Christmas/New Year holiday period in South Africa.

Namakwa held its first sale of run-of-mine production diamonds in November 2004, comprising a parcel of 2,792 carats which were sold at an average price of US\$121 per carat.

The Company continued preparations for a major exploration program during 2005 targeting the balance of its extensive 90 square kilometre Concession areas outside of the Liebenberg Bay resource block (which covers less than 3 per cent of the total area held).

Exploration programs are planned to commence during the March 2005 Quarter, and will be significantly enhanced by the availability of a comprehensive historical geological database acquired during the quarter from De Beers Consolidated Mines. This database includes the results of exploration carried out by De Beers over the Concession areas in the 1950's and 1960's.

1.2 Process Plant Commissioning

As reported in the September 2004 Quarterly Report, the DMS diamond production plant at the Elandsvy Mine has been modified and upgraded to a 500,000 tpa capacity and improvements have been made to the in-house Flowsort (X-Ray) final diamond recovery plant.

The total cost of the capital upgrade, which includes expansion of the infrastructure, was \$1.5 million. The plant modifications include a new scrubber, enlarged float screen, 750 KVA genset, new conveyor structure and extensive modifications and improvements to the final recovery plant.

The plant has operated on a 3 x 8 hour shift basis since early October 2004. Minor problems were experienced during the commissioning phase as a result of excessive sand in the gravels and a temporary slow-down in production when gravels from the Recent Emerged Terrace (RET) were introduced. Both of these issues have now been addressed.

The rated plant throughput capacity of 100 tonnes per hour (500,000 tpa) was regularly achieved during the latter part of the quarter.

Plant operating statistics for the quarter are shown in the table below:

Gravel Treated ROM (t)	Carats Recovered (ct)	Stones Recovered	Stone Size (ct/stone)	ROM Head Feed (tph)	ROM grade (cpht)
87,410	8,515	75,088	0.11	95	9.74

The best average diamond grade achieved was 11.44 cpht during the month of November, with the average grade for the quarter reflecting grade variability during the commissioning phase and a drop-off in grade towards the end of the quarter as mining progressed in the southern portion of the resource block (see below).

Average grades are expected to improve during the March 2005 Quarter as the focus of mining shifts to the northern resource blocks.

1.3 Mining Operations

Three mining blocks were excavated at Liebenberg Bay during the quarter (LBM 1, 2 and 3), with a total of 614,950 tonnes of overburden removed to extract 80,476 tonnes of diamond-bearing gravels at an average stripping ratio of 7.64:1. Approximately 80 per cent of the mining area completed to date has now been backfilled.

Initial mining commenced at exploration trench KKT5 and advanced in a southerly direction towards exploration trench R17, where an anticipated fall in average diamond grades was encountered. Mining commenced in the southern area as part of the original mine plan taking into account the entire Liebenberg Bay resource.

Mining operations are now advancing in a northerly direction towards higher-grade resource blocks. New mining blocks have been planned to the north of the current mining blocks, with overburden stripping currently in progress. The first northern mining block will be exposed by the end of January 2005. The consequence of this is negligible ore availability and processing in January 2005.

Sample trench KKT5 (in this area) confirmed the presence of significantly higher diamond grades and contained gravels of up to 1.5 metre thickness – substantially greater widths than in the south. While the stripping ratio in this area appears to be slightly higher than average, due to variability in the gravel horizon, early indications are

that the potential increased orebody widths and higher grades will justify the accelerated and increased stripping costs.

The variability of grade and gravel widths experienced to date is typical of alluvial diamond mining operations. More meaningful average diamond grades will become apparent as mining progresses and geological understanding of the various gravel horizons improves.

1.4 Exploration

Namakwa has signed a key information licence agreement with De Beers Consolidated Mines Limited giving it access to detailed historic exploration and bulk sampling data generated by De Beers over its Concession areas on South Africa's west coast.

Access to this information adds a significant new dimension to Namakwa's growth and development strategy, enabling it to fast track its expanded exploration program in 2005 with the benefit of a decade of historic exploration data. In conjunction with the results of the airborne electro-magnetic (EM) survey completed by Namakwa over its tenement areas, and its own recent drilling and sampling activities, the licence agreement is expected to significantly enhance the Company's exploration and development program.

The current mining operations are based on an initial resource (2.2 million tonnes at 18.7 cph for 411,000 carats of contained diamonds) covering less than 3 per cent of the total 90.4 km² tenement area. Namakwa's objective is to further increase this resource inventory as a basis for upgrading the production facility.

Under the agreement between NDC Mining and De Beers, De Beers has licensed the use by Namakwa of an extensive database of information from a large number of small exploration pits excavated during the late 1950's until the late 1960's.

De Beers excavated numerous small pits (3m by 3m) to sample diamond bearing gravels overlaying the bedrock, following up its previous drilling activities. The pits – which are easy to locate – were arranged in coast-perpendicular lines, giving a good overview of the behaviour of the bedrock from west to east as well as the presence of any gravel bodies and diamonds. The 20 pit lines are situated outside of the current mining area and cover the length of Namakwa's tenement area, totalling approximately 300 pits.

The pitting data acquired from De Beers by Namakwa includes detailed geological descriptions of the overburden, gravel and bedrock, along with profiles drawn of each pit showing the different horizons, surface elevation, depth to bedrock and bedrock elevation. The data also includes sampling results from processing of the gravels including diamond recoveries and sizes.

Combined with the results of Namakwa's own drilling and EM database, the pit data will significantly enhance the understanding of bedrock, gravel and diamond deposits in the area that are so closely associated with the bedrock type, morphology and elevation above sea level.

Namakwa has already generated a large number of new target areas for its 2005 exploration campaign based on the results of the SPECTREM survey, including encouraging bedrock features in the form of embayments, palaeo-channels and palaeo-

raised beach targets. These geological features may have been trap sites for diamonds washed downstream from the interior, or transported out to sea and then deposited back on the shore by wave action.

Namakwa is currently completing a comprehensive review of the De Beers database and developing an intensive exploration program, which is expected to commence during the March 2005 quarter.

1.5 Rehabilitation

In line with its obligations and undertakings to the Department of Minerals & Energy in respect of its Environmental Management Plan (EMP), Namakwa maintains close supervision of all mining activities. Waste control, dust emissions and stockpile management are constantly carried out. In addition, boundary fences are erected and maintained and topsoil is carefully preserved.

1.6 Beach Mining

Under the terms of an agreement concluded last year with Trans Hex Operations, Namakwa is entitled to mine certain beach areas adjacent to its land operations. This agreement allows Namakwa to mine the beach gravel of the Admiralty Strip on a profit share basis.

The equipment specifically required for beach mining is on site and is currently being refurbished. Further exploration and trial mining is proposed to commence during the next quarter.

1.7 Employees

Namakwa has a total staff complement at the Elandsvy Mine site of 59, including 12 women. An extensive staff training program was conducted at the mine site at the commencement of the mining phase. All NDC staff have now undergone basic Health and Safety training.

1.8 Employment Equity

Every Namakwa employee is functionally literate. The Company has identified previously disadvantaged individuals (PDI) in order to enhance their skills and progress with respect to career paths.

Namakwa has also further identified several "Historically Disadvantaged South African Companies" (HDSA) and concluded procurement agreements with them for the supply of consumables, goods and services to the Elandsvy Mine.

Demographically, the NDC's work force comprises 12 per cent blacks, 60 per cent coloureds, 22 per cent females and 22 per cent white men. These figures compare favourably with the demographics of the area.

1.9 Black Economic Empowerment

Namakwa subscribes to and has complied with the requirements of the Mining Charter with respect to Black Economic Empowerment.

In addition to the 26 per cent shareholding of its BEE partner, Zaico in NDC Mining Company (Pty) Limited, the Company has made significant progress with regard to skills transfer and procurement.

Zaico is an active participant in all matters relating to BEE and is actively involved in the upliftment and development of the local community. Employment Equity and Social Labour Plans are being developed under the auspices of Zaico and the human resources department.

2.0 NEW PROJECT DEVELOPMENT

Namakwa continued to review strategic growth and development opportunities during the quarter, with two new diamond exploration projects secured in early January 2005 – one in South Africa and the other a portfolio of diamond exploration projects in Australia.

2.1 Swartsand Project

On 21 January 2005, Namakwa announced that it had successfully applied for the Swartsand Project in Namaqualand. The project comprises an area of 1,645 hectares and forms part of the farm Komaggas, located between the towns of Springbok and Kleinzee within the flood plains of the Buffels River, a major source of diamonds in the area.

The Project is situated immediately adjacent to the Buffelsbank Mine which produced 1.2 million carats over a 30 year period until its eventual closure in 1998, underpinning the early development of leading South African based diamond producer, Trans Hex. A group of diamond mines previously owned and operated by De Beers, known as the Buffels Inland Complex, is situated downstream from the Project.

Buffelsbank produced 1,237,607 carats, with an average stone size of 0.5 carats. Average diamond prices are estimated at US\$250 per carat. Grades at the mine were in the order of 37 cpht along the southern mining faces, with local grades of up to 750 cpht reported.

The Buffels River has been identified as a major source of alluvial diamonds associated with both palaeo channels and the marine diamonds at Kleinzee.

Initial exploration on the Swartsand Project area will comprise geological mapping and reverse circulation drilling to outline the gravel bodies that may be present.

Further in-fill drilling and geophysical surveys will be carried out to locate bulk sampling and trial mining sites. An existing treatment plant is located at the nearby Buffelsbank Mine, which operates on a campaign basis, treating gravels for other small scale miners working on the Buffelsbank leases and will be available to the Company to rent.

The Company is currently finalising the Environmental Management Plan (EMP) for the Swartsand Project and expects to complete it by the end of January 2005. The approval process, leading to the grant of a Prospecting Permit is expected to take 3-4 months, enabling exploration to start at the Project late in the second quarter of 2005.

2.2 Australian Projects

On 28 January, Namakwa announced that it had acquired an interest in a portfolio of highly prospective diamond exploration projects in the Kimberley region of Western Australia. The package includes 8 target areas possibly related to lamproitic or kimberlitic volcanic pipes identified during an extensive geological review of the region that hosts Australia's two existing commercial diamond mines.

The acquisition gives Namakwa low-risk exposure to a unique tenement package in the Kimberley region – which has been one of the focal points for world diamond exploration since the early 1970's with the discovery of Argyle (AK1) pipe and Ellendale 4 and 9 pipes. The Argyle (Rio Tinto) and Ellendale (Kimberley Diamond Company) mines are both currently in production.

Under the terms of the new acquisition, Namakwa will acquire an interest in an exploration portfolio comprising 5 granted Exploration Licences and 4 Exploration Licence Applications from Faustus Nominees Pty Ltd, a company controlled by one of Australia's most successful prospecting geologists, Mr Graeme Hutton.

Mr Hutton will progressively dilute his interest as Namakwa farms in, but will direct and manage all exploration at the projects at no cost. Mr Hutton, who is a director of independent Australian diamond producer Kimberley Diamond Company NL and ASX-listed exploration company Sandfire Resources NL, has played a pioneering role in iron ore, gold and diamond exploration in Western Australia.

The tenements were pegged by Mr Hutton in 2003 following an extensive 2-year review of diamond exploration opportunities in the Kimberley region which involved the assessment of over 300 project areas. The 8 target areas were selected because of their regional geologic setting and the presence of pronounced physiographic anomalies – one of the more common surficial representations of kimberlite or lamproite pipes.

Under the terms of the agreement with Faustus, Namakwa will pay a fee of A\$150,000 to Faustus to establish the joint venture with the right to earn a 20 per cent interest in the tenements by spending A\$250,000 on exploration within the first 12 months.

Namakwa can increase its interest to 40 per cent by spending a further A\$350,000 on exploration in the second year and further to 60 per cent by spending A\$500,000 on exploration in the third year. It has the right to withdraw from the joint venture at any stage prior to earning a 60 per cent interest, but will forfeit any equity earned up to that point.

Once it has earned a 60 per cent interest, Namakwa has the right to buy a further 20 per cent for A\$1.5 million, with Faustus' remaining 20 per cent free-carried or, at Faustus' election, converted to a 4 per cent Gross Overriding Royalty (GOR) with the 20 per cent free carried interest relinquished. If Namakwa elects not to purchase an additional interest, it will revert to a 60-40 Joint Venture with Faustus free-carried. The agreement is subject to approval from Namakwa shareholders if required.

The 8 project areas cover a total area of 437 square kilometres and are located in three separate tectonic environments on the Kimberley craton. They were identified using fundamental geological principles to define anomalous physiographic features rather

than the conventional approach to regional diamond exploration utilising indicator mineral sampling and geophysical surveying.

Very limited historic exploration including drainage sampling was carried out on some of the areas by companies including Stockdale Prospecting Ltd and CRA Exploration, although these programs were cursory and did not adequately test any of the targets.

3.0 CORPORATE

3.1 Equity Raising

On 3 December 2004, the Company announced that it had raised, before expenses, \$2.9 million by way of a placement of 10 million ordinary fully paid shares at 28 cents each together with and 5 million options at 2 cents each. The options expire on 30 September 2006 and are exercisable at 20 cents each.

The securities were placed with sophisticated investor clients of Montagu Stockbrokers (as lead manager). The issue of securities was approved by shareholders at the Company's Annual General Meeting held on 29 November 2004.

The additional funds were raised to enable the Company to further its exploration work as well as providing additional working capital.

3.2 Quotation of Unlisted Options on the Australian Stock Exchange (ASX)

On 9 December 2004, the Company applied to the ASX for the quotation of its unlisted options. The options expire 30 September 2006 and are exercisable at 20 cents each.

.....
KARL SIMICH
CHAIRMAN

28 January 2005

The geological information contained in this report has been compiled by Peter Danchin, B.Sc (Hons), Pr.Sci.Nat. (RSA), M.Aus.IMM, who is a Competent Person as defined by the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves ("JORC Code") and is included in this report with his consent.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

NAMAKWA DIAMOND COMPANY NL

ABN

77 085 806 284

Quarter ended ("current quarter")

31 December 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	503	503
1.2 Payments for (a) exploration and evaluation	(549)	(1,601)
(b) development	-	-
(c) production	(1,320)	(1,320)
(d) administration	(417)	(704)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	34	41
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - Movement in Working Capital	(452)	-
Net Operating Cash Flows	(1,297)	(3,081)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(602)	(766)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	(602)	(766)
1.13 Total operating and investing cash flows (carried forward)	(1,899)	(3,847)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,899)	(3,847)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	2,737	2,792
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
Net financing cash flows		2,737	2,792
Net increase (decrease) in cash held		838	(1,055)
1.20	Cash at beginning of quarter/year to date	1,613	3,532
1.21	Exchange rate adjustments to item 1.20	32	6
1.22	Cash at end of quarter	2,483	2,483

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	126
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Provision of managerial, general corporate, financial, secretarial services and office accommodation by directors and director related entities.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

--

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

--

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	-
Total	100

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	283	463
5.2 Deposits at call	2,200	1,150
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,483	1,613

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
6.2		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	106,042,148	106,042,148		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	10,000,000 532,761 <i>(options exercised)</i>	10,000,000 532,761		
7.5 *Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	430,000 517,500 64,275,850 1,115,000	64,275,850	Exercise Price 25 cents 15 cents 20 cents 30 cents	Expiry Date 31/12/04 31/12/05 30/09/06 31/12/06
7.8 Issued during quarter	5,750,000		20 cents	30/09/06
7.9 Exercised during quarter	155,000 397,500 135,261		25 cents 15 cents 20 cents	31/12/04 31/12/05 30/09/06
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: 28 January 2005

Print name: **KARL SIMICH**
CHAIRMAN

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 Issued and quoted securities The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 Accounting Standards ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.