EL 10048 SCRUTTON RANGE
McARTHUR RIVER REGION, NT

ANNUAL REPORT

ON EXPLORATION ACTIVITIES
YEAR ONE OF TENURE
5 March 2003 – 4 March 2004

submitted by

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on behalf of
Diamond Mines Australia Pty Ltd
and
North Mining Ltd

EL 10048 ‘Scrutton Range’
Holder: North Mining Ltd
Grant Date: 05 February 2003
1:250,000 sheets : Mt Young, Bauhinia Downs
Minerals Sought: diamonds, base metals
SUMMARY

EL 10048 forms part of a farmin agreement between Rio Tinto Exploration Pty Ltd (“Rio Tinto”) and Diamond Mines Australia Pty Ltd (“DMA”) covering numerous Rio Tinto-controlled tenements and applications in the Northern Territory. Under this agreement, DMA will conduct predominantly diamond exploration over the tenements and will utilise the newly-developed Falcon™ airborne gravity gradiometer system, which has been shown to be very effective in detecting kimberlite pipes.

Gravity Capital Ltd is managing the farmin arrangement for Diamond Mines Australia and owns 40% of DMA.

During the initial year of tenure, a review of historic exploration data, including surface sampling focussed on diamonds, was conducted by Gravity and a number of anomalous results were noted in and around EL 10048.

Owing to the timing of the exploration agreement between DMA and Rio Tinto (late July 2003) field exploration under the agreement did not extend to EL10048 during the 2003 field season. Field work is planned to commence in 2004.

Expenditure on the tenement during the reporting period totalled $8170.
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1. EL 10048 Tenement Location
2. Regional Geology showing tenements and historic sampling
INTRODUCTION

EL 10048 was granted to North Mining Ltd on 5 February 2003. The area forms part of a substantial group of tenements in the McArthur River region, controlled by Rio Tinto Exploration who acquired the assets of North Mining in 2001. During 2002, Rio Tinto entered into negotiation with Gravity Capital Limited (“Gravity”) concerning the deployment of the Falcon™ airborne gravity gradiometer system over Rio Tinto’s diamond tenements in northern Australia. The Falcon™ system is a unique exploration tool developed by BHP Billiton and it has particular application in diamond exploration.

BHP Billiton and Gravity concluded an arrangement on Falcon™ deployment in Australia during the year (ASX announcement 01/07/2003) and then Gravity formed a farmin joint venture, through its 40%-owned associated company, Diamond Mines Australia Pty Ltd (“DMA”) with Rio Tinto Exploration, concerning the diamond and base metal exploration over a large number of Rio Tinto-controlled tenements in the Northern Territory (ASX announcement 25/07/2003). EL10048 and the neighbouring tenements form part of the DMA-Rio Tinto joint venture. (Figure 1)

On the basis of these agreements, Gravity (on behalf of DMA) commenced diamond exploration in the Northern Territory during July 2003.

In essence, the agreements provide for DMA to deploy the Falcon™ system and earn an interest in any discovery. BHP Billiton retains a right to buy into DMA’s interest in any discovery. Gravity is managing all exploration for DMA.

The flying program in year 1 was planned to cover areas of strongly anomalous diamond indicator mineral sampling results, obtained from Rio Tinto’s prior work. Subsequent flying and ground follow-up would be dependent on the results of the year 1 flying program.

While the principal target in the area is diamonds, some interest is also directed toward base metal deposits.

EL 10048, although known from prior exploration to have areas with anomalous diamond samples, was not one of the top priority areas covered in the year 1 program.

LOCATION AND ACCESS

EL 10048 is located 20 kilometres south of the Nathan River and 80 kilometres west of Borroloola in the northeastern part of the Northern Territory (figure 1). It covers parts of the Lorella(PL757) and Billengarrah(PL1069) pastoral leases. Access to the area is via the roads connecting Rosie Creek and Nathan River to the McArthur River area.
GEOLOGICAL SETTING and ECONOMIC POTENTIAL

EL 10048 lies within the Batten Trough of the Mesoproterozoic McArthur Basin. The N-S trending Tawallah Fault Zone is the largest scale structure in the district and it is regarded as having similar significance to the Emu Fault, which lies 30km east of the tenement and is associated with McArthur River Zn-Pb mine and the Merlin diamond mine, which lies 90km to the south east of the tenement.

The 1800-1400Ma stratigraphy and mineralisation of the Batten Trough, from youngest to oldest, can be summarised as follows:

- Roper Group arenites, shales, iron formations and dolerite sills.
- Nathan Group (or Mt Rigg Group) carbonates that host Zn-Pb mineralisation, eg, the Bulman Zn-Pb deposits.
- McArthur Group fine clastics and carbonates that host strata bound Zn-Pb-Ag and Cu deposits, eg, the HYC (McArthur) Zn-Pb-Ag mine, Mariner Zn-Pb and Sly Creek Cu deposits.
- Tawallah Group arenites, black shales and basalts hosting Cu in the Redbank district and U at Westmoreland. There are also a number of Cu occurrences hosted Tawallah Group proximal to the McArthur Project area.

Proterozoic outcrops within the project area are predominantly Tawallah and Roper Groups.

PREVIOUS EXPLORATION

Historic work in the area has included regional aeromagnetic surveys and reconnaissance sampling for diamonds and base metals.

The significant results from this work were compiled by Rio Tinto (figure2).

Within and around EL 10048 there a number of sample sites which have returned anomalous indicator minerals and/or microdiamonds.

On this basis, and owing to the proximity of the area to Merlin the area has been regarded as prospective for diamonds.
WORK COMPLETED IN YEAR 1

As mentioned above, an agreement covering much of the Rio Tinto-controlled diamond exploration tenements in northern Australia was finalised in July 2003 between Rio Tinto and DMA. Review of available geophysical and geochemical data was carried out by Gravity (managing the project on behalf of DMA) and this confirmed considerable potential for diamondiferous kimberlites. EL 10048 and neighbouring tenements which form part of the Gravity Capital – Diamond Mines Australia – Rio Tinto “Northern Australia Diamonds” Joint Venture were confirmed as containing microdiamonds and kimberlitic indicator minerals.

The field program for year1 of the joint venture, which comprised flying Falcon™ airborne gravity gradiometer surveys was focussed on a number of areas, including the “Tanaburs” area to the south of EL 10048 (see figure2). No on-ground work was completed in the tenement during year1.

ENVIRONMENT AND REHABILITATION

No requirement for rehabilitation arose during the first year of tenure as no field work was carried out.
CONCLUSIONS AND RECOMMENDATIONS

EL 10048 lies within an area of anomalous kimberlitic indicator sampling results and forms part of a large project area centred on the Merlin diamond district. The nature and timing of further exploration will be based on the interpretation and testing of the Falcon™ data flown on other areas in the region during 2003 but it is anticipated that field exploration in and around EL10048 will begin early in the 2004 field season.

PROPOSED EXPLORATION BUDGET

Aerial Photography and satellite imagery $3,000  
Interpretation costs $2,000  
Field reconnaissance $20,000  
Sampling and sample analysis costs $20,000  
**TOTAL** $45,000  

EXPENDITURE STATEMENT

Legal/Tenement administration costs $1,250  
Professional personnel costs $3,600  
Data processing / computing costs $1,420  
Cartography $720  
Administration/overhead $1,180  
**TOTAL** $8,170