EL 10072 WATERLOO
VICTORIA RIVER REGION, NT

ANNUAL REPORT

ON EXPLORATION ACTIVITIES
YEAR ONE OF TENURE
11 April 2003 – 10 April 2004

submitted by

GRAVITY CAPITAL LIMITED
(ABN - 72 009 178 689)
Level 7, Exchange Tower
530 Little Collins Street, Melbourne, Victoria, 3000

on behalf of
Diamond Mines Australia Pty Ltd
and
Ashton Mining Ltd
(A part of the Rio Tinto Group)

EL 10072 ‘Waterloo
Holder: Ashton Mining Ltd
Grant Date: 11 April 2003
1:250,000 sheet: Waterloo
Minerals Sought: diamonds, base metals
SUMMARY

EL 10072 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 10072.

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 EL10072 during the 2003 field season. Field work is planned to commence during the 2004 field season.

Expenditure on the tenement during the reporting period totalled $5,746.
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1. EL 10072 Tenement Location
2. Regional Geology showing tenements and historic sampling
INTRODUCTION

EL 10072 was granted to Ashton Mining Ltd on 11 April 2003 for a period of six years. The area forms part of a substantial group of tenements in the Victoria River region, controlled by Rio Tinto Exploration who acquired the assets of Ashton Mining in late 2000. 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). EL10072 and the neighbouring tenements form part of the DMA-Rio Tinto joint venture.

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.

While EL 10072 was not one of the top priority areas covered in the year 1 program, a survey was conducted on the adjacent tenement to the north.

LOCATION AND ACCESS

EL 10072 is located 140 kilometres southwest of Timber Creek and 30 kilometres southeast of the Waterloo homestead on the Waterloo 1:250,000 map sheet in the northwestern part of the Northern Territory (figure 1). The eastern half of the EL lies within Aboriginal freehold land owned by the Amanbidji Nagurunguru Aboriginal Land Trust with the western part located within the Waterloo pastoral lease (PPL1047). Access to the area is via roads connecting the Waterloo and Limbunya districts.
GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

EL 10072 lies within the Victoria River District of north-western Northern Territory. Sedimentary rocks of the Neoproterozoic Auvergne Group dominated by the Jasper Gorge Sandstone and the Angalarri Siltstone are the most extensively exposed rock types within the EL.

The Jasper Gorge Sandstone is described as a blocky medium quartz sandstone which is strongly cross-bedded and ripple marked. It lies unconformably over shallow marinesediments of the Wondoan Hill Formation and the Wattie Group. The Angalarri Siltstone is a khaki and green siltstone with interbeds of fine sandstone and shale, and minor limestone. It lies conformably on the Jasper Gorge Sandstone.

In the southeastern and southwestern parts of EL 10072 the Neoproterozoic lithologies are in part overlain by the Lower Cambrian Antrim Plateau Volcanics that are described as massive and porphyritic basalt flows averaging 30m thick. Sediments and volcanics within EL 10072 are only gently folded, with bed dips rarely exceeding 10 degrees, except where adjacent to faults.

Significant mineralisation is not known to occur within the Auvergne Group. However the tenement is considered to be prospective for diamondiferous kimberlite pipes on the basis of its geological setting, its general proximity to the Timber Creek kimberlites and because positive indicator mineral results have been returned from sampling on neighbouring tenements.

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).

While no strongly anomalous results have been returned from the 51 samples recorded within the tenement, there a number of sample sites in tenements adjacent to EL 10072 which have returned anomalous indicator minerals and/or microdiamonds.

WORKCOMPLETED 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. Tenements neighbouring EL 10072 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, and a Falcon™ airborne gravity gradiometer survey was flown on the adjacent tenement to the north (EL8915).

No on-ground work was completed within EL10072 during year 1.
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 10072 lies within an area of anomalous kimberlitic indicator sampling results and forms part of a large project area in the Victoria River Basin. The nature and timing of further exploration will be based on the interpretation and testing of the Falcon™ data flown to the north of the EL during 2003 but it is anticipated that field exploration in and around EL10072 will begin during the 2004 field season.

PROPOSED EXPLORATION BUDGET

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EXPENDITURE STATEMENT

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