ANNUAL REPORT

ON EXPLORATION ACTIVITIES
YEAR TWO OF TENURE
PERIOD ENDING 20 May 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 wholly owned subsidiary of the Rio Tinto Group)
SUMMARY

EL 10025 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 first year of tenure, Rio Tinto conducted a thorough review of historic exploration data, including considerable surface sampling focussed on diamonds, and recommended divestment of the tenement. The timing of the divestment arrangement with DMA during year two of tenure precluded the instigation of field exploration activities during 2003.

Expenditure on the tenement during the reporting period totalled $6,997
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1. EL 10025 Tenement Location
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INTRODUCTION

EL 10025 was granted to Ashton Mining Ltd, a wholly owned subsidiary of the Rio Tinto Group (“Rio Tinto”), on 21 May 2002. Rio Tinto was at that time in 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 BHPB and it has particular application in diamond exploration.

BHPB and Gravity concluded an arrangement on Falcon™ deployment in Australia during the year (ASX announcement 01/07/2003) and then 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).

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 carried out in 2003 was focussed on areas of strongly anomalous diamond indicator mineral sampling results, obtained from Rio Tinto and surveys were conducted in the McArthur, Hodgson and Arnhem Land regions of the NT as well is in the Victoria River region which is the general locality of EL 10025. EL10025 was not covered in the Victoria River survey, the closest flying being at Tee Dee Hill some 75 kilometres to the northwest.

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

LOCATION AND ACCESS

EL 10025 ‘Depot Creek 2’ is located on the Limbunya SE 52-07 1:250,000 map sheet, 340 km SW of Katherine, western Northern Territory, Australia (Figure 1). Access is via the Victoria and Buchanan highways. The Buchanan Highway passes through the southern section of the EL. Access to the northern parts of the EL is via station tracks.

The EL is located immediately to the north of the Daguragu Aboriginal Freehold Land and lies on the Victoria River Downs pastoral lease (PPL1154). It is one of a group of contiguous granted EL’s and EL applications controlled by Rio Tinto Exploration Pty Ltd (RTE) in the region and referred to as the Victoria Diamonds Project.

The nearest diamond-bearing kimberlite/lamproite occurrences are Argyle (AK1) and Timber Creek, approximately 195 km to the NW and 160 km to the NNE, respectively.
GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

The broad stratigraphic sequence on the Limbunya 1:250,000 sheet is presented in the table below.

Much of the Precambrian-Cambrian geology of EL 10025 remains poorly known because a regolith of black and sandy soils obscures much of the underlying Proterozoic and Cambrian rock. EL 10025 is located over a regional linear anticline consisting of a series of anticlinorial domes extending approximately NNW-SSE. The anticline represents the westernmost exposed portions of the Birrindudu and Victoria Basins. Major faults occur along the limbs of the linear anticline. Upper Limbunya Group, of the Birrindudu Basin, is exposed in the core of the domes while lower Wattie Group of the Victoria Basin is exposed around the flanks of the domes and in the “cross fold” structural depressions between the domes. In the south of the EL, there are a number of sinkholes developed in the Wickham Formation of the Wattie Group. These sinkholes are of interest as some could be developed over kimberlitic diatremes. Some 180 km to the north west, the 179Ma Timber Creek kimberlites are hosted by the lower Bullita Group that stratigraphically overlies the Wattie Group in that part of the Victoria Basin.

A wide belt of Cambrian Antrim Plateau Volcanics basalts outcrop in the east of the EL. Relationships between the distribution of the Cambrian basalts and the anticline suggests either that the development of the anticline post-dated the Cambrian or that the anticline represented a topographic high at the time of extrusion of the basalts.

<table>
<thead>
<tr>
<th>Age</th>
<th>Basin</th>
<th>Stratigraphy</th>
<th>Major Lithologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quaternary</td>
<td>Regolith</td>
<td>Alluvium, sheetwash, colluvium</td>
<td></td>
</tr>
<tr>
<td>Tertiary</td>
<td>Regolith</td>
<td>Laterite, colluvium, black soil, silcrete, duricrust</td>
<td></td>
</tr>
<tr>
<td>Cretaceous</td>
<td>Dunmarra Basin?</td>
<td>Mullamen Beds</td>
<td>Sandstone, conglomerate</td>
</tr>
<tr>
<td>Middle Cambrian</td>
<td>Ord Basin</td>
<td>Goose Hole Group</td>
<td>Limestone, sandstone</td>
</tr>
<tr>
<td>Lower Cambrian</td>
<td>Wiso Basin</td>
<td>Antrim Plateau Volcanics</td>
<td>Basalt, sandstone, limestone</td>
</tr>
<tr>
<td>610 Ma</td>
<td>Wolfe Creek Basin</td>
<td>Duerdin Group</td>
<td>Sandstone, conglomerate, siltstone, diamicite</td>
</tr>
<tr>
<td>800 Ma</td>
<td>Victoria Basin</td>
<td>Auvergne Group</td>
<td>Sandstone, siltstone, dolostone, conglomerate, doloarenite</td>
</tr>
<tr>
<td>1610 Ma</td>
<td></td>
<td>Wattie Group</td>
<td>Siltstone, sandstone, dolostone</td>
</tr>
<tr>
<td>1660-1620 Ma</td>
<td>Birrindudu Basin</td>
<td>Limbunya Group</td>
<td>Dolostone, siltstone, sandstone, tuff</td>
</tr>
<tr>
<td>1880-1850 Ma</td>
<td>Basement</td>
<td>Inverway Metamorphics</td>
<td>Schist, acid volcanics</td>
</tr>
</tbody>
</table>
EL 10025 is located over the poorly drained, lateritised “Limbunya plateau” that is interpreted to have been associated with the Cretaceous Dunmarra Basin and probably also served as a palaeodrainage valley during the Cretaceous-early Tertiary. Microdiamonds and other indicator minerals have been found in existing creeks draining the plateau and on the plateau surface. The distribution of the indicator minerals on the plateau strongly suggests multiple geographic sources but the source rocks remain enigmatic.

The remnant outcrops of Cretaceous sandstones and conglomerates preserved adjacent to the Limbunya Fault may represent the deepest part (and last to be eroded) of the Cretaceous basin in the region. There is a spatial association between the location of the mapped Cretaceous sediments and the Proterozoic basement metamorphics. The Cretaceous basin (palaeochannel?) may have been deepest over the apex of the hinge of the Proterozoic anticline (dome?). There may be more Cretaceous conglomerates/sandstones in the Limbunya region that have yet to be identified, e.g., forming part of the lateritised Limbunya plateau. These have potential to be a source of diamonds and other indicator minerals. At least one diamond occurrence in the Limbunya region is downstream from tributaries eroding the Cretaceous sediments.

Tertiary laterite and black soil are the most widespread and dominant Cenozoic regolith types. Black soils remain an enigmatic regolith type and might, like alluvium, be reworked within drainage catchments allowing for the concentration and, possibly, dispersion of diamond and indicator mineral occurrences. Quaternary alluvial deposits (some of which contain diamonds) are largely confined to the margins of rivers and creeks.

On the basis of previous sampling and the geological environment, the EL is regarded as having potential for diamondiferous kimberlites.

**PREVIOUS EXPLORATION**

Previous exploration in the region had been focused on diamonds and base metals. Widely scattered, minor base metal (mainly copper) and barite occurrences are known within the Birrindudu and Victoria Basins. The nearest diamond-bearing kimberlite/lamproite occurrences are Argyle (AK1) and Timber Creek, 230 km to the WNW and 160 km to the north, respectively. Previous regional reconnaissance exploration for diamonds on the Limbunya and Wave Hill 1:250,000 map sheets had located clusters of surficial macro and microdiamonds and other indicator mineral occurrences but the source of these remains enigmatic.

The area encompassed by EL 10025 has received limited previous exploration. Work included reconnaissance and infill sampling for diamonds. Two samples in the south of the EL and one sample in the north returned indicator minerals.

Geopeko (which became North Mining) explored for base metals in the Limbunya region during the early 1990’s. Some distance to the west of EL 10025, drilling in the vicinity of the Limbunya Fault produced some weakly anomalous base metal values associated with various sedimentary units aged around 1640Ma. In the west of the area now covered by EL 10025, CRA Exploration drilled a diamond drill hole (DD90VRB01) in 1990 to assess the basin’s stratigraphic units for base metal mineralisation. The assessment did not provide sufficient encouragement to pursue the project further.

Ashton Mining collected mainly gravel but also a few loam samples from 74 sites from the area now covered by EL 10025 during several previous diamond exploration campaigns in the region. The most intensive sampling was concentrated along drainage catchments in the
south of the EL at a density of one sample per 2-10km². Elsewhere the gravel sampling tested catchments of 10-25km².

Three samples returned indicator minerals. One sample in the far southwest corner of the EL, from Gill Creek, returned a microdiamond. This sample is downstream from numerous microdiamond and other indicator mineral occurrences in and around Gill Creek. Another isolated sample in the south of the EL returned two chromite grains. A third sample in the north also contained two chromite grains. The results of the sampling by Ashton within the comparatively well-drained area suggests that there are no exposed kimberlites being actively eroded within the EL.

During the initial reporting period Rio Tinto reviewed the regional geology, geophysics, geomorphology and historical exploration data for EL 10025. The review formulated a variety of models and identified areas that might be the source of indicator mineral occurrences in the region. It also confirmed the geological prospectivity of EL 10025 for diamond-bearing kimberlite/lamproite diatremes but no advanced kimberlitic targets were identified. A thorough summary of this review is presented in the Year 1 annual report for EL 10025.

**WORK COMPLETED IN YEAR 2**

Gravity Capital completed an assessment of the compilation work carried by Rio Tinto and concluded that the area was not of sufficient priority to warrant a Falcon™ survey in the initial stages of the DMA-Rio Tinto farmer arrangement. No field work was carried out and the area will be reviewed when results from the Falcon™ survey completed some 75 kilometres to the northwest, are finalised.

**ENVIRONMENT AND REHABILITATION**

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

10025 lies within an area generally held to be prospective for diamonds. Results of the Falcon™ survey carried out to the northwest of the tenement in 2003 will determine the degree of exploration during the forthcoming year of tenure.

PROPOSED EXPLORATION AND BUDGET

Aerial Photography and satellite imagery $2,500
Interpretation costs $2,500
Field reconnaissance $10,000
Sampling and sample analysis costs $10,000

TOTAL $25,000

EXPENDITURE STATEMENT

Legal/Tenement administration costs $2,924
Professional personnel costs $2,662
Data processing / computing costs $325
Cartography $300
Travel and accommodation costs $150
Administration/overhead $636

Total $6,997