EL’s 22340, 22343, 22740, 22741, 22742 & 22743
Hodgson Diamonds Project, NT

COMBINED ANNUAL REPORT
ON EXPLORATION ACTIVITIES
YEAR TWO OF TENURE
9 July 2003 – 8 July 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
&
Rio Tinto Exploration Pty Limited
&
Ashton Exploration Australia Pty Limited

EL’s: 22740, 22741, 22742 & 22743
Holder: Rio Tinto Exploration Pty Limited
Grant Date: 9 July 2002
EL’s: 22340 & 22343
Holder: Ashton Exploration Australia Pty Limited
Grant Date: 25 July 2002
1:250,000 Sheets: Hodgson Downs SD 53-14, Larrimah SD 53-13,
Daly Waters SE 53-01, Tanumbirini SE 53-02
Minerals Sought: Diamonds, Base metals
SUMMARY

ELs 22340, 22343, 22740, 22741, 22742 & 22743 are located approximately 215 km SE of Katherine, to the east of the Larrimah and Maryfield Station homesteads. The EL’s were granted on 9 July 2002 (EL’s 22740, 22741, 22742 & 22743) and 25 July 2003 (EL’s 22340 & 22343) and comprise part of a larger block of tenements held by Rio Tinto Exploration Pty Ltd (“Rio Tinto”) and referred to as the Hodgson Diamonds Project.

The tenements form part of a farm-in agreement between Rio Tinto and Diamond Mines Australia Pty Ltd (“DMA”) covering numerous Rio Tinto tenements and applications in the Northern Territory. Under this agreement, DMA will conduct predominantly diamond exploration by utilising the newly-developed Falcon™ airborne gravity gradiometer system. The Falcon™ system has been shown to be effective in detecting kimberlite pipes. Gravity Capital Ltd is managing the farm-in arrangement for Diamond Mines Australia and owns 40% of DMA.

The tenements are considered prospective for commercial sources of diamonds. Historic sampling identified kimberlitic indicator mineral occurrences, including microdiamonds within the tenements, but the source of these remains enigmatic.

During the past year of tenure, a review of historic exploration data was conducted by Gravity Capital, which confirmed the potential of the area to host diamondiferous kimberlite pipes. On this basis, a Falcon™ survey was planned to cover the most prospective area within EL’s 22740 and 22741. The survey was conducted in August 2003 and results were received by Gravity Capital in November 2003. Interpretation and exploration targeting from the Falcon™ data has been completed, with target areas defined for follow-up work. Statutory requirements for field access and approvals for work programs are currently being finalised and it is envisaged that testing of these targets will commence during the current field season.

Total Expenditure on the licences during the reporting period totalled $495,420. A break-up for each licence is provided at the end of this Report.
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INTRODUCTION

EL’s 22340, 22343, 22740, 22741, 22742 & 22743 were granted to Rio Tinto and Ashton Exploration Australia on the 9 July 2002 (EL’s 22740, 22741, 22742 & 22743) and 25 July 2002 (EL’s 22340 & 22343). Ashton was acquired by Rio Tinto Limited in 2000.

The six EL’s comprise part of a larger tenement group in the area held by Rio Tinto and referred to as the Hodgson Diamonds Project. Both Rio Tinto and Ashton Exploration Pty Ltd had previously explored the tenement block area for diamonds, mainly using surface sampling techniques. This sampling identified kimberlitic indicator mineral occurrences, including microdiamonds, but currently the source remains enigmatic.

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 2003 (ASX announcement 01/07/2003). Gravity then formed a farm-in joint venture with Rio Tinto, through its 40%-owned associated company, Diamond Mines Australia Pty Ltd (“DMA”), with regard to diamond and base metal exploration over Rio Tinto-controlled tenements in the Northern Territory (ASX announcement 25/07/2003). ELs 22340, 22343, 22740, 22741, 22742 & 22743 form part of the DMA - Rio Tinto joint venture.

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

The 2003 flying program was planned to cover areas of anomalous diamond indicator mineral sampling results, obtained from prior exploration work. This resulted in the acquisition of Falcon™ data over a portion of EL’s 22740 & 22741. While the principal target within the tenement block is diamondiferous source rocks, some interest is also being directed toward base metal deposits.
LOCATION AND ACCESS

EL's 22340, 22343, 22740, 22741, 22742 & 22743 form a contiguous tenement block centered about 215 km SE of Katherine. The tenement block lies to the east of the Larrimah and Maryfield Station homesteads adjacent to the Stuart Highway (Figure 1). The tenement block overlies pastoral lease land used mainly for cattle grazing. Access is via the Stuart Highway from Katherine and turning east along station access roads near Larrimah Station homestead and near Daly Waters. Station tracks provide access to all other areas.

GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

The tenement block overlies the north east margin of the lateritised Cretaceous Dunmarra Basin. All major river catchments within the tenement block are sourced from the Dunmarra Basin plateau in the south and drain northwards into the Roper River. The Strangways River, which traverses through the centre of the tenement block, incises through the Cretaceous rocks down into the underlying Proterozoic rocks. West of the Strangways River the Dunmarra Basin plateau is drained by the poorly developed Cattle and Birdum creeks. East of the Strangways River the tenement block is reasonably well drained by the tributaries of the Strangways and Hodgson River catchments.

The lateritised Cretaceous sediments overlie Cambrian Nutwood Volcanics flood basalts, Neoproterozoic Bukalara Sandstone and Mesoproterozoic Roper Group. The Roper Group of the McArthur Basin is exposed along the Strangways River in the north of the tenement block, while the Cambrian flood basalts outcrop in the east and overlie Bukalara Sandstones of the Georgina Basin. Airborne magnetic data indicates that the Nutwood Volcanics are quite extensive beneath the thin veneer of Cretaceous sediments. While no Bukalara Sandstone has been mapped within the tenement block, it is most likely present below the Cambrian Volcanic units.

The tenement group is considered prospective for diamondiferous kimberlites by virtue of their location within the North Australian Craton, and also by the recovery of kimberlite indicator minerals from within the tenements themselves. Additionally, major geophysical lineaments which pass through the tenement block are suggestive of major, deeply penetrating structures which may have provided favourable pathways to kimberlitic intrusions.

Some 320 km to the south east of the tenement block, the Merlin kimberlite pipes are hosted by Bukalara Sandstone on a poorly drained plateau capped by lateritised Cretaceous sediments. Cretaceous sediments are known to fill karstic sinkholes and kimberlitic diatreme crater-like depressions developed on the pre-Cretaceous land surface. The Packsaddle and Blackjack kimberlite dykes are located about 50 km to the north of the tenement block. The Packsaddle-Blackjack kimberlite dykes are believed to be Jurassic in age and are hosted by Roper Group sediments.
PREVIOUS EXPLORATION

Both CRA Exploration and Ashton Exploration Australia previously explored the area covered by the tenement block for diamondiferous kimberlites. Both companies focussed most of their effort into gravel sampling the well-developed drainages within the eastern half of the tenement block, i.e., within the Strangways River and Hodgson River catchments. The weakly developed Cattle Creek and Birdum Creek catchments draining the western half of the tenement block were not sampled.

The previous gravel sampling by both companies returned numerous samples containing microdiamonds and other indicator minerals, mainly chromite. The results suggested that there were numerous geographic sources to the indicator mineral occurrences. Some chromite was identified as being possibly kimberlitic.

Ashton drilled a single RAB hole (HD001) within the tenement block that failed to intersect kimberlite. This hole formed part of the “Craters Project” targeting circular depressions and sinkholes in the region that might be associated with weathered kimberlite pipes.

During the previous reporting period Rio Tinto reviewed geomorphological, geological, geophysical, drilling and previous exploration data for the Hodgson Diamonds Project. The main conclusions from the review were that the source of the diamonds and indicator minerals within the tenement block remains enigmatic as the Cretaceous sediments may be a secondary source of non kimberlitic / kimberlitic chromite while the Nutwood Volcanics are a possible primary source for non-kimberlitic chromite. However, the review did confirm the potential for the tenement block to host diamondiferous kimberlite diatremes, qualified by the fact that surface sampling may not be the most effective means for discovering them. Thus, there is significant potential to discover kimberlitic diatremes/dykes beneath the shallow Cretaceous cover using detailed geophysical surveys, particularly considering these methods have not previously been applied to diamond exploration in the area.

WORK COMPLETED IN YEAR 2

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 sample data was carried out by Gravity (managing the project on behalf of DMA) during the current reporting period and this confirmed the potential for diamondiferous kimberlites to be located within the tenement blocks.

On this basis, a Falcon™ airborne gravity gradiometer survey was planned and acquired in August, 2003. Field survey work was done by Fugro Airborne Surveys under a contract with BHP Billiton, with whom Gravity Capital has the Falcon™ deployment agreement. The Falcon™ system was developed by BHP Billiton in the late 1990s and is considered to have the ability to detect kimberlite pipes.

The Falcon™ system records gravity gradient data via a system of accelerometers. This gradient data is transformed to produce the vertical gravity gradient (‘Gdd’) which approximates the first vertical
derivative of the vertical component of the gravity field. An integral transformation on ‘Gdd’ is applied to
generate ‘Gd’, which approximates the vertical component of the gravity field itself. Conventional total
magnetic intensity is also acquired as is laser scanner data, which is used to construct a very accurate (1m
vertical resolution) digital elevation model. The survey was flown on east-west oriented lines, 100m apart
at a nominal clearance of 80m above ground level. Falcon™ coverage was obtained over an area of
approximately 466 km² within EL’s 22740 and 22741. Data was processed by BHP Billiton’s Falcon

Interpretation and exploration targeting from the Falcon™ data has been completed, with target areas
defined for follow-up work. Statutory requirements for field access and approvals for work programs are
currently being finalised and it is envisaged that testing of these targets will commence during the current
field season. Images of the data are presented in figures 3 (Gdd), 4 (Gd), 5 (magnetics) and 6 (Digital
Elevation Model). The digital data and acquisition/processing report will be lodged with DBIRD in due
course.

ENVIRONMENT & REHABILITATION

No field-based exploration requiring rehabilitation was carried out during the reporting period. No
environmental issues have been identified regarding the six EL’s.

CONCLUSIONS AND RECOMMENDATIONS

ELs 22340, 22343, 22740, 22741, 22742 & 22743 comprise part of Rio Tinto Exploration’s Hodgson
Diamonds Project, Northern Territory, Australia. During the past year of tenure, a review of historic
exploration data was conducted by Gravity Capital Limited. The tenements cover areas which are
considered prospective for commercial sources of diamonds as anomalous kimberlitic indicator mineral
results, including micro-diamonds have previously been recovered.

On this basis, a Falcon™ survey was planned to cover the most prospective area within EL’s 22740 and
22741. The survey was conducted in August 2003 and results were received by Gravity Capital in
November 2003. Interpretation and exploration targeting from the Falcon™ data has been completed,
with target areas defined for follow-up work. Testing of these targets will commence during the current
field season, subject to successful completion of statutory requirements for approval of field programs.

Further work programs in the near future will concentrate on the follow-up of anomalies evident in the
Falcon data which may be representative of a concealed kimberlite intrusive.
PROPOSED EXPLORATION BUDGET

The proposed exploration budget for exploration within the tenement block during the coming reporting period is listed below.

<table>
<thead>
<tr>
<th>TENEMENT</th>
<th>EL22740</th>
<th>EL22741</th>
<th>EL22742</th>
<th>EL22743</th>
<th>EL22340</th>
<th>EL22343</th>
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<tbody>
<tr>
<td>Field support &amp; logistics</td>
<td>15,000</td>
<td>20,000</td>
<td>8,000</td>
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<td>5,000</td>
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<tr>
<td>Sampling and sample analysis costs</td>
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<td>15,000</td>
<td>8,000</td>
<td>8,000</td>
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<tr>
<td>Personnel costs</td>
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<tr>
<td>Office support, computing, cartography</td>
<td>2,000</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
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<tr>
<td>Administration, legal, overhead</td>
<td>4,000</td>
<td>5,000</td>
<td>3,000</td>
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<td><strong>TOTALS</strong></td>
<td>46,000</td>
<td>52,000</td>
<td>27,000</td>
<td>27,000</td>
<td>17,000</td>
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EXPENDITURE STATEMENT

The annual exploration expenditure within the tenement block during the current reporting period is listed below.

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<th>EL22741</th>
<th>EL22742</th>
<th>EL22743</th>
<th>EL22340</th>
<th>EL22343</th>
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<td>Legal/Tenement maintenance costs</td>
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<td>Professional personnel costs</td>
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<td>Falcon™ survey costs</td>
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<tr>
<td>Data processing / computing costs</td>
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<td>Cartography</td>
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<td>Administration/overhead</td>
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<tr>
<td><strong>TOTALS</strong></td>
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<td>8,840</td>
<td>5,620</td>
<td>4,520</td>
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</table>

REFERENCES

Bishop, S R., 2003. First Annual Report for the Period Ending 8 July 2003, EL 22740 Larrimah 1, EL 22741 Larrimah 2, EL 22742 Larrimah 3, EL 22743 Larrimah 4, EL 22340 Nutwood Downs and EL 22343 Kempsey Creek, Hodgson Diamonds Programme, Hodgson Downs SD 53-14, Larrimah SD 53-13, Daly Waters SE 53-01, Tanumbirini SE 53-02, Northern Territory, Australia
Figure 2: Hodgson Project
ELs 22340, 22343 & 22740 - 22743.
Regional Geology & Historic RTE / Ashton Sampling.

Date: 9/8/2004

RASTER IMAGES: 250K Geological Maps - SD5313, 5314, SE5301 & 5302
Projection: UTM Zone 53, Southern Hemisphere (WGS 84)

Legend:
- EL Granted
- Sample Location
- Chromite Recovery
- Diamond Recovery

Sample Location
Chromite Recovery
Diamond Recovery

EL22740
EL22741
EL22743
EL22742
EL22240

Cover
BUKALANA SANDSTONE
375000 mE
3225000 mN
3225000 mN

Roper Group
Stratigraphy

Chertlake River Formation
McMillan Formation
Bakken Formation
Member
Knells Member
Shiras Formation
Member
Montz Sandstone
Member
Volcanic Formation
Calcarite Formation
Buckle Creek Sandstone
Corrodeo Formation
Abber Sandstone
Muny Member
McGinn Sandstone
Member
Jeline Member
Arnold Sandstone
Member
Creedon Formation
Manora Formation
Lynxere Sandstone

EL 22340

Sample Location
Chromite Recovery
Diamond Recovery

LEGEND
Figure 3: Hodgson Project
ELs 22340, 22343 & 22740 - 22743.
Falcon Vertical Gravity Gradient 'Gdd'
Image. Dynamic Range of Survey = 70 Eo (approx)
Figure 4: Hodgson Project
ELs 22340, 22343 & 22740 - 22743.
Falcon Vertical Gravity 'Gd' Image. Dynamic Range of Survey = 8 mGal (approx)
Figure 5: Hodgson Project
ELs 22340, 22343 & 22740 - 22743, Enhanced Aeromagnetic Image