EL 8821
Arnold River 2
Hodgson Diamonds Project, NT

RELINQUISHMENT REPORT
ON BLOCKS DROPPED AT THE CONCLUSION
OF YEAR FOUR OF TENURE
PERIOD ENDING 24 JULY 2004

submitted by

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on behalf of
Diamond Mines Australia Pty Ltd
and
Ashton Mining Limited
(a wholly owned subsidiary of the Rio Tinto Group)

EL 8821
Holder: Ashton Mining Limited
Grant Date: 24 July 2000
1:250,000 Sheet: Hodgson Downs SD 53-14,
Minerals Sought: Diamonds, Base metals
SUMMARY

EL 8821 is located approximately 150km northeast of Daly Waters in the Northern Territory, within the Hodgson Downs 1:250,000 map sheet. The EL was granted to Ashton Mining on 24th July 2000. Ashton Mining Ltd was taken over by Rio Tinto Limited in the 4th quarter of 2000.

EL 8821 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 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 farmin arrangement for Diamond Mines Australia and owns 40% of DMA.

EL 8821 is considered prospective for commercial sources of diamonds. Historic gravel sampling shows that there are unresolved chromite and diamond occurrences in an area of Bukalara Sandstone on a nearby licence. During the past year of tenure, a review of historic exploration data was conducted by Gravity. The surface sampling had identified macrodiamonds, microdiamonds and other indicator mineral occurrences and clusters.

On this basis, a Falcon™ survey was planned to cover prospective areas within the Hodgson Project Area. The survey was conducted in August - September 2003 and results were received by Gravity Capital in November 2003. Interpretation and exploration targeting from the Falcon™ data is nearing completion, with target areas defined for follow-up work. Statutory requirements for clear access to target areas are currently being finalised and it is envisaged that testing of these targets will commence during the current field season.
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INTRODUCTION

EL 8821 comprises part of Rio Tinto Exploration’s (RTE) Hodgson Diamonds Project, Northern Territory, Australia. The EL was granted to Ashton Mining on 24th July 2000. Ashton Mining Ltd was taken over by Rio Tinto Limited in the 4th quarter of 2000. As a consequence of the takeover Rio Tinto Exploration Pty Ltd (RTE) acquired control of all of Ashton’s granted tenements and tenement applications around Australia.

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). EL 8821 forms 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 a licence located to the east of EL 8821. While the principal target in EL 8821 is diamonds, some interest is also being directed toward base metal deposits.
LOCATION AND ACCESS

EL 8821 is located approximately 150km northeast of Daly Waters in the Northern Territory, within the Hodgson Downs 1:250,000 map sheet (Figure 1). Historically Ashton referred to EL 8821 and other licences in this area as the Cox River tenement block.

Major access to the region is provided by the Stuart Highway that connects Alice Springs and Darwin. The highway lies along the southwest boundary of the project area. Helicopters were used for much of the previous diamond exploration.

EL 8821 and other tenements in this area overlie Alawa (Cox River) Aboriginal Trust Land (freehold) and are subject to the Cox River JV and ALRA Deed of Exploration with the owners.

GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

Rock types in the Cox River tenement area include sandstones and minor siltstones of the NeoProterozoic Roper Group, Cambrian Bukalara Sandstone and Lower Cretaceous sediments. Bedrock units are commonly covered by laterite, lateritic soils and Quaternary deposits.

Several North trending, pre-Cretaceous faults transect the eastern parts of the Cox River Tenement area. Sediments within EL 8821 are only gently folded, with bed dips rarely exceeding 15°. Drainage of the EL predominately occurs through tributaries of the Cox, Magaranyi and Arnold Rivers.

The Roper Group stratigraphic sequence contains low grade, stratabound, sedimentary iron occurrences but base metal occurrences are rare. The small, low grade, diamondiferous Packsaddle and Blackjack kimberlite dykes which occur in the northern part of the Hodgson Project area have intruded and are hosted by the Roper Group.
PREVIOUS EXPLORATION

Two small, low grade kimberlitic dykes (Packsaddle and Blackjack) were discovered by Stockdale in the late 1980’s on the north eastern margin of the Project area. These small dykes contain diamonds with low grades and shed kimberlitic chromite into drainages.

Surface sampling by both CRAE and Ashton was completed over the majority of the project area during the 1980’s with some subsequent infill sampling during the 1990’s. This sampling identified widespread macrodiamonds, microdiamonds and indicator minerals, mainly chromite, across the project area. The geochemistry of the chromite suggests they are derived from both kimberlitic and non-kimberlitic sources.

WORK COMPLETED ON RELINQUISHED BLOCKS

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 Arnold River tenement block.

On this basis, a Falcon™ airborne gravity gradiometer survey was planned and acquired in August and September, 2003. This survey was carried out over a licence to the east of EL 8821.

Interpretation and exploration targeting from the Falcon™ data is nearing completion, with target areas defined for follow-up work.

ENVIRONMENT AND REHABILITATION

No requirement for rehabilitation arose as no on ground field work was carried out.
CONCLUSIONS AND RECOMMENDATIONS

EL 8821 comprises part of Rio Tinto Exploration’s (RTE) 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 tenement covers an area which is considered prospective for commercial sources of diamonds as anomalous kimberlitic indicator mineral results, including both macro and micro-diamonds have previously been recovered.

Although EL 8821 was not covered by the Falcon™ survey carried out in August and September 2003, the results obtained from that survey, which covered a licence to the east, downgraded the western section of EL 8821 and that section was relinquished from EL 8821 at the conclusion of Year 4.
Compulsory 50% Relinquishment of EL 8821

Legend

- Current EL8821 boundary
- EL8821 retained area
- Compulsory relinquishment EL8821

Figure 2