



1 July 2003

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

**GRAVITY CAPITAL ARRANGES FUNDING OF
\$7.4 MILLION FOR DIAMOND PROJECTS**

Summary

Gravity Capital Limited ("Gravity") is pleased to announce that it has put in place funding of \$7.4 million which will allow it to aggressively pursue its Falcon™ System-based diamond exploration program in Australia. This has been achieved by an issue of shares in its wholly owned subsidiary Diamond Mines Australia Pty Ltd ("DMA") to sophisticated European investors and BHP Billiton Limited ("BHP Billiton"). Gravity will retain a 40 per cent interest in DMA and management of the company.

An Alliance and Falcon™ System Access Agreement has been negotiated with BHP Billiton which replaces the original previously announced Falcon™ System Deployment Agreement. It gives DMA the right to explore for diamonds in Australia using the Falcon™ System. It also grants DMA the right to assign the use of the Falcon™ System to Gravity for pursuit of the latter's non-diamond projects.

BHP Billiton will have certain buy-back rights over DMA's equity in any project. These rights remain in place up until such time as a 200 tonne bulk sample is completed on any discovery. If BHP Billiton elects to acquire DMA's equity, then DMA may choose between either selling 100% of its equity or retaining a minority percentage interest. In the first case, DMA would receive a cash payment equal to five times its project expenditure plus a three per cent gross revenue royalty on BHP Billiton's ultimate share of a mining project. In the retained equity scenario, DMA would receive a payment equal to three times its project expenditure plus a two per cent gross revenue royalty on BHP Billiton's share of any mining project.

The Falcon™ System survey over the Phillips Range project area has now been completed and that over North King George is in progress. Negotiations with respect to other projects, details of which have previously been released, are well advanced. On conclusion, the associated Falcon™ System programs will occupy the remainder of the northern Australia field season. Interpretation of the results from all these surveys is expected to take some months and DMA is looking forward to following up new targets later in this field season.

Details

Gravity has been instrumental in arranging funding for diamond exploration activities in Australia through its formerly wholly-owned subsidiary, DMA. DMA is a vehicle specifically created for the purpose of diamond exploration in Australia based on the Falcon™ System, BHP Billiton's proprietary airborne gravity gradiometer technology, one of its sources of competitive advantage in mineral exploration. All of Gravity's current diamond projects/joint ventures are owned within DMA.

Funding has been secured by the issue of shares in DMA to sophisticated European-based investors and BHP Billiton. Gravity will retain 40% and BHP Billiton 6.1% of DMA's issued share capital. Gravity will manage DMA's activities under a rolling Management Agreement, the terms of which have been agreed with BHP Billiton. DMA will remain a privately-owned company and will have a separate board comprising two Gravity representatives and an independent director, with BHP Billiton being entitled to nominate a representative. Mr Phillip Harman will be one of the Gravity representatives and Managing Director of DMA.

In line with this significant development, Gravity has negotiated a new agreement with BHP Billiton for the deployment of the Falcon™ System in Australia which allows for more flexible buy-back terms in DMA's favour. DMA now enjoys the right to explore for diamonds in Australia utilising the Falcon™ System in return for granting BHP Billiton buy-back rights in the event of a discovery of a major new diamond deposit by DMA. In addition, DMA, with board approval, will be able to assign non-exclusive rights to Gravity to deploy the Falcon™ System limited to the pursuit of its non diamond exploration projects other than in coal and iron ore, the exclusive Australia-wide right to explore for which is retained by BHP Billiton.

Buy-back Terms

The basic buy-back terms are as follows:

BHP Billiton will have the right to acquire DMA's interest until such time as a 200 tonne bulk sample has been completed.

In the event that BHP Billiton exercises this right, DMA will be able to choose between two options:

Option 1: BHP Billiton purchases 100% of DMA's equity

- A cash payment which will be the greater of \$5 million or five times historical expenditure on the project, plus
- A gross revenue royalty of 3% on BHP Billiton's share of future production.

Option 2: BHP Billiton purchases a major portion of DMA's equity

- A cash payment which will be the greater of \$5 million or three times historical expenditure on the project, plus
- A gross royalty of 2% on BHP Billiton's share of future production; and
- DMA retains a percentage of equity in the project and BHP Billiton becomes the Manager of the project.

If BHP Billiton wishes to dispose of the interest purchased, then DMA will have a pre-emptive right to reacquire the interest.

In the event that BHP Billiton elects not to acquire a percentage of DMA's equity in the project, then BHP Billiton will be entitled to:

- A two per cent gross revenue royalty on DMA's share of any mine, or
- Ten per cent of the sale proceeds if the project is sold to another party by DMA.

The funding now in place will allow DMA to pursue its Falcon™ System-based diamond exploration program over the next two years.

Current Project Status

The Falcon™ System has already commenced flying on DMA's joint venture projects at Phillips Range and King George North in the Kimberley Region of Western Australia. Interpretation of the results will take several months and DMA anticipates initiating field follow-up on targets later in the field season. This follow-up work will include further drilling on the Niobe diamond discovery made last year in the Phillips Range project area.

In addition, advancement towards finalising other previously announced agreements to allow flying to proceed is progressing well. Interpretation of the results from all of these surveys is expected to take some months and DMA is looking forward to following up new targets later in this field season.

The Application of the Falcon™ System in Diamond Exploration in Australia

Australia contains the Argyle Diamond Mine, the world's most productive in terms of carat production, but despite an extensive history of diamond exploration over the past 40 or so years and numerous positive indications, no other kimberlite pipes have been found that have the potential to be major producers. Most discoveries have been either small or low grade.

The Falcon™ System has demonstrated its capability in diamond exploration. Results published from a variety of projects around the world, including a limited number relating to Australia, have outlined the discovery of new diamond targets by the Falcon™ System. In particular, there are a number of well-known areas where traditional techniques have only been partially successful. These include parts of the diamond terrains in southern Africa where exploration has been reinvigorated by the Falcon™ System.

Australia's highly weathered surface presents a challenge to exploration technology and methods traditionally used in diamond exploration have only been partially effective. Many of the known kimberlite pipes have gravity anomalies but ground-based gravity surveys have only been used for localised applications because, in general, they are too slow and expensive.

The Falcon™ System is the first high-resolution gravity system that may be applied in rapid aerial reconnaissance mode. It therefore has the potential to significantly change the diamond exploration business in Australia through its ability to cover large areas of favourable terrain and produce new targets with the potential to be kimberlite pipes.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'P. Harman', followed by a long horizontal line extending to the right.

Phil Harman
Managing Director

For further information please contact:

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