

Resource upgrade heralds potential new producer

Quality management and a change of focus means Diamond Ventures will soon be joining the ranks of Australian gold producers. **By Damon Frith**



Diamond Ventures executive director Wally Bucknell ... "We have the advantage of being able to apply our bulk mining development and exploration skills from the gold mining industry in Western Australia."

The recent upgrade of the Touquoy gold project in Nova Scotia, Canada, to over 500,000 ounces of gold has paved the way for a re-rating of the former diamond explorer and added the company to the list of Australia's emerging gold producers.

Diamond Ventures changed its exploration focus from diamonds to gold in 1999 following a change of management. The company is now run by former executives and directors of Plutonic Resources, a highly successful Australian gold mining company which was bought by American gold giant Homestake Mining, itself since taken over by Canadian-based Barrick Gold Corporation.

Since taking control of Diamond Ventures, management has quietly chased a number of prospects in the company's gold portfolio but the Touquoy project has clearly emerged as the potential company maker for the group.

Touquoy is a potential 90,000oz per annum producer and Diamond Ventures executive director Wally Bucknell said the project was progressing well with "no apparent red flags" to stop the mine progressing to production.

A recent scoping study pushed the indicated and inferred resource of the project to over 500,000oz of gold and the company is now progressing the study into a final feasibility stage.

The feasibility study is expected to take another 12-18 months to complete and if all goes well a commitment to mining would entail an additional 12 months of construction, indicating first production in the second half of 2006 or early 2007.

The mine would have an initial life of five years but Diamond Ventures has a large land holding in the region and expects to be able to add to the resource once mining commences and cash starts

flowing into the company's coffers to fund an expanded exploration program.

Bucknell said Touquoy was located in a region which had been the subject of gold exploration since the 1860s but that work had focused on developing narrow quartz vein mineralisation similar in style to that found in Bendigo and Ballarat in Victoria.

"This property is presently unique in the region in that the wallrocks are also mineralised so that wide drill intersections of fairly even grade — some in excess of 100m — have been cut," Bucknell said.

"It therefore presents as an attractive openpit development, with a low stripping ratio and free-milling gold to boot. We have the advantage of being able to apply our bulk mining development and exploration skills from the gold mining industry in Western Australia.

"We've been able to prove up a large consistent envelope of mineralisation and since we started about a year ago we've increased resources by about 40%. If this deposit was in WA we think it would have been in the bank some time ago.

"The region is 90% covered in transported glacial till, which has presented a real challenge to previous explorers. All the known deposits outcropped and there have been no new discoveries for a century. We're basically RAB drilling through this cover and it's giving us some essential insights into how to effectively explore the area."

Diamond Ventures has also benefited from previous work done on the property by WMC's former Canadian gold exploration company, Seabright Exploration. The takeover of Seabright and other Canadian enterprises in the late 1980s became a nightmare for WMC and cost the company about \$500 million. While the ill-fated carrot for WMC in the Seabright portfolio was a separate property further east, the company never



Diamond Ventures is currently focusing on the Touquoy gold project in Nova Scotia, Canada.



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got to fully explore its Touquoy prospect within Diamond Ventures' tenements.

However, WMC did drill a lot of holes and the old core and drill data have proved invaluable in identifying resource extensions and advancing the resource development to justify a mining operation.

Diamond Ventures also has another couple of factors working in its favour. Nova Scotia has a long history of mining that continues today. Within 50km of Touquoy is the world's largest gypsum mine, several coal mines and a former Mississippi Valley-type zinc producer currently under care and maintenance. Rio Algom formerly operated a large openpit tin mine in the south-west part of the province.

The presence of a local mining culture is important for Touquoy as the region will be able to provide a skilled workforce and local councils and communities have an understanding of the mining industry and its particular needs and benefits. Canada also has low political risk, which is favourable for Diamond Ventures to promote the project to investors.

To date management has not seriously focused on marketing the company, having preferred first to build the substance. Funds required for its activities have been able to be raised from long-term investors in the company and its directors.

Diamond Venture's team know it is hard to get Australian fund managers interested in a project on the other side of the world. However, that said, as the project proceeds towards feasibility (and first production) local interest is expected to increase and the company expects to gather interest from Canadian investors keen to secure exposure to a development and exploration play on their home turf.

In the latest drilling report Diamond Ventures extended the mineralisation at Touquoy and brought a new area of the tenement into the feasibility study.

Touquoy West lies 2km from the main Touquoy gold deposit and encompasses

the historic Higgins & Lawlor and Stillwater gold deposits. Infill and extension drilling to upgrade the resource has yet to take place but a mineral resource of 1.52 million tonnes grading 2 grams per tonne of gold containing 99,000oz was estimated through validation of existing drill data.

The identified resource extended from the surface to a maximum depth of 200m and was confined within a 20m wide corridor in a contrasting style of mineralisation to that found at Touquoy. Additional mineralisation may yet be found at depth and along strike.

Combined with Touquoy the total project resource now stands at 571,000oz of gold contained in 8.43Mt at an average grade of 2.1gpt. A property wide reconnaissance drilling program extending for over 15km is currently underway to locate signposts to additional resources. It's not too hard to imagine that a resources base of 1-2Moz can be established in this somewhat neglected district.

The continued exploration success augurs well for the future of the project and Diamond Ventures. Based on the scoping study released in May this year Touquoy has a net present value of \$33 million and could make an after tax return of 30% based on a Canadian spot gold price of \$530/oz and annual production rate of 90,000oz.

In addition to Touquoy, Diamond Ventures has a number of Australian properties in varying stages of development. In Tasmania the company has access to land surrounding the very profitable Beaconsfield mine. The operation is one of Australia's highest-grade gold mines and the aim is to find a look-alike. Bucknell said the area was essentially untested but that a substantial drilling program was on hold while management focused its attention on Touquoy.

At Mt Drysdale in New South Wales Diamond Ventures is also chasing a copy of the 2Moz Peak gold mine owned by Wheaton River Minerals. Diamond Ventures

holds an exploration licence 30km north of Cobar and some initial drilling has started.

At Kookynie in WA the company has a 50% interest in mining leases containing total indicated resources of 142,000oz. Negotiations are underway to sell the property and raise some cash for other projects in the company's portfolio.

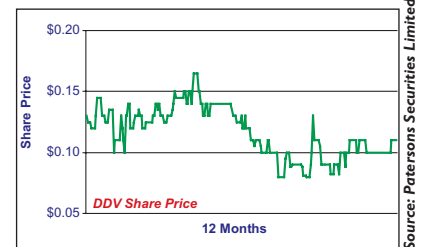
Lastly, the company retains an interest in its former focus, diamond prospecting. At Ellendale in the Kimberley region of WA Diamond Ventures has a majority interest in the Ellendale Pipe joint venture with Kimberley Diamond Company. The joint venture is adjacent to Kimberley Diamond's producing diamond mine.

"It's a piece of valuable ground that is not reflected in the share price," Bucknell said. "We have plans for the property but are waiting until we have a solid cash flow."

The lack of value in the share price from the diamond assets is not surprising. The fortunes of the company and the interest of both management and investors is squarely focused on Canada and Touquoy.

Touquoy has the potential to significantly re-rate the company in the market place and prior to production a new name for the company is on the cards. If the operation in Canada goes to plan the group should emerge in the latter half of the decade as a producing company with cash flow and an ambition to add an even larger operating mine to the portfolio.

diamond ventures ... at a glance



HEAD OFFICE

Suite 701
220 Pacific Highway
Crowns Nest, NSW 2065
Ph: (02) 9929 6633
Fax: (02) 9929 9366

Email:

enquiries@diamondventures.com.au
Website: www.diamondventures.com.au

DIRECTORS

Ron Hawkes, Wally Bucknell,
Don Cooper

MARKET CAPITALISATION

\$11.2 million (at press time)

MAJOR SHAREHOLDERS

Wapimala Pty Ltd (10%)
Regency Goldmark Pty Ltd (10%)
Regency Hallmark Holdings
Pty Ltd (10%)
Caimglan Investments Pty Ltd (7.4%)

DIAMOND VENTURES NL

ABN 82 062 091 909

Suite 701, 220 Pacific Highway, Crows Nest NSW 2065 Australia
Telephone: 02-9929 6633 Facsimile: 02-9929 9366 www.diamondventures.com.au

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Australian Stock Exchange Limited
10th Floor
20 Bridge Street
Sydney NSW 2000

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Please find herewith a copy of an article which appeared in 'ResourceStocks' magazine (September/October 2004) distributed this week.

Sincerely,



W R BUCKNELL
Executive Director

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