



19 December 2002

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

Dear Sir/Madam,

**Gravity Capital and Dwyka Diamonds Announce Proposed Merger
and Gravity Capital Announces Placement**

Gravity Capital Limited (“Gravity Capital”) and Dwyka Diamonds Limited (“Dwyka”) today have agreed in principle to a proposed merger of the two companies to create an enlarged diamond producing and exploration company. The proposal is subject to a number of conditions including execution of formal merger implementation and related agreements.

It is proposed that the merger be effected by the issue of two (2) Dwyka shares for every three (3) Gravity Capital shares. At a Dwyka share price of \$0.50, being the closing share price today, the merger proposal represents a value of \$0.33 per Gravity Capital share. This places a total value of \$4.36 million on Gravity Capital’s current issued share capital.

There are a number of reasons why the directors of both Gravity Capital and Dwyka believe that a merger of the two companies will maximise value for both sets of shareholders. It is proposed that the merged company, which will be listed on the ASX and whose securities will be traded on the AIM in London, will have:

- exciting diamond exploration projects in the Kimberley region of Western Australia, the Northern Australia diamond province east of Darwin in the Northern Territory and Queensland, and India along with a producing alluvial diamond mine in South Africa;
- access in Australia to the revolutionary Falcon™ airborne gravity gradiometer system developed by BHP Billiton Limited, which has gained widespread recognition of its application in the search for diamond pipes as well as other minerals;
- a strong and experienced management team with complementary skill sets;
- preferred alliance partner status with BHP Billiton Limited both in respect of the deployment of Falcon™ in Australia and the exploration for and development of world-class hard rock diamond deposits in India; and
- a sound financial base.

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PROPOSED MERGER TERMS

Consideration

It is proposed that the merger be effected by the issue of two (2) Dwyka ordinary fully paid shares for every three (3) Gravity Capital shares. Assuming the successful placement of the shares in Gravity Capital detailed below, this will result in the issue of approximately 10.47 million new Dwyka shares.

At a Dwyka share price of \$0.50, being the closing share price today, the merger proposal represents an attributed value of \$0.33 per Gravity Capital share.

Conditions

The proposed merger is subject to:

- execution of formal merger implementation and related agreements;
- completion of satisfactory due diligence by both parties;
- ratification by the respective boards of directors;
- successful renegotiation of arrangements by both parties with BHP Billiton; and
- shareholder and regulatory approvals.

Implementation Method

It is proposed to implement the merger by means of a Scheme of Arrangement undertaken by Gravity Capital. BHP Billiton has agreed to extend the time period of the Falcon™ System Deployment Agreement with Gravity Capital from 31 December 2002 to facilitate the merger process.

Timing

Subject to the Court making the necessary orders, it is currently expected that Gravity Capital shareholders should receive documentation in relation to the merger proposal in February 2003 with a Gravity Capital shareholder meeting to approve the Scheme proposed for March 2003.

PROSPECTUS STATUS AND PLACEMENT

In view of the proposal outlined in this announcement, the directors of Gravity Capital have determined not to seek an extension on the prospectus released to the market on 9 October 2002. All application monies received will be refunded as soon as possible.

To fund working capital requirements in the interim period while the Scheme of Arrangement is implemented, the directors of Gravity Capital have resolved to make a share placement of 5.0 million shares at \$0.20 per share to raise \$1 million. Gravity Capital shareholders earlier approved a placement of up to 75 million shares in a general meeting on 20 September 2002. Dwyka has agreed to take up 2.5 million of those shares. A further 2.5 million shares will be placed with other investors. The shares to be issued will represent approximately 27% of the enlarged issued capital of Gravity Capital.

Gravity Capital is being advised on the merger by Wilson HTM.

For further information please contact:

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Dwyka Diamonds Limited
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Gravity Capital Limited
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PROFILE OF GRAVITY CAPITAL LIMITED

Gravity Capital Limited is listed on the ASX and is an exploration company whose principal activities since 1992 have been exploring for base metals and gold in the Gawler Craton of South Australia. Early exploration in particular focused on the Tarcoola Goldfield where a global resource of 90,000 ounces was defined in and around the Perseverance prospect. More recently, exploration for copper gold deposits in the broader region of Tarcoola has led to the identification of a number of exciting prospects which have sparked renewed interest following the Prominent Hill discovery by Minotaur.

In December 2001, Gravity Capital set a new direction by concluding the Falcon™ System Deployment Agreement with BHP Billiton. This gave the company access to the unique Falcon™ airborne gravity gradiometer system in Australia. In return, BHP Billiton has the right to acquire Gravity Capital's interest in any major new discovery under favourable terms to the company. Based on this, over the past year the company has negotiated flying agreements to earn into a range of different high potential projects in Australia, in particular in diamond exploration and, to a lesser extent, base metals exploration.

The diamond projects include:

- Ellendale-Blina project with Kimberley Diamond Company NL

In a known producing diamond field, Gravity Capital may earn 50% of any new diamond pipes that are found by the Falcon™ system.

- North King George project with Striker Resources NL

In a region with small diamondiferous pipes, Gravity Capital may earn up to 60% in any new pipe discovered through the application of the Falcon™ system.

- Phillips Range Project with Thundelarra Exploration Limited and BHP Billiton Minerals Pty Ltd

Gravity Capital is farming in to an agreement to earn BHP Billiton's equity in the project and can earn up to 60%. A previous small Falcon™ survey flown by BHP Billiton in the vicinity of the Aries Pipe led to the discovery of new diamondiferous pipes south of Aries. Further fieldwork this season managed by Gravity Capital has led to discovery of a further small diamondiferous pipe, Niobe, to add to the potential of the region.

- Northern Australia Diamond Project with Rio Tinto Exploration Pty Ltd

As recently announced, a major joint venture was formed over a large group of tenements in the Northern Territory and Queensland. By application of the Falcon™ technology, Gravity Capital can earn 51% in any new pipe discovered. This project covers some of the highest potential diamond terrain in Australia with extremely positive indications in the historical databases but so far no major diamond pipe discoveries.

The company has a small, highly motivated management team with a broad range of exploration experience and a proven track record in growing junior companies. In line with its new direction, Mr Phillip Harman was recently appointed as Managing Director. Mr Harman joined Gravity Capital after a long career with BHP Billiton both as a geophysicist and in exploration management. He has worked in a variety of locations both in Australia and South America covering a broad range of commodities including diamond exploration.

Further information is available at www.gcap.com.au.

PROFILE OF DWYKA DIAMONDS LIMITED

Dwyka Diamonds Limited listed on the Australian Stock Exchange in December 2000. It currently operates two diamond mining operations near Kimberley, South Africa. These were obtained through the acquisition of Diamix Plc (Diamix). It also holds a variety of other exploration and development properties in South Africa.

As part of a broadening of its capital base, Dwyka was admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange in December 2001.

Dwyka recently reached agreement with BHP Billiton regarding an alliance for hard rock diamond exploration in India. BHP Billiton has the right to acquire certain properties and has applications pending over a substantially greater area. BHP Billiton has agreed to contribute to funding of the exploration in India by taking a placement in Dwyka.

Further information is available at www.dwykadiamonds.com.

Yours faithfully,



ED NEALON
Non-Executive Chairman
Dwyka Diamonds Limited



NIC LIMB
Executive Director
Gravity Capital Limited