VERONICA WEBSTER PTY. LIMITED
(Incorporated in Queensland; ACN 010 299 224)
Consultants to the Mining Industry
Les W Davis - Minerals Exploration Consultant

Brisbane Office
7 O'Quinn Street
Nudgee Beach, QLD. 4104
Telephone & Fax: 07 3267 3355
L Davis 0411 484 295
V Davis 0407 596 301

Email lesdavis@ozemail.com.au
POSTAL ADDRESS: P O Box 619, Hamilton QLD 4007

23 June 2004

The Directors
Diatreme Resources Limited
P O Box 295, Brisbane Albert Street BC, Qld, 4002

Dear Sirs

RE: INDEPENDENT VALUATION OF LOST SANDS PTY LTD

1.0 INTRODUCTION

1.1 Outline of commission

The Directors of Diatreme Resources Limited ("DRL") have commissioned Veronica Webster Pty Limited ("VWPL") to prepare an Independent Valuation ("Valuation" or "Valuation Report") of Lost Sands Pty Ltd ("LSPL") of which the mineral properties of LSPL – the Eucla Basin Project - are the principal assets. Other assets include gold prospects in Queensland and the Northern Territory and funds in bank accounts.

The Valuation Report will be included in an information memorandum to DRL shareholders along with a notice of extraordinary meeting to vote on the acquisition of all the shares and capital of LSPL.

1.2 Accreditation and Limitations

Mr. L W Davis who is a duly authorised representative and director of VWPL has prepared the opinion report, which includes an assessment of fair market value of the mineral tenements. Mr Davis of VWPL has had over 37 years experience in the minerals industry, is a registered Chartered Professional (Geology), and is affiliated with the Aus. I.M.M., and the A.I.G. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

L Davis will observe Section 947B of the Corporations Act 2001. In accordance with Corporations Regulation 7.6.01 (1) (u) and Corporations Amendment Regulations 2003 (No. 7) 2003 No. 202, the Valuation Report is not financial product advice but is intended to provide investors with expert opinion on matters relevant to an investment in LSPL. L Davis and VWPL are not operating under an Australian financial services licence and the advice in the Valuation is an opinion on matters other than financial products and does not include advice on a financial product.

Mr. L Davis of VWPL was supplied exploration reports by DRL and has been instructed to rely on the information being accurate and complete. Mr Davis has relied at his own discretion on the observations and interpretations of previous explorers, exploration consultants and DRL geological staff. However, the views and conclusions expressed in this report are solely those of VWPL and L W Davis.

None of the mineral tenements have been visited for the purposes of the valuation and validation of information.

An appraisal of all the abovementioned information forms the basis of this report.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

2.0 SUMMARY

The Eucla Basin Project is the most important and valuable of LSPL's assets. It is interpreted to have potential as a "world-class heavy-mineral sand province".

VWPL considers that economic HM deposits will eventually be discovered in the region as the known producing areas become depleted and more effort is concentrated elsewhere.

The significantly large size of the Eucla Basin Project, extending across an area of over 6700 sq km, make it a strategic holding for LSPL (Table 1). It allows for the discovery of large deposits of mineralisation.

LSPL has two gold projects, one in Queensland and one in the Northern Territory. Each is at an early exploration phase and drill targets need to be generated.

All of the tenements of LSPL are applications only. The valuations in this Report are conditional on the applications being granted, access given for the desired exploration programs and the execution of the committed programs. The valuation is valid at the date of this Report and is in A$ rounded to between 0.05 and 0.005 million for the Projects.

Asset	Description - target Program and Budget Commitment	Low value $million	High value $million	Preferred value $million
Eucla Basin Project, SA and WA	Medium to large heavy mineral sand deposit(s) $420 000 in first year includes drilling	0.9	1.8	1.1
Bogie River Gold Project, QLD	Mainly high-grade epithermal gold and intrusive related gold. $85 000 in first year.	0.10	0.25	0.15
Mt Dobbie Gold Project, NT	Vein gold – intrusive related and Carlin style deposits. $50 000 in first year.	0.015	0.020	0.015
Other Current assets	cash	0.077	0.077	0.077
Total (LSPL)		**1.092**	**2.147**	**1.342**

The preferred value of $1 342 000 has been arrived at using mainly expected value methods; refer Section 6 and Appendix.

In our opinion, the fair market value of the LSPL ranges from a low of A$1.09 million to a high of A$2.15 million and our preferred value is A$1.34 million.

3.0 THE EUCLA BASIN PROJECT

McIntosh, 2004 has supplied LSPL with a comprehensive report on the Eucla Basin Project, which VWPL has used as a principal source of information.

The Eucla Basin is a large sedimentary basin, about 1 500 000 sq km, located in the central part of the southern region of Australia landward from the Great Australian Bight. It extends from the southeast coast in Western Australia to the southwest coast of South Australia – about 2000 km in length and northwards through to the boundary of the Nullarbor Plain and the Great Victoria Desert – up to 500 km.

The basin contains continental and marine Cainozoic sediments ranging in age from 140 million years to the near present time.

The Eucla Basin Project is a group of six exploration tenements three in Western Australia and three in South Australia. These tenements cover the northern margin of the Eucla Basin which is interpreted as an ancient “fossil” shoreline that formed during the Tertiary period.

This basin margin is fault controlled. From the centre along the north-eastern edge of the basin, sand islands, coastal dunes and ridges developed extending from headlands. Accumulation of sediment by longshore drift occurred on the shoreline over large distances and over a long period of time, in several marine transgressions, due to the prolonged existence of the fault bounded margin. The stratigraphy and process of formation of shorelines are described in detail by Hou, Frakes, Alley and Heithersay, 2003, in “Evolution of beach placer shorelines and heavy- mineral deposition in the eastern Eucla Basin, South Australia.”

Concentrations of heavy minerals ("HM") containing rutile, zircon, ilmenite and minor leucoxene and monazite have formed beach placers or strandlines and have been discovered in several localities along the Tertiary shoreline. According to Hou et al, there may be as many as four generations of Tertiary shorelines containing HM bearing strandlines.

Analogies have been drawn between the eastern Eucla shoreline and that of North Stradbroke Island and Fraser Island off the coast of Queensland. There are similarities to the sand deposits of Busselton, Capel and Eneabba Western Australia and the Murray Basin in Victoria, all of which formed under similar conditions.

In the Eastern Eucla Basin the main marine transgressions are of Miocene and Eocene age but smaller marine transgressions occurred up to as late as two million years ago. Consequently the horizons prospective for heavy minerals are buried by both Tertiary and Quaternary sediments. This is similar to the geological history of the Murray Basin. In both regions drilling is required to discover and test the HM deposits.

The sediments of the Eucla Basin on lap rocks of the Albany-Fraser Orogen and Yilgarn Craton in Western Australia the Officer Basin and Musgrave Block in both Western and South Australia and the Gawler Craton, Duntroon Basin and Denman Basin in South Australia. These cratons are interpreted to be the principle source of the assemblages of the minerals found in HM deposits: ilmenite, rutile, monazite, leucoxene and zircon. They host large numbers of mineral occurrences (possibly including diamonds) and significant economic deposits which contain gold, platinoid group metals and rare earth elements. Ancient river systems drained the mineralised cratonic areas and transported large amounts of sand and minerals into the southern ocean where they were concentrated in the shoreline deposits by strong westerly winds and currents.

3.1 Tenure

State	Tenure	Tenement Name	Status	Date of Application	Holder	Area km^2
SA	ELA 109/02	Eucla 2	Application	18/07/2004	Lost Sands Pty Ltd	2235
SA	ELA 110/02	Eucla 3	Application	18/07/2004	Lost Sands Pty Ltd	2309
SA	ELA 18/04	Eucla 4	Application	01/03/2004	Lost Sands Pty Ltd	1556
WA	E69 1918	Forrest Lakes	Application	12/12/2003	Lost Sands Pty Ltd	210
WA	E69 1919	Shell Lakes	Application	12/12/2003	Lost Sands Pty Ltd	210
WA	E 69 1920	Wanna Lakes	Application	12/12/2003	Lost Sands Pty Ltd	210
					Total Area	6730

Table 1. Lost Sands Pty. Ltd. - Eucla Basin Project tenements.

None of the tenements are subject to Native Title claims but all three applications in South Australia lie within Maralinga Tjarutja Aboriginal Lands.

All three applications in Western Australia lie within the non-native title agreements between the Spinifex People represented by the Ngaanyatjarra Council, and the Western Australian Government and ratified by the Federal Court of Australia. The eastern most licence, Forrest Lakes, extends west from the state border lying wholly within Reserve 30490, (the Great Victoria Desert Nature Reserve) an A class reserve for Conservation of Flora and Fauna.

3.2 Exploration potential

Hou, Frakes, Alley and Heithersay claim that the eastern Eucla Basin has potential as a "world-class heavy-mineral sand province".

VWPL considers that economic HM deposits will eventually be discovered in the region as the known producing areas become depleted and more effort is concentrated elsewhere. Allocation of land to other uses has rendered some coastal mineral sands resources inaccessible to exploration or mining. In eastern Australia, the majority of inaccessible resources occur along the Queensland coast and make up half of this State's economic resources of zircon and a quarter of its economic resources of rutile. Similarly, almost half of New South Wales economic resources of rutile and zircon are inaccessible to mining. Western Australia remains the most prominent producer of mineral sands accounting for 90% of Australian production in 2002.

The significantly large size of the Eucla Basin Project, extending across an area of over 6700 sq km, make it a strategic holding for LSPL (Table 1). It allows for the discovery of large deposits of mineralisation in potentially multiple strandlines which can persist over large distances and sufficient to support large scale mining operations.

The region is remote so that exploration, production and costs will probably be higher than the coastal regions of Australia and the onshore Murray Basin region.

The Ooldea Sand, which is the main barrier strandline target in the three LSPL tenements (South Australia) is of some 200 km linear extent. Exploration has produced encouraging HM anaytical results. In the same unit , approximately 200 km to the southeast of the LSPL tenements very high HM sample results have been reported, Section 3.4.

3.2.1 Exploration target size

Analysis of existing HM deposit provinces provides an understanding of the order of magnitude of potential discoveries for newly discovered regions.

Discovering the small sized strandlines under considerable cover will involve considerable amounts of drilling. On the east coast, between Southport and the Clarence River, individual high grade beach deposits, averaging 10% HM, were commonly 0.6 m to 1.5 m thick and up to 7.5 m thick, usually 10 m to 15 m wide, tapering and dipping seaward. The deposits comprising stacks of en echelon distributed strandlines ranged from about 75 000 cu m to 750 000 cu m with one of 2 500 000 cu m. Surrounding the high grade areas are large amounts of lower grade sands for which information is scarce. This data was derived from McLeod, 1965.

In the Murray Basin, drill defined deposits yet to be exploited suggest the nature of exploration targets.

At Ginko the main continuous body – stack of lenses – is nearly 8 km long , from 450 m wide and about 40 m thick in its strongest parts. It has been estimated by Bemax Resources NL ("Bemax") as 252 million tonnes containing 2.8% HM at a cut-off grade of 1% HM: 7.06 million tonnes of HM. Ginko could be highgraded - 28 million tonnes containing 7.9% HM at a higher bottom cut-off of 5% HM.

Bemax has drilled 585 holes into the Ginko deposit and completed over 18 000 assays.

Consolidated Rutle Limited ("CRL") has a low-grade dredging operation on North Stradbroke Island from which it produced about 78 000 tonnes of HM from 36 million tonnes of ore in 2003. This translates to a grade of only 0.22% HM although the mean grade target is usually about 1% HM. CRL re-mines ground that was mined in the past by less efficient operations. The current ore body will be mined out by 2012 and the the dredges will move to another ore site.

In the concentrator the sand, which contains about 1% HM, is concentrated to around 90% HM using gravity separation so the process operating cost is very inexpensive. Mineral separation is carried out at a treatment facility onshore at the Brisbane River.

Currently, reserves are reported as 4 627 000 HM proved and probable at a cut off grade of 0.7% HM so the resource is in excess of 660 million tonnes.

Dry mining of higher grade ore on the flanks of the dredge paths is being planned.

3.3 Previous Investigations

Three explorers are recorded to have worked in the area:

- Aquitaine Australia Minerals Pty.Ltd., searching for uranium. Geomorphic mapping, geophysical imagery and reconnassance sampling may be of small use to LSPL.
- BHP Minerals Ltd (“BHP”) searching for HM in beach sands.
- CRA Exploration Pty. Ltd., searching for shale oil and secondarily lignite and base metals. Results are scant.

Only the exploration by BHP has any direct bearing on the initiative of LSPL.

3.3.1 BHP - South Australia EL 1355 and ELs 1653 – 1655

The block of three ELs, 1653 - 1655, explored for heavy mineral sands overlaps the LSPL tenure. Drilling was completed on 13 traverses, along existing tracks or bulldozer constructed access, across the ELs and one to the southeast near the western edge of EL 1355. A total of 229 holes were drilled for 6447 m. Holes were spaced at average of 1 km centres along the traverses. Ground magnetic survey of three of the traverses and gamma logging of 12 holes was also completed. Total expenditure on the three ELs was reported as $475 138.

Composite drill samples over 10m (total 679) were submitted for analysis. The original individual 2 m sample splits collected were then also analysed from those 10m composite intervals that reported anomalous values; > 0.5% HM (41 samples). Twenty eight samples analysed in excess of 1% HM with a few above 5% HM. Mineral separation showed ilmenite to be dominant, 12 % to 35%, rutile ranged from 2% to 5%, and zircon ranged from 28% to 47%.

In a few very high grade samples – up to 20% HM - non-economic iron oxide minerals dominated the assemblages and rutile and ilmenite contents were very low on a percentage basis.

Sand cover over the HM horizons is generally between 20 m and 40 m and fluctuates markedly because of dunes. The strike of the dunes is similar to that of the strandlines.

Considering the wide drill spacing of 1 km along traverses and the narrower width of strandlines the results are very encouraging. The chance of finding smaller zones with higher grade by drilling at shorter intervals is considered high.

3.4 Evidence for HM deposits in the Eucla Basin

The westernmost BHP traverse drilling described above verifies the existence of HM deposits which contain significant ilmenite and rutile in the LSPL tenement area.

Two hundred kilometres to the southeast of the LSPL application areas, Geopeko Limited located two distinct heavy mineral strandlines at the Immarna Prospect. Metallurgical testing showed the strandlines were dominantly ilmenite with an average TiO_2 between 61% and 62.1%. Drilling near Lake Ifould showed some encouraging results with some significant intersections within the Ooldea Sand. The best intersection was 27.2% HM the mineral assemblage comprising 51% zircon, 43% ilmenite and 3% rutile.

4.0 GOLD PROJECTS

LSPL has two gold projects, one in Queensland and one in the Northern Territory.

4.1 Bogie River Gold Project - Queensland

The Bogie River Project comprises EPMA 14402 "Tondarra" and EPMA 14675 "Teatree Creek". Both contain 100 sub-blocks (about 600 sq km) and are situated some 125 km south southeast of Townsville.

4.1.1 Previous investigations

The only previous mining activity in the region was restricted to small scale gouging of copper from a small open cut at Mount Carlton.

Modern exploration in the area has tested for porphyry and epithermal style gold mineralisation.

Otter Exploration NL and AO Australia held parts of the ground in the 1980s and explored for porphyry systems using geochemical sampling techniques.

In 1985, BP Minerals Australia ("BP") carried out photo-geological studies, stream sediment sampling, reconnaissance rock sampling and traverse-based sampling in the Mt Wickham area.

In 1989 – 1990, Carpentaria Exploration Pty Limited ("CEC") prospected the area under EPMs 5001, 5002 and 5576 in a joint venture with Ashton Mining Limited ("Ashton"). At Quartz Hill prospect, after grid based geological and geochemical programs, three diamond holes and five percussion holes were drilled under the most encouraging sample results.

In 2001 – 2000. Gold Fields Australasia Pty Ltd evaluated Quartz Hill but did not drill.

4.1.2 Geology and mineralisation

The area lies at the northern end of the Bowen Basin and is bounded to the west by the Millaroo Fault Zone and the Almoola Hinge Zone of the Conners-Auburn Arch to the east. The oldest rocks in the area are Upper Carboniferous or Lower Permian granitoids, which form the basement to the Bowen Basin. The granitoids are generally recessive consisting of a series of deeply weathered stocks ranging in composition from granite, microgranite, granodiorite, ademellite and quartz diorite. The basement granitoids are overlain by a sequence of Lower Permian andesitic volcanics - Lizzie Creek Volcanics - into which a number of altered rhyolite intrusives have been emplaced -. Mt Wickham Rhyolite.

A number of prospective areas containing epithermal style veining, brecciation, sinter, alteration and gold mineralisation have been located. Known mineralisation in the area includes a small gold resource of approximately 100 000 tonnes grading 5 g/t gold associated with an intrusive rhyolite body at Herbert Creek East. Gold mineralisation is associated with siliceous breccia zones in altered andesites and on the margins of rhyolite intrusives at Mount Carlton. Neither Herbert Creek East nor Mt Carlton are within the LSPL tenement. The gold bearing epithermal system at Quartz Hill is a well-known type locality for this style of mineralisation.

The widespread alteration in the Mt Wickham Rhyolite comprises mainly intense silica-pyrite and clay. Sampling by BP, Ashton and others produced widespread weakly anomalous base metal, arsenic and precious metal analytical results in rock samples and stream sediment geochemical samples.

The northern part of EPMA 14402 and EPMA 14675 takes in the prospects of Edinburgh Castle, Humpty Doo, Bonnie Doon, Anomaly 8/1, Fish Creek, Tea Tree Creek and Higgings Hill. The southern part surrounds Quartz Hill and Mt Wickham.

All these prospects show alteration (silica, sericite, sulphide, clay) and elevated stream sediment and rock chip sample geochemical results. The strongest alteration is seen at Quartz Hill where there are numerous veins. The alteration has been described as low sulfidation epithermal style and classic quartz-chalcedony textures – colloform and crustiform - banding occur in the veins. Celadonite (a soft, green or gray-green, mineral of the mica group containing potassium, magnesium and iron) alteration accompanies the siliceous alteration at Quartz Hill as it does many of the economic epithermal deposits in the Drummond Basin.

4.1.3 Exploration potential

In spite of the rather disappointing surface sample results the region in which the tenement is situated still retains appeal for epithermal gold mineralisation and possibly other intrusive related gold systems associated with altered Triassic volcanic centres.

Although shallow drilling of veins at Quartz Hill was unrewarding, there is an opprtunity to test for extensions of the mineralisation at depth. Epithermal systems are notorious for abrupt changes in tenor over short intervals.

Mt Wickham is a large altered felsic volcanic pile. It has been extensively altered. A gold (bulk cyanide leach or BCL) anomaly on its eastern side requires follow up as no source for this has been found.

The northern area contains Edinburgh Castle prospect where extensive work has previously been carried out and requires reassessment.

LSPL have contemplated a program of around $85 000 in the first year dealing with Quartz Hill, Mt Wickham and Edinburgh Castle.

4.2 Mt Dobbie – Northern Territory

Exploration Licence Application 24098, of 56 sub blocks (approximately 180 sq km), is situated some 25 km from the NT-Queensland border, about 100 km south of the Plenty Highway. The nearest large property Station is Tobermory. The area of interest is on the northern edge of the Simpson Desert and within the Atnetye Aboriginal Land area.

Rocks in the area are interpreted to be the eastern extremity of the Proterozoic Ngalia Basin – metasediments intruded by granitoids. Outcrop is obscured by sand dunes to the south. Numerous quartz vein systems, ranging from narrow, less than 1 m to 50 m wide have been discovered in a prospective zone of calcareous sediments and within the Mt Dobbie Granite.

There is some pitting but the extent of modern exploration is not known. The vein outcrops that have been sampled by Fawdon and Skett in 1992 (35 samples), occasionally contain sulphide and sample assay results are sometimes elevated in base metals, mainly copper and lead. Gold assays are usually less than 0.005 ppm; the highest 0.1 ppm. Panning of some crushed quartz vein samples at Mt Dobbie produced gold which suggests gold may be of a coarse and erratic nature.

LSPL plans to spend $50 000 in the first year of operation on geological studies and geochemical sampling.

5.0 OTHER ASSETS

At 9th June 2004, LSPG held $77 244.74 in cash: $50 000 in interest earning term deposits and $27 244.74 in a cheque account.

The company does not have any fixed assets. Goodwill and intellectual property has been considered and allowed for in the Project valuations.

6.0 VALUATIONS

6.1 Choice of valuation method

VWPL has chosen to place a value on the mineral properties of LSPL by using the Expected Value or probabilistic method. This method is a way of determining a likely outcome for a financial model by probability.

Cash flow analysis - the discounted cash-flow-rate-of-return ("DCFROR") method can only be applied to projects which contain indicated or measured resources from which mining reserves can be defined according to JORC. Such reserves may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The more reliable the assessment of the resources/reserves, costs of mining and treatment, capital costs of mining and treatment, recovery in the mining and treatment processes, metal prices, exchange rates and all the associated operation issues, the more accurate the DCFROR method becomes. But it is always subject to assumptions and uncertainties of the estimations of a current nature and also for those in the future life of the project.

Therefore although independent operators may achieve similar results, there is a deal of subjectivity in a DCFROR statement and it is most often presented as a value range. This range is controllable to some degree by the selection of an appropriate discount rate which expresses the value of the project in terms of present day money. This is called the Net Present Value ("NPV"), the range of which is estimated by assuming a variety of discount rates to assess risk. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated; this is when the NPV has a value of nil. Application of high discount rates achieve lower NPVs than low discount rates; the higher the risk perceived for the project the higher the discount rate should be

With Expected Value, a NPV target is assumed. For the mineral properties of LSPL we have studied the HM deposits in other regions and assigned probabilities (the cumulative probability for the NPV, less the discounted exploration expenditure) for discovering deposits for which NPVs or cash values have been estimated.

For the gold Projects, VWPL has extensive experience in the geological types and values of deposits which might be discovered and has considered without prejudice the opportunities for LSPL.

6.2 Economic target for LSPL properties in the Eucla Basin.

In October 2000, Resource Equity Consultants Pty Ltd, (“RECPL”), valued the Ginko Project as $43 million, using a discount rate of 10.5%, $27 million at a discount rate of 13%. The final valuation range for the Project was $35 to $51 million. Ginko is scheduled to mine the known resource, refer above, over a period of 10 years.

The valuation represents around $6 for each tonne of resource (cut off grade of 1% HM) and $9 of reserves HM in Ginko (cut off grade of 2% HM).

The North Stradbroke mines of CRL have been operating since 1966 and all the mining, production and marketing aspects are in place. For the four-year period 2000 to 2003, CRL reported an after tax profit of around $44 million.

In 2001, Iluka Resources Limited (“IRL”), which owned 43.34% of the shares of CRL, made an offer for the remaining shares. The offer of $1.00 per share represented a 21% premium to the trading value of the CRL shares in the previous six months – about $0.83. At this time, IRL held about 75 million CRL shares which would have had a market value of about $62 million and were prepared to pay about $96 million for the others; placing a value on the fully paid ordinary shares of CRL of about $158 million. (The partly paid shares in CRL amounting to 91 000 paid to $0.04 have been ignored).

The offer represents a value of around $34 for each tonne of reserve HM in North Stradbroke.

The Eucla Basin Project of LSPL is remote and VWPL considers that a discovery with geological and economic criteria similar to that of Ginko would be a minimum requirement. Probability for discovering mines with NPVs in the range of $50 million to $150 million have been considered in the valuation.

LSPL have written exploration programs totalling $190 000 for the WA tenements and $230 000 for the SA tenements in the first year of activity. This has been assumed to be a commitment for the valuation process.

6.3 Valuation results for Eucla Basin Project

VWPL has taken into account:

- Access/tenure status/Native Title – The valuation is conditional on all the tenement applications being granted
- Geology and previous exploration results.

- Experience of LSPL exploration staff.
- Future programmes – expenditures and risk assessment - The valuation is conditional on the first year program budgeted at $420 000 be completed.
- commodity markets, Australian Stock Exchange ("ASX") indices

Valuation was carried out using Expected Value and Multiples of expenditure methods, see above and Appendix.

Probability for discovering mines with NPVs in the range of $50 million to $150 million have been considered in the Expected Value.

Previous BHP expenditure of $475 000 and commited expenditure of $420 000 by LSPL has been used as valid in the Multiples of expenditure method. LSPL has allowed for $260 000 drilling on strandline targets in the first year.

The valuation is valid at the date of valuation only. All $-references are Australian dollars.

VWPL has allowed for between 95% and 99% risk for discovering a deposit with a NPV of $50 million and 1% to 5% risk for a NPV of $150 million. No value was attributed for deposits with values of less than $50 million.

For exploration programs after the first year 10% to 70% risk was allowed for completion.

After studying numerous scenarios VWPL identified a range of between $0.86 million and $1.8 million as appropriate.

One case assumed between 20% to 70% risk in continuing exploration phases and allowed an approximate of 99% chance for a future discovery to have a NPV of $50 million or less and less than 1% chance for a discovery to have a NPV of around $150 million. This results in a value of $1.1 million, for 100% equity and rounding. The risk equates to around a one in 50 chance of discovering and mining the smaller deposit and around one in 5000 chance of achieving this outcome for the larger deposit. Other higher and lower risk cases were considered.

The Multiples-of-Cost-of-Valid-Work method was applied and valuations of similar order were achieved: $0.9 million for a PEM of 1.0, $1.3 million for a PEM of 1.5.

6.4 Valuation of Gold Projects

6.4.1 Bogie River Gold Project valuation

The focus of exploration will be exploring for concealed epithermal gold mineralisation at the prospects of Quartz Hill and Mt Wickham.

Possible drilling is allowed for in the first year committed buget of $85 000.

Based on exploration potential for the Bogie River Project, using Expected Value methods, a valuation range from $0.10 million to $0.25 million results.

One case assumes between 10% to 70% risk in continuing exploration phases and allows an approximate of 90% chance for a future discovery to have a NPV of $8 million or less and an approximate 10% chance for a discovery to have a NPV of around $60 million. This results in a value of $0.15 million, for 100% equity and rounding. The risk equates to around a one in 100 chance of discovering and mining the smaller deposit and around a one in 1000 chance of achieving this outcome for the larger deposit. Other higher and lower risk cases were considered.

This valuation is conditional on the granting of the EPMs.

6.4.2 Mt Dobbie Project Valuation

A well defined deposit target is not possible at this stage although the area could host intrusive related or Carlin style mineralisation. Because exploration is at such an early stage and the remoteness adds operational difficulties VWPL has chosen to value the prospect by the Multiples-of-Cost-of-Valid-Work method and have applied a PEM of 0.3 to 0.4, refer Appendix.

Prospecting by Fawdon and Skett	$ 5000
LSPG first year exploration	$45 000
Total	$50 000

The valuation of Mt Dobbie is $15 000 to $20 000. This valuation is conditional on the granting of the ELA and securing access to undertake the work.

6.5 Valuation of other assets

LSPL has current cash in bank in excess of $77 000 and this has been incorporated in the value of LSPL.

7.0 COMPARISON WITH PREVIOUS VALUATIONS

No previous valuations concerned with the Eucla Basin have been discovered. VWPL has not found valuations or prospectus reports that have dealt with the Bogie Creek or Mt Dobbie Projects.

8.0 SOURCES OF INFORMATION

The following information was supplied by LSPL. Key references are emboldened.

Eucla Basin Project

ANDERSON, C. McM. 1993: Overview of the Australian mineral sands industry. 1251-1258., in Australasian Mining and Metallurgy. (Eds.) J. T. Woodcock and J. K. Hamilton: The Australasian Institute of Mining and Metallurgy, Monograph 19.

Bemax Resources NL. Annual Report 2003.

BHP Exploration Reports in Eucla Basin - Extracts

Consolidated Rutile Limited. Annual Report 2003.

Consolidated Rutile Limited. Website 2004. www.consrutile.com.au.

HOU, B., ALLEY, N.F., FRAKES, L.A., GAMMON, P.R., and CLARKE J.D.A. 2003: Facies and sequence stratigraphy of Eocene palaeovalley fills in the eastern Eucla Basin, South Australia. Sedimentary Geology 163, 111-130.

HOU B., FRAKES L.A., ALLEY N.F. and HEITHERSAY P. 2003: Evolution of beach placer shorelines and heavy- mineral deposition in the eastern Eucla Basin, South Australia. Australian Journal of Earth Sciences 50, 955-965.

Iluka Resources Limited, June 2001. Cash offer by Iluka Corporation Limiter, a wholly owned subsidiary of Iuka Resources Limied to acquire all of the ordinary shares in Consolidated Rutile Limited at a price of $1.00 cash for each fully paid CRL share.

Lost Sands Pty Ltd. 2004. Information Memorandum – Offer document for sophisticated investors.

McLEOD I. R., 1965. The Mineral Industry: The Mineral Deposits. 53 Titanium and Zirconium pp 623 – 34.*Dept Nat Rev Bur Min Res Geol and Geophys.*

McINTOSH D., 2004. Eucla Basin Project. Lost Sands Pty Ltd.

Minfo – New South Wales Mining and Exploration Quarterly, February 2002. Mining at Ginko on Track for 2003.

Register of Australian Mining 2003/04.

Resource Equity Consultants Pty Ltd, 2000. Independent Technical Assessment and Fair Market Value of the Mining and Exploration Assets of Bemax Resources NL.

Resource Equity Consultants Pty Ltd, 2003. Independent Experts's Report on Conversion of Bemax's Indebtedness to Cristal to equity, and Issue of further Bemax Shares and Options to Cristal

Resource Equity Consultants Pty Ltd, 2004. Independent Expert's Report on Proposed Merger of the Mineral Sands Interests of Bemax, Nissho Iwai and Sons of Gwalia.

SCHACHE I. 2002. The Ginko Project. Bulletin Aus. I.M.M. March/April 2002.

SMITH M. 2002. Mildara Conference Highlights – Mineral Sands Progress in the Murray Basin. AIG News, Quarterly Newsletter No 68 May 2002.

Bogie River Gold Project

Selected Reports to Department of Mineral Resources and Mines (CR = Company Report)

- **BP Minerals Australia Limited: CR 15313, 16339**
- **Carpentaria Exploration Pty Limited: CR 22086**
- **Goldfields Exploration Australasia Pty Ltd: CR 33393**

LSPL Staff – Notes and comments.

MT Dobbie Gold Project

Fawdon and Skett – notes and comments, assay receipts and photographs.

9.0 DECLARATION

9.1 Qualifications and Experience

This report has been prepared for Veronica Webster Pty Limited through its duly authorised and qualified representative, Mr. Leslie William Davis, Minerals Exploration Consultant and Director of the company. Veronica Webster Pty Limited has operated in Australia serving the mining industry since 1980.

Mr. Davis has had 37 years experience in the minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985. Mr. Davis is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

His principle qualification is Bachelor of Science (Special Geology) Leics., UK. His professional affiliations are as follows:-

Fellow - The Australasian Institute of Mining & Metallurgy :103477
Charted Professional Geology CPGeo
Fellow - Australian Institute of Geoscientists
Member -Geological Society of Australia

9.2 Independence

Veronica Webster Pty Limited and L W Davis have no conflict of interest in preparing this report. The report has been commissioned by LSPL with payment to be made for services rendered solely on a standard time-fee basis. The companies and consultants preparing this report have no association with LSPL nor have they any financial interest in or entitlement to LSPL or any associates of LSPL.

9.3 Limitations

The views expressed in this report are solely those of Veronica Webster Pty Limited, and L W Davis. When conclusions and interpretations credited specifically to other parties are discussed within the report, then these are not necessarily the views of Veronica Webster Pty Limited or L W Davis.

9.4 Consents

Veronica Webster Pty Limited hereby consents to the inclusion of the Valuation Report in an Explanatory Memorandum, Prospectus or other information to be provided to shareholders and investors in both electronic and paper form, in the form and context in which it appears and advise that we have not, at the date of the report, withdrawn such consent. VWPL was only commissioned to prepare, and has only authorised issue of this technical report on LSPL's exploration tenements specified in the report. It has not been involved in the preparation of, or authorised issue of, any other part of an explanatory memorandum to LSPL shareholders in which this Valuation Report is included.

For and on behalf of

VERONICA WEBSTER PTY LIMITED

L W DAVIS
BSc (Special Geology), Leics. UK, FAusIMM, FAIG, CPGeo

APPENDIX

VALUATION PROCEDURES

1.0 Valuation Methodology

Projects, which contain indicated or measured resources from which mining reserves can be defined may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The discounted cash-flow-rate-of-return ("DCFROR") method may then be applied to express the value of the project in terms of present day money, often called the Net Present Value ("NPV") using a variety of interest rates. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated.

Valuation of exploration tenements, which have geological prospectiveness but no defined resources, is more subjective and therefore contentious. Methods which can be applied include, when appropriate, expected value probability, multiples of past relevant and future committed expenditure, joint venture terms and points rating methods.

A brief description and commentary on some inherent advantages and disadvantages of subjective valuation technique follows.

1.1 Expected Value of Discovery (probabilistic method)

In phased exploration, a programme of work is planned to increase the value of the property. At the completion of the programme, the results are assessed and a decision is made whether or not to engage in a further programme. This process continues, ideally until there arrives a point of withdrawal or commercial discovery. At any stage, the probability of continuing or withdrawing may be forecast and also the probability of discovering various sizes and styles of mineral deposits and their NPV. The probability factors are judged by and are the responsibility of the valuer.

A simple example of the procedure is as follows. The probability factors for continuing each stage of work are multiplied together, steps 1 to 5, and then multiplied by the value of the predicted discovery. In the example, the probability for any discovery has been estimated to have a probability of 0.013 (step 5). This is about one chance in 80. The value of the overall discovery is a notional NPV, which may be a product of several possible discoveries (A, B and C, in the example). In that case each possible discovery must be considered to be a percentage of the NPV.

Activity	**Probability of proceeding**	**Cumulative probability**
1 Early exploration (committed expenditure)	100% or 1.0	1
2 Follow up activity	70% or 0.7	0.7
3 Drill testing	30% or 0.3	0.21
4 Evaluation drilling	20% or 0.2	0.04
5 Feasibility study	30% or 0.3	0.013
A Discovery NPV = $2.0 million	80% or 0.8	0.010
B Discovery NPV = $5.0 million	19% or 0.19	0.002
C Discovery NPV = $20 million	1% or 0.01	0.0001

The chance of discovery of a deposit with a NPV of $20 million has been estimated as one in 10,000 (probability 0.0001); the chance of a discovery of a deposit with a NPV of $5 million has been estimated as one in 500 (probability 0.002); and the chance for a discovery of a deposit with a NPV of $2 million has been estimated as one in a 100 (probability 0.01). The value of these individual chances are $2,000, $10,000 and $20,000, respectively. When added the chance is $32,000. Exploration expenditures should be accounted for.

The method is extremely sensitive to the selected probability factors and a number of cases need to be compared. It is a useful method when there is enough geological evidence to limit the potential size of the discovery giving credibility to the relative probability for the value of a potential discovery. Other methods cannot account directly for these aspects.

1.2 Multiples of Cost of Valid Work

The present value of previous work (past expenditure method) and committed work, when it is relevant to enhancing the value of the Project and therefore warranting an objective future programme is often the first considered method for exploration projects.

Expenditure that has been assessed as relevant generally is multiplied by a factor of between 0.5 and 3.0 (the prospectivity enhancement multiplier or "PEM") to value the property at a particular stage of development. This range of PEM is common in Australia. (For higher- and lower-cost countries the factors would be different). Factors of less than 0.5 may be selected, depending on the considered potential. In our opinion factors of above 2.0 should not be used, unless strong indications of potential for economic mineralisation have been identified. This usually means that there are encouraging intersections and perhaps estimated resources.

It is common to include committed expenditure as part of that already incurred.

High levels of past expenditure are indicative usually of historical prospectiveness but at some point in time further exploration will not be justifiable. Future discoveries in properties with modest expenditure levels will be undervalued by the method. Often, when applying the method of " multiple cost of valid work" there is potential bias towards higher valuations for older projects.

1.3 Points Rating System

In this method, points are awarded for various forms of geological prospectiveness, presence of mineralisation, anomalism and structures. In addition factors are applied to account for the current financial, commodity and stock market climate. Other methods do this indirectly. This method instills a regimen so that these parameters and issues must be considered specifically and it is a useful method for comparative purposes.

1.4 Joint Venture Terms, Capitalisation of Earnings, Yardstick and Real Estate Approaches

Joint Venture Terms

The minimum commitment by a joint venture partner establishes a minimum base value for the property. In most joint ventures the incomer agrees to expend a certain sum over a specified time period to earn equity, for example:

$2 million over a four year period to earn 60% interest

This arrangement can be used to value the property by time-discounting the money and suggesting the probability for the deal to be completed, thus:

$2 million x 0.88 (time discount) x 0.4-0.8 (probability range) x 60%
= $0.42 - $0.84 million

The method does not place any upside potential on the asset. It often gives a good value estimate for situations where the vendor is under some pressure to dispose of the asset.

Yardstick Values

This method assigns a value per ounce of gold, which has been estimated to be contained on the Base Project. This must vary greatly to account for the resource or reserve classification and the assumed costs for extraction and treatment. The availability and ownership of useful plant and facilities will alter cases radically.

A range of from \$10 per ounce - for inferred underground resources - to \$40 per ounce - for open pit probable reserves - has been recognised by some valuers.