



26 February 2009

VAN DIEMAN MINES PLC (the "Company")

Corporate and Operational Update

Further to the Company's announcement of 24 February 2009 that followed the receipt of letters of demand from Galena Special Situations Master Fund ("Galena") for repayment in full of all moneys owing under the Convertible Loan Note (as announced on 20 November 2008), the Board applied for suspension in trading of the Company's shares. The shares in the Company were suspended from 9.30am on 24 February 2009. It has also directed the board of its wholly owned Australian operating subsidiary, Van Dieman Mines Pty Ltd ("VDM PL") to seek to place VDM PL into voluntary administration, and that process is now underway.

The letters of demand from Galena were issued following Galena's consideration of a request from the Company to advance the final tranche (approximately A\$620,000) of the Convertible Loan Note facility and to provide additional funding of up to A\$2,000,000 to allow the Company to complete the trial mining process now underway at its Scotia project, following which the Gladstone operations would be placed on care and maintenance until a recovery in tin price. However, Galena rejected both funding requests and demanded full repayment as the Company was in default of the terms of the Convertible Loan Note.

The Board is continuing to work with Galena, and will work with the Administrator of VDM PL, on mechanisms for financial restructuring of the Company and its subsidiary, including reviewing other project opportunities, with the aim of re-financing and re-commencement of trading in the Company's shares within the six month period permitted under the AIM Rules.

Summary of Factors Impacting Project Performance and Forecasts

The background to the significant and rapid deterioration in the projected performance of the Scotia project, and the Company's ability to finance it to production are detailed below. In summary, a combination of minor production (and therefore revenue) delays, lower grades than expected in the initial output from the plant from the mineralised overburden section, further changes required in the wet mining method and the receipt of low grade assays from the section where full production was planned to start have resulted in a deterioration in the Company's cash position and short-term projections. In addition, a detailed review undertaken by management, consultants and the board, based on the findings of the trial mining and processing to date, has concluded that the Scotia project is unlikely to be cash positive at the present tin price. The changes in the Scotia project forecasts are due to both projected increases in costs (largely stripping and wet mining costs) and likely reductions in revenue (a falling tin price and reduced monthly production rate due to stripping constraints). In modifying its forecasts, the Board also took into account that very few sapphires had been encountered in the material processed to date, although acknowledging that any sapphires present in the Scotia lead would be expected to be concentrated with the tin in the high-grade wash section not yet sampled.

Timetable of Progress to the Current Position

Following receipt of progress reports on issues arising from the trial mining and processing program in late January and early February, the board undertook a site visit and a detailed review of the project

with management and consultants. Further information and analysis resulted in a deterioration of both short and longer term forecasts for the Scotia project, leading to the request to Galena for additional funding and the immediate payment of the final tranche of the Convertible Loan Note.. The Board was given verbal notice on 22 February that Galena's investment committee had decided not to advance any further funding, including the final tranche of the Convertible Loan Note facility and formal demand letters were received from Galena on the afternoon of 23 February. Galena's decision to withhold the final tranche of the Convertible Loan Note facility, while entirely within their rights under the terms of that facility, precipitated an immediate solvency crisis in VDM PL, and the board of the Company has taken immediate action as a result.

Detail of the Trial Mining and Processing Progress and Issues

- **Mine Planning.** As detailed in the Company's operational update of 14 November 2008, the first few months of operation were to be effectively a trial period, during which the mining and processing operations would be continuously reviewed and optimised. This was necessitated by the decision of the previous board and management to commence construction of the mine and plant in 2007 without a formal feasibility study, any confirmatory drilling or a detailed mine plan derived from such a study. The present management and board have been greatly assisted in the review process by the engagement of Roger Bastone as the project's Consulting Mining Engineer. Roger has had extensive alluvial tin mining experience, including managing the P.T. Koba Tin operations in Indonesia. He has had key input into revising and refining the mine plan as data emerged from the drill program and the trial mining process since first coming to site late last year. In particular, he has drawn attention to specific issues around the draining and stripping of overburden, and dealing effectively with the very wet wash section that contains the high-grade tin. Unfortunately, almost all of the issues identified would have led to incremental cost increases and/or decreases in tin production rate.
- **Plant Commissioning.** Commissioning of the modified Side B of the Scotia dual-sided primary process plant commenced in early January, following a short delay due to unseasonably wet weather impacting final electrical connection leading into the Christmas holiday period. Commissioning of the primary plant is now effectively complete on the dry, low-grade feed from the mineralised overburden immediately above the higher-grade basal wash. The plant has been operating at its nameplate capacity of 150 bank cubic metres ("bcm") per hour on the dry feed, and had ramped up to 12 hour per day operation (as per the current operating permit limit) in early February. The Company remains confident that the Side B plant could achieve the targeted 200 bcm per hour on commencement of direct slurry pumping of wet feed from the wash zone scheduled for April. An outcome of the otherwise successful primary plant commissioning is, however, that unbudgeted modifications are likely to be required to the secondary plant (Tin Shed) to remove unexpected quantities of deleterious heavy minerals.
- **Final Drill Assay Results.** The final assay results were received by the Company in January from the balance of the holes drilled in September and October 2008. Correlation between the new assay results and the historic data remains strong, particularly in the higher grade sections. Unfortunately, however, the elevated tin grades found in the overburden in the trial mining area were not replicated in the drill holes further to the north along the palaeochannel, and the assays from the 300m section immediately ahead of the trial mining area were also disappointing. This section of the palaeochannel had very little historic drilling. The northernmost line of holes drilled by the Company was along the southernmost line of historic (Tasmanian Mines Department) drilling on one of the higher-grade sections of the Scotia lead, and the grades correlate very closely, giving confidence in the robustness of this high-grade section. Analysis of the full suite of drill data led to a recommendation to the board from management and the Company's consultants that the low-grade section should be 'leap-frogged' to access the higher grade section further north. However, it was also recommended that partial stripping of the low-grade section would be required to maintain the integrity of the overburden drainage system that has been implemented, leading to further unbudgeted costs and delay in achieving full production.

- **Mine Production Progress.** Although the Company had expected to be mining and processing the low-grade mineralised overburden for another few weeks, it had also expected to be able to progressively access the water saturated wash at around this time. Unfortunately, the Company's Consulting Mining Engineer has concluded that the in-pit ore bin and pumping system which formed an integral part of the planned wet mining system is insufficiently mobile and flexible to ensure efficient mining in the very wet conditions being exposed during trial mining. He recommended that the ore bin be located on the top of the pit wall, and be fed by a Sykes Dragflow slurry pump, mounted on the stick end of a 30tonne excavator and using the excavator's hydraulics for motive power. This unit would be located in the pit. This system would be expected to provide much greater flexibility and higher delivery rates to the plant, and would also ensure that the very high-grade channels and potholes would be accessed efficiently. The Board had approved this new wet mining and delivery system for the higher-grade wash for commissioning during April, conditional on acquisition of additional funding. Given the lower average grades in the trial mining area, tin production would have been significantly lower than previously advised for Scotia until mid-year, when the Company expected to be mining high-grade wash.
- **Corporate and Management Changes.** The board has appointed Mike Etheridge as Executive Chairman, and Ron Goodman as Executive Director Development and Production. Jim Semmens (Mine Manager) has resigned from the Company, and Peter Campbell, who had rebuilt the processing plant, was appointed General Manager at the Gladstone Operations.

Enquiries

VAN DIEMAN MINES PLC

Mike Etheridge, Executive Chairman

Tel: +61 (0) 4 0870 8778

Ron Goodman, Executive Director Development and
Production

Tel: +61 (0) 3 6357 2112

GRANT THORNTON UK LLP

Gerry Beaney / Fiona Owen

Tel: +44 (0) 20 7383 5100

FOX DAVIES CAPITAL LIMITED

Jason Bahnsen, Corporate Finance

Tel: +44 (0) 20 7936 5230

The technical content of this announcement has been reviewed by Ron Goodman, who has over 40 years experience in Mineral Processing. Mr Goodman is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and HNC Metallurgy (UK). The geology, exploration and mining inputs have been provided by Company Consultants and accepted as they are recognised experts in the industry and are working closely with the Company.