Cluff Resources Pacific NL

ABN 72 002 261 565

2 December, 2003

The Manager (Companies),
Australian Stock Exchange,
Sydney.

Dear Sir,

LETTER TO OPTIONHOLDERS

The following letter has been sent this week to all holders of December 31, 2003 Options (CFRO), regarding the conversion of the options to ordinary shares (CFR). We wish to draw shareholders' particular attention to the proposed activities at Mount Ross as described in 'Diamonds' below:

Dear Optionholder,

CLUFF'S FUTURE WORK PROGRAM

Cluff Resources has been very active in recent months, particularly, since agreement was reached with Consolidated Press Holdings Ltd for the development of the ruby project. With your support, by converting your December 2003 options to Cluff ordinary shares for 4 cents per share, the Board intends to maintain this momentum towards establishing viable mining operations and thereby achieving a positive cash flow.

ACHIEVEMENTS

Since dispatch of the Annual Report, the Company has steadily progressed towards our objective. Particular highlights include the following.

- Cluff reached agreement with CPH on the Gloucester Ruby Project, whereby both Companies contribute in their areas of specialisation. Subject to the successful outcome of the current trial marketing operation and a feasibility study, Cluff will mine and process rubies which it will sell to CPH at a fixed mark up. CPH will market the stone and derived jewelry products, remitting 20% of the net profits of that operation to Cluff.
- Cluff is currently producing gemstones from a designated trial mining area, and selling this production to CPH. . Your Company has refurbished its production plant, mined 6,000 tonnes of gravels, and produced 77,700 carats of rough ruby and about 8,000 carats of rough sapphire to date.
- Top quality contract cutting of the gems by CPH is in progress, and finished stones have been shown to the trade, with very favourable comments on their brilliance. CPH is cutting the stones and conducting the market investigation at its own cost. The result is Australia's first trial ruby mining and marketing operation.
- On diamond exploration, a new geological model has been developed by Cluff to explain the origin of the Copeton/Bingara diamonds, and diamonds in unconventional rocks have been demonstrated

  For further details of the Company's operations see our website: www.cluff.com.au.

THE FUTURE

Gloucester Ruby Project

- Cluff plans to continue ruby production at the present rate, subject to CPH's positive decision to progress to a feasibility study for a large-scale mining operation. This study will investigate the economics of Cluff constructing a new plant designed to process 1,500 tonnes per day of ruby bearing gravels, with Cluff selling ruby concentrates to CPH and participating in net profits from CPH's marketing operations.
- According to CPH's merchandising consultant, Mr Gerry Manning of New York based Manning International, the deposit has the potential to be a "single source for a full rainbow palette" of highest quality untreated gemstones.

- Cluff will search for the primary ruby source. A large hard rock source may warrant long term mining, possibly with more regular ruby quality. A recent extensive ground magnetic survey has already indicated target areas.
- Ruby deposits known in the surrounding areas will be prospected to increase the resource.

Diamonds

- A shaft is to be sunk forty metres to confirm diamond grade and quality in a high grade exploration target at Mount Ross, on the Copeton diamond field. Discussions are being held with potential joint venture partners for mining of this block.
- Drilling will continue on the Bingara diamond field to locate the rocks mined in the 1890s, aiming to outline an open pit mining operation.

UNDERWRITING

Underwriting has been obtained for the first two million dollars of the option conversion, ensuring that the Company will enter the new year with at least that amount of money available to carry out an exciting year's exploration and development.

The underwriting, by Kefu Underwriters Pty Ltd, has normal conditions and limitations. These include release from the agreement upon 10% declines in any of the ASX 500 index, the Dow Jones Industrial Averages, and the $US gold price.

Directors holding options have indicated that they intend to convert at least part of their holdings to shares. Those directors holding options have undertaken that the proceeds of any shares or options which they may sell during December will be fully reinvested in conversion of options, so as to benefit the cash position of the Company. Those Directors not holding options have agreed not to sell shares in December.

CONDITIONS OF THE OFFER

Attached to this letter you will find your personalised Options Exercise Notice. If you wish to convert all or part of your options to fully paid ordinary shares you are required to fill the notice out and send it back via the enclosed reply paid envelope, along with your payment.

Please note the following information:

- The conversion, or exercise price is **4 cents per share.**
- The last date for payments to be accepted is **Wednesday the 31st of December 2003**
- Date quotation of options will end: **4 pm on Monday the 22nd December** (5 business days before the expiry date)
- Latest market price of CFR fully paid ordinary shares: 4.3 cents, at 27/11/03
- Highest and lowest prices for ordinary shares over the past 3 months:
  Highest: 6.3 cents per share on November 5, 2003
  Lowest: 1.5 cents on September 8, 2003

- **Consequences of non-payment:** Options will cease to be quoted at the close of trading on Monday the 22nd of December 2003, and will automatically expire on the 31st of December 2003. They will have no value after this date.

Yours sincerely,

Registered Office
1/30 Leighton Place
Hornsby NSW 2077
Australia

Postal Address
Locked Bag 3355
Hornsby NSW 2077
Australia

Tele-Communications
Tel (612)9482 4655
Fax (612) 9482 4987
Internet www.cluff.com.au

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ABN 72 002 261 565

Stephen Gemell,
Chairman

Registered Office
1/30 Leighton Place
Hornsby NSW 2077
Australia

Postal Address
Locked Bag 3355
Hornsby NSW 2077
Australia

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Tel (612)9482 4655
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