EL 22741
Hodgson Diamonds Project, NT

RELINQUISHMENT REPORT
ON BLOCKS DROPPED AT THE CONCLUSION OF
YEAR FOUR OF TENURE
PERIOD ENDING 8 JULY 2006

Submitted by

GRAVITY DIAMONDS LIMITED
(ABN - 72 009 178 689)
Level 7, Exchange Tower
530 Little Collins Street, Melbourne, Victoria, 3000
on behalf of
Diamond Mines Australia Pty Ltd
&
Rio Tinto Exploration Pty Limited

EL: 22741
Holder: Rio Tinto Exploration Pty Limited
Grant Date: 9 July 2002
1:250,000 Sheets: Hodgson Downs SD 53-14, Larrimah SD 53-13,
Daly Waters SE 53-01, Tanumbirini SE 53-02
Minerals Sought: Diamonds, Base metals
SUMMARY

EL 22741 (Hodgson Diamonds Project) is located approximately 215 km SE of Katherine, to the east of the Larrimah and Maryfield Station homesteads. The EL was granted on 9 July 2002 and is part of the Project referred to as the Hodgson Diamonds Project.

The tenement forms part of a farm-in agreement between Rio Tinto and Diamond Mines Australia Pty Ltd (“DMA”) covering numerous Rio Tinto tenements and applications in the Northern Territory. Gravity Diamonds Ltd (formerly Gravity Capital Ltd) is managing the farm-in arrangement for Diamond Mines Australia and now has 100% ownership of DMA. Under the terms of the farm-in agreement, DMA has been conducting predominantly diamond exploration on tenements covered by the agreement by utilising the Falcon™ airborne gravity gradiometer system. The Falcon™ system has been shown to be effective in detecting kimberlite pipes.

The tenement is considered prospective for commercial sources of diamonds. Historic sampling identified kimberlitic indicator mineral occurrences, including microdiamonds within the tenement, but the source of these remains enigmatic.

During the previous reporting period, a number of Falcon™ anomalies were field inspected and sampled where appropriate. No kimberlite pipes were discovered and a compulsory 50% relinquishment comprising the southern part of the EL, was implemented at the conclusion of the reporting period for EL 22741.

This Report is in respect of the one hundred and twenty-five (125) blocks relinquished from EL 22741 at the conclusion of Year 4.
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FIGURES

1. Tenement Location - EL 22741
2. Compulsory 50% Relinquishment (July 2006) - EL 22741 (surrendered and retained)
INTRODUCTION

EL 22741 was granted to Rio Tinto on the 9 July 2002 and is part of the Project referred to as the Hodgson Diamonds Project. Historic sampling had identified Kimberlitic indicator mineral occurrences within the tenement. EL’s 22340, 22343, 22742 & 22743 which initially formed part of the Hodgson Diamonds Project, were surrendered during 2005.

During 2002, Rio Tinto entered into negotiation with Gravity Capital Limited (“Gravity”) concerning the deployment of the Falcon™ airborne gravity gradiometer system over Rio Tinto’s diamond tenements in northern Australia. The Falcon™ system is a unique exploration tool developed by BHP Billiton and it has particular application in diamond exploration.

BHP Billiton and Gravity concluded an arrangement on Falcon™ deployment in Australia during 2003 (ASX announcement 01/07/2003). Gravity then formed a farm-in joint venture with Rio Tinto, through its then 40% owned associated company, Diamond Mines Australia Pty Ltd (“DMA”), with regard to diamond and base metal exploration over Rio Tinto-controlled tenements in the Northern Territory (ASX announcement 25/07/2003). EL 22741 forms part of the DMA - Rio Tinto joint venture.

In essence, the agreements provide for DMA to deploy the Falcon™ system and earn an interest in any discovery. BHP Billiton retains a right to buy into DMA’s interest in any discovery. Gravity is managing all exploration for DMA. On the basis of these agreements, Gravity (on behalf of DMA) commenced diamond exploration in the Northern Territory during July 2003.

Falcon™ data was acquired over a portion of EL 22741 in 2003. In October 2004 Gravity Capital changed the name of the company to “Gravity Diamonds Ltd” and acquired the 60 % share of DMA it did not already own. DMA is now 100 % owned by Gravity Diamonds.

LOCATION AND ACCESS

EL 22741 is located about 215 km SE of Katherine and lies to the east of the Larrimah and Maryfield Station homesteads adjacent to the Stuart Highway (Figure 1). The tenement overlies pastoral lease land used mainly for cattle grazing. Access is via the Stuart Highway from Katherine and turning east along station access tracks either near Larrimah or Maryfield stations, NT.

GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

The tenement overlies the north east margin of the lateritised Cretaceous Dunmarra Basin. The Strangways River, which traverses through the tenement, incises through the Cretaceous rocks down into the underlying Proterozoic rocks. West of the Strangways River the Dunmarra Basin plateau is drained by the poorly developed Cattle and Birdum creeks. East of the Strangways River the tenement is reasonably well drained by the tributaries of the Strangways and Hodgson River catchments.
The lateritised Cretaceous sediments overlie Cambrian Nutwood Volcanics flood basalts, Neoproterozoic Bukalara Sandstone and Mesoproterozoic Roper Group. The Roper Group of the McArthur Basin is exposed along the Strangways River in the north of the tenement, while the Cambrian flood basalts outcrop in the east and overlie Bukalara Sandstones of the Georgina Basin. Airborne magnetic data indicates that the Nutwood Volcanics are quite extensive beneath the thin veneer of Cretaceous sediments. While no Bukalara Sandstone has been mapped within the tenement, it is most likely present below the Cambrian Volcanic units.

The tenement is considered prospective for diamondiferous kimberlites by virtue of its location within the North Australian Craton, and also by the recovery of kimberlite indicator minerals from within the tenement. Additionally, major geophysical lineaments which pass through the tenement are suggestive of major, deeply penetrating structures which may have provided favourable pathways to kimberlitic intrusions.

Some 320 km to the south east of the tenement, the Merlin kimberlite pipes are hosted by Bukalara Sandstone on a poorly drained plateau capped by lateritised Cretaceous sediments. Cretaceous sediments are known to fill karstic sinkholes and kimberlitic diatreme crater-like depressions developed on the pre-Cretaceous land surface. The Packsaddle and Blackjack kimberlite dykes are located about 50 km to the northeast of the tenement. The Packsaddle-Blackjack kimberlite dykes are believed to be Jurassic in age and are hosted by Roper Group sediments.

**PREVIOUS EXPLORATION**

Both CRA Exploration and Ashton Exploration Australia previously explored the area covered by the tenement for diamondiferous kimberlites. Both companies focussed most of their effort into gravel sampling the well-developed drainages within the eastern half of the tenement, i.e., within the Strangways River and Hodgson River catchments. The weakly developed Cattle Creek and Birdum Creek catchments draining the western half of the tenement were not sampled.

The previous gravel sampling by both companies returned numerous samples containing microdiamonds and other indicator minerals, mainly chromite. The results suggested that there were numerous geographic sources to the indicator mineral occurrences. Some chromite was identified as being possibly kimberlitic.

Reviews of historic exploration data for the Hodgson Diamonds Project concluded that the source of the diamonds and indicator minerals within the tenement remains enigmatic. Cretaceous sediments in the area may be a secondary source of non kimberlitic / kimberlitic chromite while the Nutwood Volcanics are a possible primary source for non-kimberlitic chromite. However, these reviews did also confirm the potential for the tenement to host diamondiferous kimberlite pipes, qualified by the fact that surface sampling may not be the most effective means for discovering them.

The reviews suggested significant potential exists to discover kimberlitic diatremes/dykes beneath the shallow Cretaceous cover using detailed geophysical surveys, particularly as these methods have not previously been applied to diamond exploration in the area.
WORK COMPLETED IN YEAR 2 ON RELINQUISHED BLOCKS

As mentioned above, an agreement covering much of the Rio Tinto-controlled diamond exploration tenements in northern Australia was finalised in July 2003 between Rio Tinto and DMA. An independent review of previous data was carried out by Gravity during year 2 and this confirmed the potential for diamondiferous kimberlites to be located within the tenement.

On this basis, a Falcon™ airborne gravity gradiometer survey was planned and acquired in August, 2003. Field survey work was done by Fugro Airborne Surveys under a contract with BHP Billiton, with whom Gravity has the Falcon™ deployment agreement. The Falcon™ system was developed by BHP Billiton in the late 1990s and is considered to have the ability to directly / indirectly detect kimberlite pipes.

The survey was flown on east-west oriented lines, 100m apart at a nominal clearance of 80m above ground level. Falcon™ coverage did not extend over the relinquished blocks of EL22741.

Interpretation and exploration targeting from the Falcon™ data was completed, with a number of target areas defined for possible follow-up work. Statutory requirements for field access and approvals for work programs were finalised to allow testing of these targets to commence during Year 3 of tenure.

WORK COMPLETED IN YEAR 3 ON RELINQUISHED BLOCKS

Follow up of Falcon target areas in the northern part of EL22741 continued in year 3 of tenure but none of this work extended to the relinquished blocks, where no ‘on-ground’ exploration was carried out.

WORK COMPLETED IN YEAR 4 ON RELINQUISHED BLOCKS

Results from follow up exploration in the northern part of the EL in year 3 were not encouraging and no exploration was recommended on the southern part.

ENVIRONMENT & REHABILITATION

No on-ground activities were conducted on the relinquished blocks that required rehabilitation.

CONCLUSIONS AND RECOMMENDATIONS

EL 22741 lies in a region which is considered prospective for diamonds. Exploration on the EL has involved acquiring Falcon airborne gravity gradiometer data and testing Falcon anomalies by sampling and drilling. No kimberlite pipes have been discovered and sampling results have been generally disappointing.

The decision to relinquish 50% of the EL was based on this lack of encouragement and the choice of retained area was due to residual kimberlite indicator mineral anomalies which remain unresolved.
Legend

- Current EL22741 boundary
- EL22741 retained area
- EL22741 relinquished area 2006

50% Relinquishment of EL 22741