EL 22307
McARTHUR RIVER REGION, NT

RELINQUISHMENT REPORT
ON BLOCKS DROPPED AT THE CONCLUSION OF
YEAR 4 OF TENURE
PERIOD ENDED 5 AUGUST 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 Ltd

EL 22307 Mariner
Holder: Rio Tinto Exploration Pty Ltd
Grant Date: 6 August 2002
1:250,000 Sheet : Bauhinia Downs SE 53-03
Minerals Sought: Diamonds, Base metals
SUMMARY

EL 22307 is located near the old Bauhinia Downs homestead, approximately 75 kilometres west of Borroloola in the Gulf Region of the Northern Territory. 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. Under the terms of the farm-in agreement, DMA is conducting predominantly diamond exploration by utilising the Falcon™ airborne gravity gradiometer system. The Falcon™ system has been shown to be effective in detecting kimberlite pipes. EL 22307 is considered prospective for commercial sources of diamonds. Historic sampling has identified kimberlitic indicator mineral occurrences, including diamonds within the tenement.

A Falcon™ airborne gravity gradiometer survey was planned and flown in September 2003. The survey covered 217 km² within EL22307 and comprised a total of approximately 2500 line kilometres of effective survey coverage. Interpretation and exploration targeting from the Falcon™ data was completed, with target areas defined for 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.

During Year 3 of tenure, anomalies selected from the Falcon™ data by DMA for follow-up within the relinquished portion of EL22307 were field inspected and sampled where appropriate. Further details regarding this exploration are contained in this report.

During the past year of tenure (Year 4), no exploration was completed within the relinquished portions of EL22307.
CONTENTS

1. Introduction
2. Location and Access
3. Geological Setting and Economic potential
4. Previous Exploration on Relinquished Blocks
5. Work Completed in Year 2 on Relinquished Blocks
6. Work Completed in Year 3 on Relinquished Blocks
7. Work Completed in Year 4 on Relinquished Blocks
8. Environment and Rehabilitation
9. Conclusions and Recommendations

FIGURES

1. EL 22307 - Tenement Location
2. EL 22307 - Areas Retained and Relinquished at conclusion of Year 4
3. EL 22307 - DMA Sample Locations within Relinquished Portion of Tenement

APPENDICES

1. Appendix 1 – Sample data (digital format only)
INTRODUCTION

EL 22307 was granted to Rio Tinto Exploration Pty Ltd (“Rio Tinto”) on 6 August 2002. 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 22307 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 22307 in September 2003, including approximately 86 km² of the 247 km² of tenement currently being surrendered. Processed data was received in early 2004. 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. First-pass follow-up of targets generated from this survey occurred during late 2004.

LOCATION AND ACCESS

EL 22307 is located near the old Bauhinia Downs homestead, approximately 75 kilometres west of Borroloola in the Gulf Region of the Northern Territory. The tenement lies in the central part of the Billengarrah pastoral lease (administered by the Northern Territory Land Corporation) and is accessible via station tracks (Figure 1). The surrendered and retained portions of the tenement are illustrated in Figure 2.
GEOLOGICAL SETTING & ECONOMIC POTENTIAL

EL 22307 is considered prospective for commercial sources of diamonds, as well as base metals. Historic sampling has identified kimberlitic indicator mineral occurrences, including diamonds within the tenement.

The EL lies within the Batten Trough of the Mesoproterozoic McArthur Basin. The N-S trending Tawallah Fault Zone is the largest scale structure in the district and it is regarded as having similar significance to the Emu Fault, which lies 40km east of the tenement and is associated with McArthur River Zn-Pb mine and the Merlin diamond mine, which lies 75km to the south east of the tenement.

The 1800-1400Ma stratigraphy and mineralisation of the Batten Trough, from youngest to oldest, can be summarised as follows:

- Roper Group arenites, shales, iron formations and dolerite sills.
- Nathan Group (or Mt Rigg Group) carbonates that host Zn-Pb mineralisation, eg, the Bulman Zn-Pb deposits.
- McArthur Group fine clastics and carbonates that host strata bound Zn-Pb-Ag and Cu deposits, eg, the HYC (McArthur) Zn-Pb-Ag mine, Mariner Zn-Pb and Sly Creek Cu deposits.
- Tawallah Group arenites, black shales and basalts hosting Cu in the Redbank district and U at Westmoreland. There are also a number of Cu occurrences hosted Talwallah Group proximal to the McArthur Project area.

Proterozoic outcrops within the project area predominantly belong to the McArthur Group.
PREVIOUS EXPLORATION ON RELINQUISHED BLOCKS

A number of strata-bound and vein-hosted base metal occurrences hosted by Proterozoic sediments are located near the Scrutton Range which lies north of EL 22307 and this area is also included in the Rio Tinto – DMA farmin agreement. Several prospects, including Great Scott, Tanabur and Johnstone, lie within the tenement to the north.

A substantial amount of historical diamond exploration work has been carried out on and around the tenement. The main prospect identified to date is the Tanaburs Prospect (also known as Leila Creek) which was identified by Ashton in the 1990s. The prospect is actually located in the small excised block internal to EL 22307, however, the source of diamond and indicator mineral anomalies within the excised block may well be sourced from within EL 22307.

Tanaburs is centred on a 6km by 1.5km outlier (plateau) of Cretaceous sediments overlying Tawallah Group and McArthur Group sediments. Ashton noted that the Cretaceous sediments contain fossilised wood fragments similar to those found on the Merlin plateau. The prospect overlies the major, N-S trending Four Archers Fault Zone.

Stream sediment, loam and bulk sampling for diamonds, geomorphological studies, detailed airborne magnetics and drilling have been completed around the Tanaburs area. Macrodiamonds (up to 1.15 cts), a few microdiamonds and indicator minerals (chromite) were recovered from drainages sourced from the Cretaceous sedimentary plateau.

Four RAB drill holes, testing airborne magnetic, EM and geomorphic features, did not intersect kimberlite. Only one of these RAB holes (BHO675; 22m) is located within EL 22307. The other three are within the excised portion. Ashton considered that a small mafic dyke, in the north of the excised portion of EL 22307, was not the source of the diamonds and indicator minerals. Ashton carried out infill sampling and detailed airborne magnetic surveys in three other areas of EL 22307.

During year 1 of Rio Tinto’s tenure, available geophysical and geochemical data was reviewed, confirming the potential for diamondiferous kimberlites. Prior to the formalisation of the Exploration Agreement with DMA and Gravity, Rio Tinto gathered 19 rock chip samples in the tenement as part of its regional base metal reconnaissance program. These were reported in 2003, with available sample details and results contained in Appendix 1.
WORK COMPLETED IN YEAR 2 ON RELINQUISHED BLOCKS

On the basis of the anomalous diamond and base metal results, a Falcon™ airborne gravity gradiometer survey was planned and flown in September 2003. In addition to the gravity gradiometer data, the Falcon™ system records total magnetic intensity and laser scanner data, of which the latter is used to construct a very accurate (1m vertical resolution) digital elevation model.

The survey was flown on north-south oriented lines, 100m apart at a height of 80m above ground level. It covered 217 km² within the tenement and comprised a total of approximately 2500 line kilometres of effective survey coverage. Interpretation and exploration targeting from the Falcon™ data was completed, with target areas defined for 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

Four anomalies were initially selected from the Falcon™ data by DMA for potential follow-up within the relinquished portion of EL22307. The anomalies were field inspected and sampled where appropriate. Anomaly details are summarised in Table 1 and contained in Appendix I. Anomaly TAN04 straddles the boundary between the retained and relinquished portion of the tenement, and although a loam sample was collected on this target, it lies within the retained portion of the EL.

Indicator Mineral Sampling

Total sampling within the relinquished portion of EL22307 for the period comprised the collection of 1 loam sample and 2 soil samples. Heavy mineral samples are sent to Diatech Laboratories in Perth for processing through a micro DMS plant and recovery of kimberlite indicator minerals from the -1.2mm +0.3mm fraction of the DMS concentrate. Sample details are summarised in Table 2, illustrated by Figure 3 and contained in Appendix I.

Table 1: Summary of 2004 Follow-up of Falcon Anomalies – EL 22307

<table>
<thead>
<tr>
<th>ANOMALY</th>
<th>FIELD INSPECTION?</th>
<th>HM SAMPLE?</th>
<th>SOIL GEOCHEM?</th>
<th>DRILLED?</th>
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<tbody>
<tr>
<td>TAN04</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>TAN08</td>
<td>Y</td>
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<td>TAN09</td>
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<td>N</td>
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<tr>
<td>TAN14</td>
<td>Y</td>
<td>N</td>
<td>N</td>
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</table>
The collected loam sample was negative for kimberlite indicator minerals.

**Soil Sampling**

A soil sample traverse was collected over anomaly TAN04, with two of the samples from this traverse located within the relinquished portion of EL22307. Soil sampling was considered inappropriate for the remainder of the anomalies within the relinquished portion of the tenement – mainly due to the proximity of these anomalies to drainages. The sampling method used comprised the excavation of a small hole to expose the B soil horizon. Approximately 500 grams of -80 mesh was collected, usually at 50 metre spacings across the anomaly.

Soil samples requiring geochemical analysis were sent to Ultratrace Laboratories in Perth for determination of the following elements: Ba, Ca, Ce, Co, Cr, Cu, Dy, Er, Fe, La, Mg, Mn, Nb, Ni, Rb, Sr, Ti, Y & Zn. Both a standard & a partial extraction method were used, generating two sets of results for each sample. Location details regarding these soil samples is presented in Table 3. These details, including results and descriptions of the analytical method used are also contained in Appendix I. Geochemical analysis of soil samples collected from the traverse over anomaly TAN04 did not allude to the presence of a concealed kimberlite intrusive.

Sample details are summarised in Table 3, illustrated by Figure 3 and contained in Appendix I.

### Table 2: Indicator Mineral Sample Results – EL 22307

<table>
<thead>
<tr>
<th>SAMPLE</th>
<th>TYPE</th>
<th>EASTING WGS84</th>
<th>NORTHING WGS84</th>
<th>DIAMOND</th>
<th>CHROMITE</th>
<th>PYROPE</th>
<th>PICRO</th>
<th>EL</th>
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<tr>
<td>04-03-006</td>
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<td>561569</td>
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### Table 3: Soil Sample Details – EL 22307

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<th>NORTHING WGS84</th>
<th>EL</th>
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<tr>
<td>04-04-016</td>
<td>SOIL GEOCHEM</td>
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<td>8206700</td>
<td>EL22307</td>
</tr>
</tbody>
</table>
WORK COMPLETED IN YEAR 4 ON RELINQUISHED BLOCKS

Limited work has been completed within EL22307 during year 4 of tenure, primarily due to weather and drilling contractor availability issues. A compulsory 50% relinquishment was effected at the conclusion of year 4 of tenure. No exploration activities were undertaken within the relinquished portion of EL22307 during year 4.

ENVIRONMENT AND REHABILITATION

Exploration activities undertaken by RTE and DMA had negligible impact on the environment, and rehabilitation was not required. The rock chip sampling program undertaken by RTE in Year 1 of tenure was carried out by a two-man crew in a single 4WD vehicle using existing access tracks and on foot. Access by DMA to Falcon anomalies subjected to follow up was predominantly via existing tracks. The company confirms it has complied with the requirements for rehabilitation of any areas disturbed by its exploration activities in accordance with the guidelines set out by the Northern Territory Department of Mines and Energy.

CONCLUSIONS AND RECOMMENDATIONS

Some positive results have been returned from within EL 22307 and the particular part of the EL which has returned those results has been retained. The 50% relinquishment from EL 22307 that occurred at the conclusion of Year 4 comprised areas which had not provided any encouragement for further work to be undertaken.

REFERENCES

Gravity Diamonds Ltd. First Annual Report for the Period Ending 5 August 2003, EL 22307, McArthur Diamonds Programme, Bauhinia Downs SE 53-03, Northern Territory, Australia

Gravity Diamonds Ltd. Second Annual Report for the Period Ending 5 August 2004, EL 22307, McArthur Diamonds Programme, Bauhinia Downs SE 53-03, Northern Territory, Australia

Gravity Diamonds Ltd. Third Annual Report for the Period Ending 5 August 2005, EL 22307, McArthur Diamonds Programme, Bauhinia Downs SE 53-03, Northern Territory, Australia
Figure 1: EL22307 Location Map
Showing Airborne Survey Area and Pastoral Lease Boundaries

Legend
- Tanaburs Airborne Survey area
- Pastoral lease boundary
- EL22307 tenement

Scale: 1:200000
Drawing: nicolacd
Projection: UTM Zone 53, Southern Hemisphere (WGS 84)
Author: D Isles
Office: West Perth
Workspace: EL22307 report 2003 02
Sample Locations within Relinquished Portion of Tenement

Legend
- Sample location
- EL 22307 tenement

Date: 6/11/2006
Author: G Garton
Office: West Perth
Drawing: Nicol CAD Workspace: EL22307 Sample Locs 2006
Scale: 1:200000
Projection: UTM Zone 53, Southern Hemisphere (WGS 84)