Combined Annual Exploration Report – Year 2

Exploration Licence EL 3336 & EL 3338

20th January 2006 to 19th January 2007

Holder: DeBeers Australia Pty Ltd
Operator: North Australian Diamonds Limited
Reporting Period: 20th January 2006 to 19th January 2007
Sheet Reference: Mt Marumba (SD 53-06) 1:250,000 & Blue Mud Bay (SD 53-07) 1:250,000
Due Date: 19th February 2007

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Date: 9th February 2007
Report No: 07-010
Copies To: Dept. Primary Industries, Fisheries and Mines
NADL Office

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SUMMARY

This report details diamond exploration activity carried out by North Australian Diamonds Limited (NADL) over Exploration Licences EL 3336 and EL 3338 for the period 20th January 2006 to 19th January 2007. This period represents Year 2 of the licence.

The licences have been granted and are currently held by De Beers Australia Exploration Pty Ltd (DBAE) with NADL as the operator. Although granted, access to the tenements is not yet permitted until work clearance surveys have been completed, which the Northern Land Council (NLC) is required to oversee. NADL is currently waiting for the NLC to commence the clearance survey and understands that a final survey is tentatively scheduled for February 2007.

Due to access restrictions no exploration activity was undertaken during the current reporting period. A waiver was lodged with the Department of Primary Industry, Fisheries and Mines (DPIFM) on 22nd January 2007 indicating that due to work clearance surveys having not yet been undertaken, NADL were not permitted to undertake field activities. The NLC is required to oversee the work clearance surveys and NADL understands that final clearance surveys are tentatively scheduled for February 2007. Correspondence from DPIFM required half the licence to be relinquished at the end of Year 2 of the licence, which correlates with this reporting period. With NADL not being permitted to undertake exploration and DPIFM’s acceptance of the waiver for not meeting expenditure NADL does not intend to relinquish any portion of the licence.

The licences are located on the North Australian Craton within a region that has tectonic and structural similarities with known kimberlite occurrences including the Merlin Kimberlite Field and recent Abner Range discovery. No diamond exploration activity has been completed on either licence. The closest diamond exploration includes five stream gravel samples collected adjacent to the northern boundary of EL3336 by DeBeers in 2001, which reported negative results for diamonds and indicator minerals. More intense diamond exploration has been undertaken within 50km of the licence with numerous chromites, microdiamonds and pyropes recovered from stream gravel samples collected by Normandy, Stockdale and DeBeers. These results provide encouragement and highlight the potential for a kimberlite source to exist in the region.
1.0 INTRODUCTION

This report details exploration activity carried out by North Australian Diamonds Limited (NADL) over Exploration Licences EL 3336 and EL 3338 for the period 20th January 2006 to 19th January 2007. This period represents Year 2 of the licence. The target for exploration within the licences is diamond bearing kimberlite intrusives.

2.0 TENEMENT HISTORY

EL 3336 and EL 3338 were first applied for by De Beers Australia Exploration Pty Ltd (DBAE) in September 1981 and after the initial consultation the licence was vetoed for a period of five years. The licences continued to be vetoed at additional consultations in 1988 and 1995. A fourth consultation was held in August 2000 when the Traditional Owners agreed to allow exploration and mining subject to some excisions. A final consultation meeting was held in November 2001 that was followed by an anthropological survey. The full council of the Northern Land Council (NLC) then approved consent for grant in November 2002. Ministerial consent for grant was given in May 2003. Both tenements were then granted on 20th January 2005.

In January 2004 NADL (then listed as Striker Resources) entered into a ‘Letter Agreement’ with DBAE with respect to acquiring a 100% interest in an area of 13,500 km², representing the Arnhem Land Diamond Project area in the Northern Territory. This area includes EL 3336 and EL 3338. The agreement is such that DBAE remains the tenement holder with NADL the operator.

Although the tenement has been granted, field activities are not yet permitted until Work Area Clearance surveys have been completed, which the NLC is required to oversee. Final meetings are tentatively scheduled for February 2007. Due to the above no field exploration activities were undertaken during the reporting period.

3.0 LICENCE DETAILS

EL 3336 is located on the Mt Marumba (SD53-06) 1:250,000 and Wilton River (5771) and Annie Creek (5871) 1:100,000 map sheets. EL 3338 is located on the Mt Marumba (SD53-06) and Blue Mud Bay (SD 53-07) 1:250,000 and Nymbilli (5870) and Parsons (5970) 1:100,000 map sheets. Access to each lease is via the Central Arnhem Highway, however no direct access tracks off the highway exist. A tenement location map is shown as Figure 1.
Table 1: Tenement Details

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Tenement No</th>
<th>Application Date</th>
<th>Grant Date</th>
<th>Expiry Date</th>
<th>Blocks</th>
<th>Area (km²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arnhem Land</td>
<td>EL 3336</td>
<td>21/09/1981</td>
<td>20/01/2005</td>
<td>19/01/07</td>
<td>96</td>
<td>308.09</td>
</tr>
<tr>
<td>Arnhem Land</td>
<td>EL 3338</td>
<td>21/09/1981</td>
<td>20/01/2005</td>
<td>19/01/</td>
<td>330</td>
<td>1097.31</td>
</tr>
</tbody>
</table>

4.0 GEOLOGY

The licences are located within the North Australian Craton on the tectonically stable Arnhem Shelf, that part of the northwestern McArthur Basin characterised by comparatively mild deformation. The shelf forms the western flank to the Walker Fault Zone and more locally the Parsons Range Fault Zone. The Walker Fault Zone is a north-trending fault zone up to 80km wide and several hundred kilometres long and extends south to meet the Batten Fault Zone that is associated with the economic diamond-bearing kimberlites of the Merlin Kimberlite Field and the more recent Abner Range discovery. The licences are located in a region that has tectonic and structural similarities with known kimberlite occurrences on the North Australian Craton.

Two major physiographic subdivisions occur within the project area, the Arafura Fall, where the drainage system direction is towards the Arafura Sea and the Gulf Fall, where the drainage system direction is towards the Gulf of Carpentaria.

EL 3338 is situated approximately 160m above sea level and contains an extensive drainage network suitable for traditional stream gravel sampling and bulk gravel sampling. A northeast-southwest oriented drainage divide occurs in the southeast portion of the licence and separates dissected hilly country of the Arafura Fall from similar terrain of the Gulf Fall. Alluvial floodplains occur in the central northern most part of the licence. EL 3336 is located on the Guyuyu Plain of the Arafura Fall and occurs approximately 220m above sea level. It is within a broad relatively flat lying area covered with Cainozoic soils that provide very poor drainage. This area is suitable for loam and soil sampling.

The oldest rocks in EL 3338 are Mesoproterozoic age and include sandstones, quartzarenites and siltstones of the Roper Group. The oldest rocks in EL 3336 are Proterozoic age and include laminated, stromatilitic dolostones and cherts and sandstones of the Mount Rigg Group. The sediments unconformably overlie the basement rocks, which do not outcrop in the licences but are presumed to include the metasedimentary succession of the Pine Creek Geosyncline and associated igneous intrusives. Subvertical dolorite dykes of Proterozoic age are common and display two orientations: 000° and 045°.
The distribution of dykes is controlled by local and regional structures with many following shear zones and fracture sets.

EL3336 is almost entirely covered by Cainozoic soils comprised of residual soils of unknown thickness overlying bedrock. In EL 3338 Cretaceous breccia, conglomerate, sandstone and claystone crop out and represent the youngest rocks in the licence. A well developed laterite profile also occurs and Quaternary sands, silts and gravels form flood plain type deposits in the main drainage channels.

5.0 GEOPHYSICS

Airborne regional data was acquired in the late 1980’s and early 1990’s during surveys contracted to the NTGS and include the ‘Milingimbi’, ‘Marumba’, and ‘Mitchell Range’ surveys. Magnetic and gamma-ray spectrometry datasets were collected along east-west flight lines 500m apart 100m above the ground. Magnetic data clearly highlights prominent features such as faults and several mapped dolerite dykes that appear as bullseye anomalies. Review of the regional datasets did not identify any targets for immediate follow-up.

In addition regional gravity surveys were conducted by Australian Geological Survey Organization (AGSO). The gravity measurements are at 11 km station spacing and therefore do not provide useful information for near surface geological interpretation.

6.0 PREVIOUS EXPLORATION

A review of the Northern Territory Geological Survey (NTGS) database indicates that no exploration activity has been completed on either EL3336 or EL3338. The closest diamond exploration to either licence includes five stream gravel samples collected adjacent to the northern boundary of EL3336 by DBAE in 2001, which reported negative results for diamonds and indicator minerals. More intense diamond exploration has been undertaken within 50km of the licence with numerous chromites, microdiamonds and pyropes recovered from stream gravel samples collected by Normandy Mining Limited, Stockdale Prospecting Limited (DBAE subsidiary) and DBAE. These results provide encouragement and highlight the potential for a kimberlite source to exist in the region.
7.0 EXPLORATION COMPLETED DURING CURRENT REPORTING PERIOD

Due to access restrictions no exploration activity was undertaken during the current reporting period. A waiver was lodged with the Department of Primary Industry, Fisheries and Mines (DPIFM) on 22nd January 2007 indicating that due to work clearance surveys having not yet been undertaken, NADL were not permitted to undertake field activities. The NLC is required to oversee the work clearance survey and NADL understands that final clearance surveys are tentatively scheduled for February 2007.

Correspondence from DPIFM required half the licence to be relinquished at the end of Year 2 of the licence, which correlates with this reporting period. With NADL not being permitted to undertake exploration and DPIFM’s acceptance of the waiver for not meeting expenditure commitments, it is the intention of NADL not to relinquish any portion of the licence.

8.0 EXPLORATION EXPENDITURE

Exploration expenditure for the reporting period amounted to $4,566 as per the breakdown below;

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Administration, Report Preparation and Support</td>
<td>$4,566</td>
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<tr>
<td>Total</td>
<td>$4,566</td>
</tr>
</tbody>
</table>

Due to access restrictions no exploration activity was undertaken during the current reporting period.

9.0 PROPOSED PROGRAMME AND BUDGET FOR 2006-2007

It is anticipated that field activities will be able to commence some time in 2007. The initial focus of the proposed work program will include the collection of traditional indicator mineral and diamond stream or loam samples (40kg each) as well as the interpretation of photo and satellite imagery. The collection of several bulk-stream gravel samples (20 tonnes) will also be undertaken on EL 3338 to test a number of drainages within the catchments for the presence of commercial sized diamonds. The field program would take approximately four weeks to complete.
<table>
<thead>
<tr>
<th>Tenement</th>
<th>40kg samples</th>
<th>Bulk Gravel samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>EL 3336</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>EL 3338</td>
<td>70</td>
<td>3</td>
</tr>
</tbody>
</table>

Proposed budget breakdown below;

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and Support</td>
<td>$10,000</td>
</tr>
<tr>
<td>Field Logistical Support</td>
<td>$10,000</td>
</tr>
<tr>
<td>Labour – Field Personnel</td>
<td>$30,000</td>
</tr>
<tr>
<td>Laboratory Costs</td>
<td>$85,000</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$135,000</strong></td>
</tr>
</tbody>
</table>

10.0 REFERENCES


