



EL 22740
Hodgson Diamonds Project, NT

YEAR FIVE AND FINAL REPORT
ON EXPLORATION ACTIVITIES

9 July 2002 – 26 March 2007

Submitted by

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on behalf of
Diamond Mines Australia Pty Ltd
&
Rio Tinto Exploration Pty Limited

EL:	22740
Holder:	Rio Tinto Exploration Pty Limited
Grant Date:	9 July 2002
Surrender Date:	26 March 2007
1:250,000 Sheets:	Hodgson Downs SD 53-14
Minerals Sought:	Diamonds, Base metals

SUMMARY

EL 22740 (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 formed part of the Hodgson Diamonds Project.

The tenement formed 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 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 subject to this Report was considered prospective for commercial sources of diamonds. Historic sampling identified kimberlitic indicator mineral occurrences, including microdiamonds within the tenement.

During year 3 of tenure, 4 Falcon™ anomalies were field inspected and sampled where appropriate. One loam sample and 15 soil samples were collected. No targets were recommended for further work, with subsequent drilling activities focusing on adjacent EL22741 where a total of 961 metres of RC drilling was carried out to test 10 Falcon™ anomalies.

Given the disappointing results from the drilling in adjacent EL22741 in year 3, an internal review of the potential for the Hodgson EL’s was conducted during year 4 of tenure. The internal review process re-affirmed the potential of the area to host diamondiferous kimberlites and that their discovery would likely result from geophysically driven exploration programs. Existing Falcon™ data was reprocessed to take advantage of new processing techniques developed by BHP Billiton to enhance ‘signal’ and reduce ‘noise’ levels in the gravity gradient data.

The reprocessed Falcon™ data confirmed that the anomalies previously targeted were indeed robust geophysical targets and that their potential to be the result of kimberlite intrusives had been adequately tested via the completed drilling. However, no additional priority targets were evident in the reprocessed dataset and as such no further work was recommended for either license. EL 22740 was officially ‘handed back’ to Rio Tinto on 8 March 2007. Rio Tinto subsequently surrendered the tenement on 26 March 2007.

An expenditure statement for Year 5 of EL 22740 is provided at the end of this Report.

CONTENTS

1. Introduction
2. Location and Access
3. Geological Setting and Economic Potential
4. Previous Exploration
5. Work Completed in Year 2
6. Work Completed in Year 3
7. Work Completed in Year 4
8. Work Completed in Year 5
9. Environment and Rehabilitation
10. Conclusions and Recommendations
11. Expenditure Statement

FIGURES

1. Tenement Location - EL 22740

INTRODUCTION

EL 22740 was granted to Rio Tinto on the 9 July 2002 and formed part of the Hodgson Diamonds Project. Historic sampling had identified kimberlitic indicator mineral occurrences within the tenement. 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.

Falcon™ data was subsequently acquired over a portion of EL 22740 in 2003.

LOCATION AND ACCESS

EL 22740 (Hodgson Diamonds Project) is located approximately 215 km SE of Katherine, 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 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

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 Falcon™ system records gravity gradient data via a system of accelerometers. This gradient data is transformed to produce the vertical gravity gradient ('Gdd') which approximates the first vertical derivative of the vertical component of the gravity field. An integral transformation on 'Gdd' is applied to generate 'Gd', which approximates the vertical component of the gravity field itself. Conventional total magnetic intensity is also acquired as is laser scanner data, which is used to construct a very accurate (1m vertical resolution) digital elevation model. The survey was flown on east-west oriented lines, 100 m apart at a nominal clearance of 80 m above ground level. Falcon™ coverage was obtained over an area of approximately 130 km² within EL 22740. Data was processed by BHP Billiton's Falcon Operations Group and delivered to Gravity in November 2003.

Interpretation and exploration targeting from the Falcon™ data was completed, with 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

Of the anomalies initially selected from the Falcon™ data for potential follow-up within EL22740, 4 were rated as high priority and were field inspected and sampled where appropriate. A single loam sample and 15 soil samples were collected.

The loam sample was negative for indicator minerals. Soil sample traverses were collected over 2 of the anomalies. Soil samples 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.

Results were not suggestive of the targeted anomalies being the result of a kimberlite intrusive. No targets were recommended for drilling, although subsequently a number of anomalies were drilled in adjacent EL22740.

WORK COMPLETED IN YEAR 4

Given the disappointing results from the drilling in adjacent EL22741 in year 3, an internal review of the potential of the Hodgson EL's was implemented with a view to determining what future work programs might be conducted, if any. The internal review process re-affirmed the potential of the area to host diamondiferous kimberlites and that their discovery would likely result from geophysically driven exploration programs.

Further work programs were proposed for implementation, However, a number of factors precluded field activities being undertaken in 2005 while heavy rains experienced in the Northern Territory during March and April of 2006 restricted early access to the majority of the companies exploration licences, including EL 22740.

As such, no on-ground exploration activities were conducted during the reporting period, although further work programs were planned. All pertinent sample data was reviewed while existing FalconTM data was reprocessed to take advantage of new processing techniques developed by BHP Billiton to enhance 'signal' and reduce 'noise' levels in the gravity gradient data.

WORK COMPLETED IN YEAR 5

The reprocessed FalconTM data confirmed that the anomalies previously targeted from the survey were indeed robust geophysical targets and that their potential to be the result of kimberlite intrusives had been adequately tested via the completed drilling. However, no additional priority targets were evident in the reprocessed FalconTM dataset and DMA has formed the view that the potential for the discovery of a diamondiferous kimberlite of economic importance within the tenement had been significantly reduced. As such, no further work was recommended and the tenement was officially 'handed back' to Rio Tinto on 8 March 2007. Rio Tinto subsequently surrendered EL 22740 on 26 March 2007:

ENVIRONMENT & REHABILITATION

No on-ground activities were conducted during Year 5 of EL 22740 and as such there was no requirement for rehabilitation. No significant ground disturbing activities were undertaken within EL 22740 and hence there was no requirement for rehabilitation.

CONCLUSIONS AND RECOMMENDATIONS

EL 22740 covered an area which was considered prospective for commercial sources of diamonds. During 2004, 4 Falcon™ anomalies were field inspected and sampled where appropriate. No targets were recommended for further work, with subsequent drilling activities focusing on adjacent EL22741.

Given the disappointing results from the drilling of priority targets, an internal review of the potential for the Hodgson EL's was implemented, which included a review of all pertinent sample and drilling data as well as the reprocessing of the existing Falcon™ data to take advantage of new processing techniques developed by BHP Billiton. The reprocessed Falcon™ data confirmed that targeted anomalies had been adequately tested. No additional priority targets were evident in the reprocessed Falcon™ data and DMA has formed the view that the potential for the discovery of a diamondiferous kimberlite of economic importance within the tenement had been significantly reduced. As such, no further work was recommended and the tenement was officially 'handed back' to Rio Tinto on 8 March 2007. Rio Tinto subsequently surrendered the tenement on 26 March 2007.

EXPENDITURE STATEMENT

The annual exploration expenditure within EL 22740 during Year 5 is listed below.

TENEMENT	EL22740
Legal/Tenement maintenance costs	1,400
Professional personnel costs	8,600
Support costs	1,000
Administration/overhead	1,650
TOTALS	\$12,650

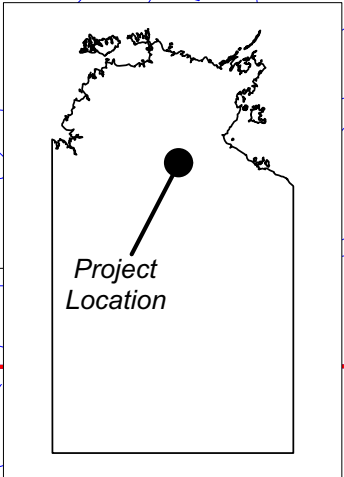
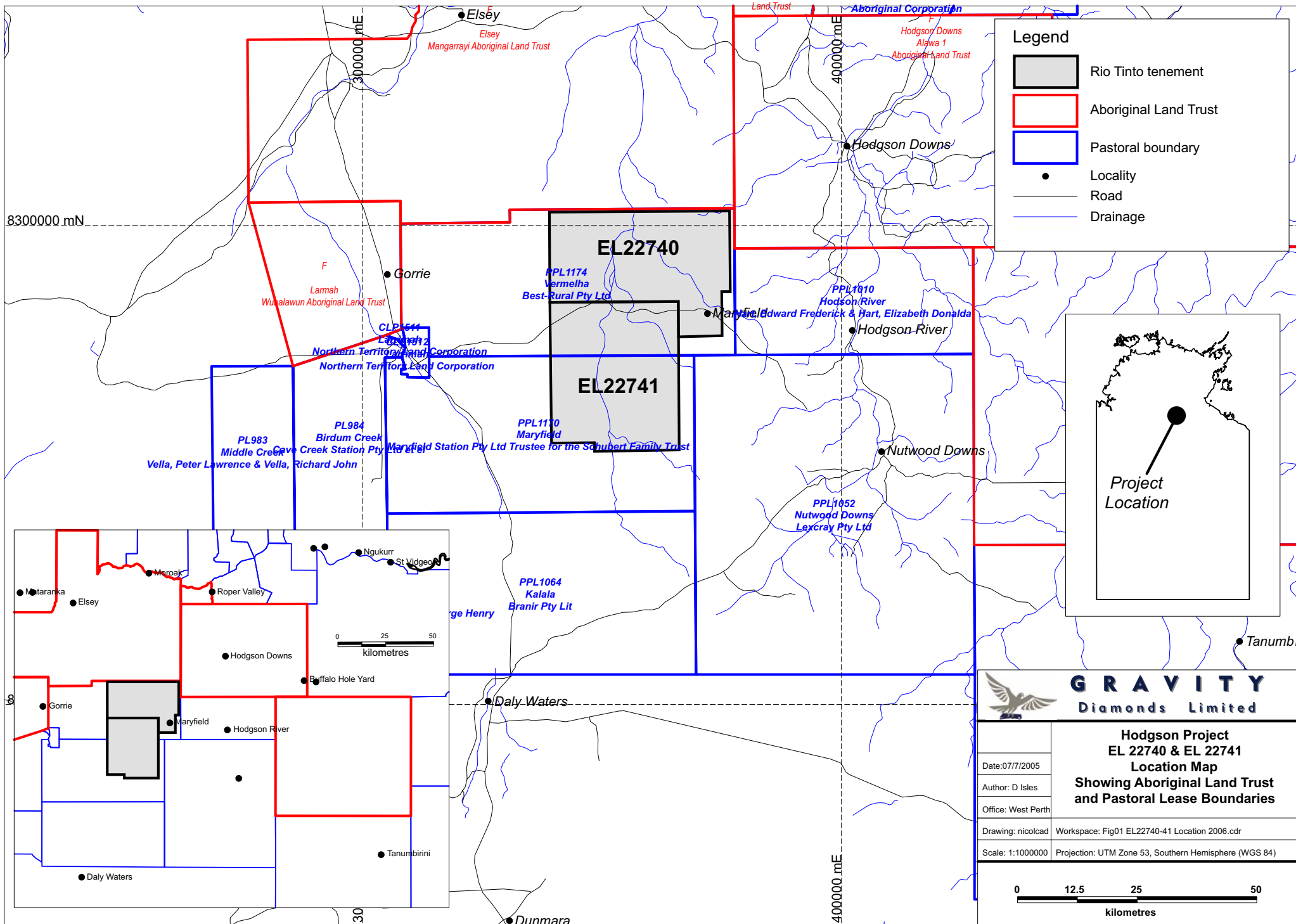
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Gravity Diamonds Ltd. Fourth Annual Report for the Period Ending 8 July 2005, EL's 22740 and 22741, Hodgson Downs SD 53-14, Northern Territory, Australia.



Hodgson Project EL 22740 & EL 22741 Location Map Showing Aboriginal Land Trust and Pastoral Lease Boundaries	
Date: 07/7/2005	
Author: D Isles	
Office: West Perth	
Drawing: nicolcad	Workspace: Fig01 EL22740-41 Location 2006.cdr
Scale: 1:1000000	Projection: UTM Zone 53, Southern Hemisphere (WGS 84)