EL 22732 MT YOUNG
COX RIVER DISTRICT, NT

RELINQUISHMENT REPORT
ON BLOCKS RELINQUISHED AT THE CONCLUSION OF
YEAR 5 OF TENURE
26 SEPTEMBER 2006 – 25 SEPTEMBER 2007

GRAVITY DIAMONDS LIMITED
(ABN - 72 009 178 689)
Level 7, Exchange Tower
530 Little Collins Street, Melbourne, Victoria, 3000

EL 22732
Holder: Gravity Diamonds Limited
Grant Date: 26 September 2002
1:250,000 Sheet : Mt Young,

Minerals Sought: Diamonds, Base metals
SUMMARY

EL 22732 “Mt Young” was acquired by Gravity Capital Limited from BHP Billiton soon after it was granted, as part of a diamond exploration venture involving Gravity, Gravity’s 100%-owned subsidiary, Diamond Mines Australia Pty Ltd and BHP Billiton. Gravity and Diamond Mines Australia also have a diamond exploration arrangement with Rio Tinto Exploration covering a large number of Rio Tinto-controlled tenements in the Northern Territory.

During the second year of tenure, on the basis of encouraging diamond sampling data from nearby tenements, a Falcon® airborne gravity gradiometer survey was flown over a substantial part of the Mt Young tenement.

Detailed interpretation, anomaly ranking and exploration targeting from the Falcon® data by Gravity Capital was completed during 2004. Gravity Capital Ltd changed its name to Gravity Diamonds Ltd late in 2004 to reflect its sole emphasis on diamond exploration and development.

Several potential target areas were identified from the Falcon® survey as requiring ground follow-up work. Statutory requirements for field access and approvals for work programs were finalised in early 2005 and field testing of these targets was carried out during the 2005 and 2006 field seasons.

No samples were collected within the relinquished blocks during the tenure year.

A relinquishment of twenty-four (24) blocks comprising the northern and southern sections of EL 22732 was made at the conclusion of Year 5.
TABLE OF CONTENTS

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

FIGURES

1. EL 22732 - Tenement Location
2. EL 22732 - Blocks Retained and Relinquished at end of Year 5
3. EL 22732 - 1VD Magnetics of Relinquished Block Areas
4. EL 22732 - Falcon GDD of Relinquished Block Areas
INTRODUCTION

Exploration License (EL) 22732 was granted to BHP Billiton Minerals Pty Ltd (“BHPB”) on 26 September 2002. BHPB was at that time in advanced negotiation with Gravity Capital Limited (“Gravity”) concerning the deployment of the Falcon® airborne gravity gradiometer system. The Falcon® system is a unique exploration tool developed by BHPB and it has particular application in diamond exploration. Gravity was in the process of forming joint venture arrangements for diamonds and for base metals, which would utilise the Falcon® system and BHPB agreed to transfer title to EL 22732 to Gravity on the basis that if Falcon® was deployed over the EL, then BHPB would have some potential rights to discoveries made by the system.

BHPB and Gravity concluded the arrangement on Falcon® deployment during 2003 (ASX announcement 01/07/2003) and also formed a joint venture, through its subsidiary company, Diamond Mines Australia Pty Ltd (“DMA”) with Rio Tinto Exploration, concerning the diamond and base metal exploration over a large number of Rio Tinto-controlled tenements in the Northern Territory (ASX announcement 25/07/2003).

On the basis of the agreements, Gravity (on behalf of DMA) commenced diamond exploration in the Northern Territory during July 2003.

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.

The Falcon® flying program, which commenced in August 2003, covered seven widely spread areas in the NT, predominantly over the DMA-Rio Tinto agreement tenements. Parts of EL 22732, which adjoins licences in the DMA-Rio Tinto agreement were included in the flying program.

The principal target in the area is diamonds with some interest also directed toward base metal deposits.

LOCATION AND ACCESS

EL 22732 is located 25 kilometres west of Nathan River homestead in the Gulf Region of the Northern Territory. The tenement lies in the south west part of the pastoral lease and is accessible via station tracks (Figure 1).

GEOLOGICAL SETTING

The northern part of EL 22732 comprises gently deformed mid Proterozoic Roper River Group sediments of the McArthur Basin. In the southern part, the Roper River Group is overlain by the Bukalara Sandstone, which forms the basal part of the Cambrian Georgina Basin sequence. The area is of low relief, being drained by the Cox River and exposure is relatively poor. Several major N-S striking faults are apparent in the Proterozoic exposures to the North of the tenement area.
The principal exploration target in the area is diamonds. The area lies within the northern Australian Craton “microdiamond field” which extends from the Camooweal region of NW Queensland to the East Kimberley district in north west WA. The diamondiferous “Packsaddle” kimberlite dykes area located 120km to the north west of the tenement and the Merlin diamond field lies approximately 200km to the south east.

While the McArthur Basin is known for its base metal potential, known occurrences are rare in the Roper River Group and exploration for lead, zinc and copper are a low priority.

**PREVIOUS EXPLORATION ON RELINQUISHED BLOCKS**

Surface sampling by both CRAE and Ashton was completed in the general region during the 1980’s with some subsequent infill sampling during the 1990’s. This sampling identified widespread macrodiamonds, microdiamonds and indicator minerals, mainly chromite, in the vicinity of the EL. Two areas have been explored in greater detail by CRAE/RTE and Ashton:

- Along a single drainage within the original tenement outline of EL 22732 that returned microdiamonds and abundant kimberlitic chromite.

- A large region containing kimberlitic chromite located along the eastern margin of the tenement EL 22732. CRAE followed up 15 airborne magnetic anomalies in the area in the 1980’s but ground magnetic traverses proved all anomalies to have a regolith source. No source rock has been identified to explain the indicator minerals.

As 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. A review of available geophysical and sample data was carried out by Gravity (managing the project on behalf of DMA) during the previous reporting period and this confirmed the potential for diamondiferous kimberlites to be located within the Arnold River tenement block.

On this basis, a Falcon® airborne gravity gradiometer survey was planned and acquired in September, 2003. Results of the survey were presented in the 2004 annual report and the digital data and acquisition/processing report has subsequently been lodged with the NT Mines Department. Within the blocks relinquished in September 2007 from EL 22732 coverage amounted to approximately 25 km². Images of the magnetic (1VD) and Airborne Gravity (GDD) are provided in Figures 3 and 4 respectively.

Detailed interpretation, anomaly ranking and exploration targeting from the Falcon® data by Gravity was completed in year 3 of tenure, with several potential target areas identified for ground follow-up work. None of these ranked targets fell within the relinquished block areas.

**WORK COMPLETED IN YEAR 5 ON RELINQUISHED BLOCKS**

No exploration was carried out in the relinquished block areas during Year 5 of tenure.
ENVIRONMENT AND REHABILITATION

No onground exploration has been carried out in the relinquished blocks.

CONCLUSIONS AND RECOMMENDATIONS

Exploration License 22732 covers an area that is generally considered prospective for commercial sources of diamonds as anomalous kimberlitic indicator mineral results have been recorded in the vicinity.

A relinquishment of twenty-four (24) blocks comprising the northern and southern sections of EL 22732 was made at the conclusion of Year 5, as no targets were identified by a completed Falcon Airborne Gravity survey. Many of the relinquished blocks also cover difficult to explore territory in the vicinity of the Cox River.