EL 23994 ‘TANABURS NE’
McARTHUR RIVER REGION NT

YEAR 4 ANNUAL AND FINAL REPORT
ON EXPLORATION ACTIVITIES

Submitted by

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EL 23994 Tanaburs NE
Holder: Gravity Diamonds Ltd
Grant Date: 08 September 2004
Surrender Date: 05 September 2008
1:250,000 Sheet: Bauhinia Downs SE 53-03,
Minerals Sought: Diamonds, Base metals
SUMMARY

EL 23994 “Tanaburs NE” was granted to Gravity Diamonds Ltd (“Gravity”) on 8 September 2004. The EL forms part of broader project area where Gravity is conducting diamond exploration, much of which is under an exploration agreement with Rio Tinto group companies and Diamond Mines Australia (DMA), which is a 100%-owned subsidiary of Gravity.

During 2003 and 2004, DMA through an exclusive arrangement with BHP Billiton deployed the Falcon® Airborne Gravity Gradiometer system in diamond exploration in Australia. The Falcon® system has proved an effective diamond exploration tool since its development by BHP Billiton in the late 1990’s.

During the first year of tenure Falcon® data was acquired over part of EL 23994. The system includes airborne gravity gradient data, high resolution magnetics and accurate elevation data derived from on-board differential GPS and laser scanner devices. The area of coverage amounted to approximately 27 km² (~295 line kms).

During the second year of tenure, detailed targeting based on the acquired gravity gradiometer data within the south-western part of EL 23994 was completed. Although some second order preliminary targets were proposed, no priority targets were identified for follow-up within the portion of the EL covered by the Falcon survey. A single gravel sample was collected within EL23994 as part of a broader sampling program in the Tanaburs project area. The sample reported negative for kimberlite indicator minerals.

A detailed review of previous diamond exploration within the whole tenement was subsequently conducted during the 3rd year of tenure. This review suggested that whilst previous heavy mineral sampling coverage was adequate, results from Gravity Diamonds sampling programs elsewhere in the Northern Territory that several sampling programs carried out by previous explorers suffered from poor site and sample collection. Additionally advances in heavy mineral processing through micro-DMS plants has increased the recovery and decreased the effective grainsizes of heavy mineral recovered. To test a historic sample reporting 4 chromites, three samples were collected during Year 3.

During Year 4 of the licence the single chromite collected during the previous year was re-assessed and was not deemed sufficiently anomalous to continue intensive exploration with respect to other targets within the district and the region.

EL 23994 was surrendered on 5 September 2008.

Exploration expenditure during Year 4 of tenure totalled $ 2,451
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1. EL 23994 Tenement Location
2. EL 23994 Regional Geology
INTRODUCTION

EL 23994 “Tanaburs NE”, which lies approximately 75 kilometres west of Borroloola in the Gulf Region of the Northern Territory, was granted to Gravity Diamonds Ltd (“Gravity”) on 8 September 2004. The EL lies within a general area where Gravity is operating a large diamond exploration program, much of which is under an exploration agreement with Rio Tinto group companies and Diamond Mines Australia (DMA), which is a 100%-owned subsidiary of Gravity.

During 2003 and 2004, DMA had an exclusive arrangement with BHP Billiton to deploy the Falcon® airborne gravity gradiometer system in diamond exploration in Australia. The Falcon® system has proved very effective in diamond exploration since its development by BHP Billiton in the late 1990’s.

The south-western part of EL 23994 was included in the Falcon® flying program which covered seven areas in the Northern Territory and focused on areas of strongly anomalous diamond indicator mineral sampling results, obtained from prior work by Rio Tinto and others.

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

LOCATION AND ACCESS

EL 23994 is located near 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).

GEOLOGICAL SETTING & ECONOMIC POTENTIAL

EL 23994 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, Batton 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 are predominantly Tawallah Group.

PREVIOUS EXPLORATION

A number of strata-bound and vein-hosted base metal occurrences hosted by Proterozoic sediments are located near the Scrutton Range which lies west of EL 23994. Several base metal prospects lie within the tenement itself.

A substantial amount of historical diamond exploration work has been carried out in the general vicinity of the tenement.

The main diamond prospect identified to date is the Tanaburs Prospect (also known as Leila Creek) which was identified by Ashton in the 1990s.

Tanaburs is centred on a 6km by 1.5km outlier (plateau) of Cretaceous sediments overlying Tawallah Group and McArthur Group. 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, microdiamonds and indicator minerals (chromite) have been reported from drainages sourced from the Cretaceous sedimentary plateau.

WORK COMPLETED IN YEAR 1

On the basis of historic anomalous diamond and base metal results, a Falcon® airborne gravity gradiometer survey program was conducted over a group of tenements in the Tanaburs area. The southwestern part of EL 23994 was included in this program (figure 2.). In addition to the gravity gradiometer data, the Falcon® system records total magnetic intensity and laser scanner data, which 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 approximately 27km² of the tenement, amounting to a total of approximately 295 line kilometres of survey. Images of the principal data sets resulting from the Falcon® survey were presented in figures 3 to 6 of that years report. Digital data from the survey have been lodged with DPIFM.

Data processing, interpretation and targeting were also initiated during the reporting year. Initial target areas were defined and first pass field reconnaissance commenced in 2006.
WORK COMPLETED IN YEAR 2

During year 2 of tenure, detailed targeting based on the acquired gravity gradiometer data within the south-western part of EL 23994 was completed. Although some second order preliminary targets were proposed, no priority targets were identified for follow-up within the portion of the EL covered by the Falcon survey.

A single gravel sample was collected within EL23994 as part of a broader sampling program in the Tanaburs project area. The sample comprised approximately 50 kg of -1.6 mm material collected from suitable trap site.

The Heavy mineral sample was 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. The sample reported negative for kimberlite indicator minerals. A statutory reduction was carried out at the end of Year 2.

WORK COMPLETED IN YEAR 3

During Year 3 of tenure an additional 3 heavy mineral samples were collected from streams in the same drainage catchment as the previously reported historic chromite recoveries. Two of the samples reported negative for Kimberlitic indicators, whilst one reported a single chromite of possibly Kimberlitic affinity. Again the samples were despatched to Diatech Laboratories in Perth for processing through a micro DMS plant and recovery of Kimberlitic indicator minerals from the -1.2mm +0.3mm fraction of the DMS concentrate.

In conjunction with regional Joint Venture partner Sandfire Resources all openfile aeromagnetic data covering this tenement area was reprocessed late in the reporting year and interpretation and targeting was underway. A further statutory relinquishment of blocks occurred during September 2007.

WORK COMPLETED IN YEAR 4

During year 4 of tenure re-assessment of the single chromite reported during the previous year of exploration was undertaken. Despite being anomalous the grain recovered did not provide a vector to discovery of Kimberlite in the tenement without further geophysical survey, preferably airborne gravity. As other targets in the district have a greater potential it was decided to relinquish the tenement.

ENVIRONMENT AND REHABILITATION

On-ground exploration activities during the term of the licence comprised low impact indicator-mineral sampling. As access to sample sites was achieved using 4WD’s (predominantly utilising existing tracks), there was negligible impact on the environment within EL 23994 and hence no requirement for rehabilitation.
CONCLUSIONS AND RECOMMENDATIONS

Exploration License 23994 covered an area considered prospective for commercial sources of diamonds as anomalous kimberlitic indicator mineral results have been recorded in the vicinity.

On this basis, a Falcon® survey was conducted in 2003 on areas marginal and partially within the tenement area. Analysis, with identification of potential targets, was completed in 2004. During Year 3 a further 3 gravel samples were collected within EL 23994. The response from this survey was limited and only a single chromite was identified. Re-assessment of this grains indicated that without a further vector towards any possible kimberlite source further exploration was not required.

EL 23994 was surrendered on 5 September 2008.

EXPENDITURE STATEMENT

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<th>Description</th>
<th>Cost</th>
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<tbody>
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<td>Legal/Tenement maintenance costs</td>
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**TOTAL**  $ 2,451