EL 24634 ‘MATCHBOX CREEK’
McARTHUR RIVER REGION, NT

YEAR 3 ANNUAL REPORT
AND FINAL REPORT

submitted by

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

EL 24634 ‘Matchbox Creek’
Holder: Gravity Diamonds Ltd
Grant Date: 25 November 2005
Surrender Date: 19 November 2008
1:250,000 sheet: Walhallow
Minerals Sought: diamonds, base metals
SUMMARY

EL 24634 formed part of a major diamond exploration enterprise in the Northern Territory initiated by Gravity Diamonds (then Gravity Capital) in 2003. The foundation of this enterprise had been a Farmin agreement between Rio Tinto Exploration Pty Ltd (“Rio Tinto”) and Diamond Mines Australia Pty Ltd (“DMA”, a 100%-owned subsidiary of Gravity Diamonds) covering numerous Rio Tinto-controlled tenements and applications in the Northern Territory. Under this agreement, DMA has conducted diamond exploration over the tenements utilising the recently-developed Falcon™ airborne gravity gradiometer system, which has been shown to be very effective in detecting kimberlite pipes.

Gravity had also acquired a significant tenement holding in its own right in the NT. The initial Falcon™ programs in 2003 resulted in the discovery of a kimberlite pipe within the ‘Abner Range’ survey area, some 35 kilometres northeast of EL 24634, and this led Gravity to apply for a number of areas in proximity to the discovery.

EL 24634 comprising 30 sub blocks was granted to Gravity on 25 November 2005.

The licence was surrendered on 19 November 2008.
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INTRODUCTION

EL 24634 comprising 30 sub blocks was granted to Gravity Diamonds Limited (‘Gravity’) on 25 November 2005.

The EL formed part of a major diamond exploration enterprise in the Northern Territory initiated by Gravity (then Gravity Capital) in 2003. The foundation of this enterprise had been a farmin agreement between Rio Tinto Exploration Pty Ltd (“Rio Tinto”) and Diamond Mines Australia Pty Ltd (“DMA”, a 100%-owned subsidiary of Gravity Diamonds) covering numerous Rio Tinto-controlled tenements and applications in the Northern Territory. Under this agreement, DMA has conducted diamond exploration over the tenements utilising the recently-developed Falcon™ airborne gravity gradiometer system, which has been shown to be effective in detecting kimberlite pipes.

Gravity has also acquired a significant tenement holding in its own right in the NT. The initial Falcon™ programs in 2003 resulted in the discovery of a kimberlite pipe within the ‘Abner Range’ survey area, some 35 kilometres northeast of EL 24634, and this led Gravity to apply for a number of areas in proximity to the discovery.

EL 24634 was one such area.

LOCATION AND ACCESS

EL 24634 is located 30 kilometres south south west of Cape Crawford and 65 kilometres west of the Merlin diamond mine on the Walhallow 1:250,000 map sheet in the northeastern part of the Northern Territory (Figure 1). It lies within the Mallapunyah Springs pastoral lease (PPL1075). Access to the area is via the Tablelands Highway and station tracks on Mallapunyah.

GEOLOGICAL SETTING AND ECONOMIC POTENTIAL

EL 24634 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 60km east of the tenement and is associated with McArthur River Zn-Pb mine and the Merlin diamond mine.

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

- Roper Group arenites, shales, iron formations and dolerite sills.
- Nathan Group (or Mt Rigg Group) carbonates that host Zn-Pb mineralisation, e.g. 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 outcrop within the project area is dominated by McArthur Group rocks with minor Tawallah Group occurrences and Cretaceous cover rocks in the southern part of the tenement. Figure 2

**PREVIOUS EXPLORATION**

Historic work in the area has included regional aeromagnetic surveys and reconnaissance sampling for diamonds and base metals.

Within EL 24634 five samples were gathered by CRA in the mid 1980’s. While these were all negative, the sample sizes were small and recent work has shown that such sampling may not have been definitive.

On this basis, and owing to the proximity of the area to the Merlin diamond field and Gravity’s recent discovery at Abner Range, the area is regarded as prospective for diamonds.

**WORK COMPLETED IN YEAR 1**

During year 1 of tenure, open file data was gathered and re-assessed. No new strong exploration targets were identified and an increase of the density of heavy mineral sampling was identified as optimal.

**WORK COMPLETED IN YEAR 2**

During Year 2 of the licence, Heavy Mineral gravel samples were collected from the only suitable drainages within the licence area. Standard gravel sampling techniques were utilized with the samples obtained from the best available trap sites in the target drainages. Approximately 30 kg of -1.6mm sieved material was obtained with the samples transport to and processed by Diatech, Perth. Sampling was conducted as a part of a larger regional sampling program by a team using a helicopter. All helicopter supported surveys have been carried out using JetRanger helicopters and pilots supplied by Jayrow Helicopters, Darwin. Sample teams typically consist of one geologist and one field assistant.

<table>
<thead>
<tr>
<th>Sample No</th>
<th>WGS84 East</th>
<th>WGS84 North</th>
<th>Indicator Minerals</th>
</tr>
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<tbody>
<tr>
<td>200004</td>
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<td>8119088</td>
<td>0</td>
</tr>
<tr>
<td>200008</td>
<td>567099</td>
<td>8119925</td>
<td>0</td>
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</table>

Sample sheets and locations were provided in the Year 2 Annual Report.

**WORK COMPLETED IN YEAR 3**

During Year 3 of the tenement re-assessment of the existing sampling program was undertaken. Access to the tenement area remained difficult as existing pastoral lease access tracks are of variable condition. As few small sample drainages remain to be sampled, however the small tenement size reduces the potential of adequate sampling of the potential of the tenement. Sampling of adjoining tenements, held by Gravity Diamonds Limited and either solely or in joint venture has been negative and it was decided to relinquish the tenement.
ENVIRONMENT AND REHABILITATION

No requirement for rehabilitation arose as no ground disturbing exploration was carried out.

CONCLUSIONS AND RECOMMENDATIONS

EL 24634 lies within 35 kilometres of the newly discovered, diamondiferous pipe at Abner Range. Geological reconnaissance suggests the area could contain a concealed kimberlite pipe and prior exploration has been minimal. A program of heavy mineral sampling was carried out during the 2007 field season.

Whilst both samples collected returned negative results the sample sites were in very small stream that only minimally drain a large low plateau area in the central portion of the licence. Attempts were made to obtain further drainage samples from this plateau, however no well developed streams were identified despite an intensive helicopter survey to locate such streams. It is possible that some younger Cretaceous? sediments are out- or sub-cropping in this area.

The prospectivity of the licence remains untested without expensive geophysical survey programs and this led to its surrender on 19 November 2008.

EXPENDITURE STATEMENT

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Personnel costs</td>
<td>$2,450</td>
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<tr>
<td>Office Support / Drafting</td>
<td>$115</td>
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<tr>
<td>Travel and accommodation costs</td>
<td>$296</td>
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<tr>
<td>Tenement maintenance</td>
<td>$1,657</td>
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<tr>
<td>Administration/overhead</td>
<td>$714</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$5,232</strong></td>
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</table>
Figure 2

EL24634
Regional Geology
and Sampling

Date: 2/11/2006
Author: DI Isles
Office: West Perth

Drawing: nicolcad
Workspace: EL24634 Geology 2006 02 wsr
Scale: 1:400000
Projection: Longitude / Latitude (AGD 88)

Reference:
- Cover
- McArthur Group
- Nathan Group
- Roper Group
- Tawallah Group

Key:
- Cambrian Bukalara Sandstone
- Cambrian Sediments
- Mafic volcanics
- Tawallah Group
- Nathan Group
- McArthur Group
- Roper Group
- Cover

Legend:
- Cambrian Bukalara Sandstone
- Cambrian Sediments
- Mafic volcanics
- Tawallah Group
- Nathan Group
- McArthur Group
- Roper Group
- Cover

Scale:
0 5 10 15 20
kilometres