Annual Report – Year 1

Exploration Licence 27756

20th September 2010 to 19th September 2011
Northern Territory, Australia

Holder: North Australian Diamonds Limited
Operator: North Australian Diamonds Limited
Reporting Period: 20th September 2010 to 19th September 2011
Sheet Reference: Bauhinia Downs 1: 250,000 (SE53-03)
Due Date: 19th November 2011

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Date: 17th November 2011
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NADL

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SUMMARY

EL27756 was granted to NADL 20th September 2010. This report represents Year One of the Licence.

Exploration Licence 27756 is situated on the Bauhinia Downs (SE53-03) 1:250,000 geological mapsheet in the Northern Territory. It is located around 100 kilometres south of Borroloola.

During the reporting period discussions were held with a third party with regard to farming out the base metal rights. No field exploration was completed.

The proposed program for the 2nd year includes the collection and processing of twenty stream gravel samples to increase sample density to adequately assess the potential of the licence to contain kimberlites.

Expenditure for the reporting period was limited to tenement rent costs only.
1.0 INTRODUCTION

This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 27756 between the 20th September 2010 and 19th September 2011. This period represents Year One of the licence.

2.0 LOCATION AND ACCESS

Exploration Licence 27756 is situated on the Bauhinia Downs (SE53-03) 1:250,000 geological mapsheet in the Northern Territory. It is located around 100 kilometres south of Borroloola. A location map is provided as Figure 1.

3.0 LICENCE DETAILS

EL27756 consists of 32 blocks, and was granted to North Australian Diamonds Limited on 20th September 2010 for a period of six years. License details for EL27756 are outlined in Table 1 below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Grant Date</th>
<th>Expiry Date</th>
<th>Current Blocks</th>
<th>Area (sq km)</th>
<th>Holder</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>EL27756</td>
<td>Granted</td>
<td>20/9/2010</td>
<td>19/9/2016</td>
<td>32</td>
<td>105</td>
<td>North Australian Diamonds Limited</td>
<td>100</td>
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</tbody>
</table>

4.0 PHYSIOGRAPHY

The exploration licence is located within the geomorphic region referred to as the Bukalara Ranges that consists of high level, dissected rocky plateau and ridges of resistant sediments. The licence also contains sand covered plateaux.

The oldest rocks that crop out over the licence are Palaeoproterozoic sediments of the McArthur Group. These occur within the south-western portion of the licence and also as inliers within the unconformably overlying Neoproterozoic Bukalara Sandstone in the central parts of the licence. Isolated outcrops of Cretaceous age, plant fossil-bearing silicified sandstone may occur on plateaux within the licence. Youngest sediments include surficial deposits of gravel, silt, sand and ferricrete and occur within numerous drainages and on several plateaux within the licence.
5.0 PREVIOUS EXPLORATION

Previous exploration includes diamond exploration by Ashton Mining and CRA and stream geochemical base metal exploration by Mount Isa Mines. The licence has been subjected to medium density diamond exploration sampling with all samples returning negative results for kimberlitic indicator minerals. Stream geochemical sampling for base metals has been restricted to areas draining Palaeoproterozoic lithologies.

6.0 EXPLORATION COMPLETED DURING CURRENT REPORTING PERIOD

During the reporting period discussions were held with a third party with regards to farming out the base metal rights. The discussions are ongoing. No field exploration was completed during the reporting period.

7.0 EXPENDITURE STATEMENT

Expenditure for the current reporting period amounted to tenement rent only and is detailed in the accompanying Expenditure Report.

8.0 PROPOSED PROGRAMME AND BUDGET FOR 2011-2012

The proposed program will focus on diamond exploration and include the collection and processing of twenty stream gravel samples to increase the sample density to adequately assess the potential for the presence of kimberlites.

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
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<tbody>
<tr>
<td>Administration and Reporting</td>
<td>$3,000</td>
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<tr>
<td>Sample collection (helicopter assisted)</td>
<td>$10,000</td>
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<tr>
<td>Sample processing</td>
<td>$15,000</td>
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<tr>
<td>Field Logistics</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$30,000</strong></td>
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9.0 REFERENCES