Annual Report – Year 1

Exploration Licence 27895

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: Calvert Hills 1: 250,000 (SE53-08)
Due Date: 19th November 2011

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Date: 16th November 2011
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NADL

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SUMMARY

EL27895 was granted to NADL 20th September 2010. This report represents Year One of the Licence.

Exploration Licence 27895 is situated on the Walhallow (SE53-07) 1:250,000 geological mapsheet in the Northern Territory. It is located around 150 kilometres south of Borroloola.

During the reporting period NADL completed stream gravel sampling for recovery of kimberlitic indicator minerals and also detrital zircon assay with the CSIRO. Detrital zircons <68 Ma were recovered suggesting a post-Cretaceous igneous event within the region. Kimberlitic chromite has been recovered within eluvial material derived from eroding Cretaceous rocks on the adjoining licence, which suggests the possibility of the igneous event being a kimberlite. Further testing of the alluvial material and detrital zircons is planned to 2011-2012.

Expenditure for the reporting period was $3,800.
1.0 INTRODUCTION

This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 27895 between the 20th September 2010 and 19th September 2011. This period represents Year One of the licence.

2.0 LOCATION AND ACCESS

Exploration Licence 27895 is situated on the Walhallow (SE53-07) 1:250,000 geological mapsheet in the Northern Territory. It is located around 150 kilometres south of Borroloola. A location map is provided as Figure 1.

3.0 LICENCE DETAILS

EL27895 consists of 166 blocks, and was granted to North Australian Diamonds Limited on 20th September 2010 for a period of six years. License details for EL27895 are outlined in Table 1 below.

Table 1: License Details for EL27895

<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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<tbody>
<tr>
<td>EL27895</td>
<td>Granted</td>
<td>20/9/2010</td>
<td>19/9/2016</td>
<td>166</td>
<td>544</td>
<td>North Australian Diamonds Limited</td>
<td>100</td>
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</table>

4.0 PHYSIOGRAPHY

Geomorphology

EL27895 straddles a physiographic divide that separates the Bukalara Plateau in the north from the Barkly-Birdum Tableland to the south. The Barkly-Birdum Tableland is a relatively flat-lying plain that closely represents the Tertiary land surface. Most of the tableland is covered by soils developed on laterised Mesozoic rocks. Erosion from the north has developed the lower-lying dissected Bukalara Plateau that contains a well-developed northward flowing drainage system. Drainage on the tableland is less developed and flows to the south. The elevation descends from approximately 300m abs in the south to approximately 250m abs in the drainages in the north of the licence.
Geology

The oldest rock unit that crops out within the licence is the Palaeoproterozoic Sly Creek Sandstone of the Tawallah Group. The sandstone occurs as inliers in the northern parts of the licence and is mapped as questionable on the 250,000 geology map. Neoproterozoic Bukalara Sandstone unconformably overlies the Sly Creek Sandstone although the contact is not exposed within the licence. Mesozoic Sandstones containing a basal conglomerate and quartzite and an upper sandstone and siltstone uncomfortably overly both the Bukalara Sandstone and the Sly Creek Sandstone. Ferruginous soils and black soil have developed on the Mesozoic sediments and are mostly restricted to the tableland areas in the southern parts of the licence. More recent sediments include alluvial sands and gravels and are confined to the active drainages.

5.0 PREVIOUS EXPLORATION

Previous exploration includes stream gravel and loam sampling by Ashton Mining, CRA, drilling and sampling by BHP Minerals for recovery of kimberlitic indicator minerals, and stream geochemical sampling by BHP minerals. A total of three loam samples were positive for microdiamonds (1 microdiamond per sample) in the central part of EL27895. These positive results were never followed up by Ashton Mining and remain of interest. BHP drill holes did not intersect kimberlite.

6.0 EXPLORATION COMPLETED DURING CURRENT REPORTING PERIOD

The licence is located immediately south of NADL’s Lancelot Prospect, which is a kimberlitic chromite and diamond anomaly that remains unresolved. During 2009 and 2010 NADL discovered that the chromites are contained within eluvial material interpreted to be reworked material derived from the eroding Cretaceous rocks. NADL completed a program of sampling the alluvial material throughout the area which included collection of one stream gravel sample comprising approximately 100kg of alluvial gravel from the wall of a creek within EL27895. This sample was collected to help determine whether the chromite anomaly at the Lancelot Prospect is a regional feature or a local feature. The negative result from sample 11-004-001 supports the Lancelot anomaly being attributed to a local source however additional samples are required.
In addition, 3 stream samples (10-037-013, 10-037-014 and 10-037-015) were collected and the detrital zircons extracted by heavy mineral separation and observation and sent to the CSIRO in Perth for helium assay dating. This technique aims to determine the age at which detrital zircons have been thermally reset for example by an intrusive igneous body such as a kimberlite. Only 10-037-014 has been processed to date, which reported several zircon ages that are apparently inconsistent with any known (igneous) rocks within the region. The importance of this is that the association of the kimberlitic chromites with eluvial material derived from eroding Cretaceous rocks, when considered together with <68Ma zircons suggest the possibility of post-Cretaceous aged kimberlites to be the source for both minerals.

<table>
<thead>
<tr>
<th>Sample Site</th>
<th>Zircon (U-Th)/He age (Ma)</th>
<th>±1 σ</th>
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<tr>
<td>10-037-014</td>
<td>68.0</td>
<td>3.2</td>
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<td></td>
<td>40.8</td>
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<td>112</td>
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<td></td>
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<td></td>
<td>91.2</td>
<td>3.4</td>
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7.0 EXPENDITURE STATEMENT
Expenditure for the current reporting period amounted to $3,800 and is detailed in the accompanying Expenditure Report.

8.0 PROPOSED PROGRAMME AND BUDGET FOR 2011-2012
A more extensive program of stream gravel sampling of the alluvial material will be implemented and additional stream zircon samples.

The microdiamond samples will be check sampled and if warranted additional follow-up samples collected.
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<tr>
<td>Heavy Mineral Sample Collection (20 samples)</td>
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<td>Heavy Mineral Processing</td>
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<td>Zircon assay</td>
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<tr>
<td>Field Logistics</td>
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<td><strong>Total</strong></td>
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9.0 REFERENCES

Table 2. Sample Details

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<th>NORTHING</th>
<th>DATUM</th>
<th>ZONE</th>
<th>RESULTS</th>
<th>DIAMONDS</th>
<th>CHROMITES</th>
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