Annual Report – Year 2

Exploration Licence 27895

20th September 2011 to 19th September 2012
Northern Territory, Australia

Holder: North Australian Diamonds Limited
Operator: North Australian Diamonds Limited
Reporting Period: 20th September 2011 to 19th September 2012
Sheet Reference: Wallhallow (SE-5307) 1:250,000
Due Date: 19th October 2012

<table>
<thead>
<tr>
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<th>M Kammermann</th>
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<td>Date:</td>
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SUMMARY

This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 27895 between the 20th September 2011 and 19th September 2012. This period represents Year Two of the Licence.

Exploration Licence 27895 is situated on the Wallhallow (SE53-07) 1:250,000 geological mapsheet in the Northern Territory. It is located around 100 kilometres south of Borroloola.

During the 2010-2011 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 alluvial material derived from eroding Cretaceous rocks on the adjoining licence, which suggests the possibility of the igneous event being a kimberlite.

No field activity was completed during the reporting period. Most of the Company’s focus has been on advancing the prospectivity of adjoining tenement EL25676.

A 50% reduction was submitted during the reporting period with the relinquishment of 86 blocks. A total of 80 blocks are to be retained for Year 3.

Total expenditure amounted to $2,400.
1.0 INTRODUCTION
This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 27895 between the 20th September 2011 and 19th September 2012. This period represents Year Two of the Licence.

2.0 LOCATION AND ACCESS
Exploration Licence 27895 is situated on the Wallhallow (SE53-07) 1:250,000 geological mapsheet in the Northern Territory. A tenement location map is provided as Figure 1.

3.0 LICENCE DETAILS
EL 27895 consists of 166 blocks, and was granted to North Australian Diamonds Ltd on 20th September 2010 for six years. The Tenement details are outlined in Table 1 below. A 50% reduction has been submitted at the end of Year 2. A total of 80 blocks have been retained for Year 3.

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Effective Date</th>
<th>Grant Date</th>
<th>Expiry Date</th>
<th>Blocks</th>
<th>Holder</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>EL27895</td>
<td>Granted</td>
<td>20/09/10</td>
<td>20/09/10</td>
<td>19/09/16</td>
<td>166</td>
<td>North Australian Diamonds Ltd</td>
<td>100</td>
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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 absl in the south to approximately 250m absl 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.

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. During 2010-2011 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 know (igneous) rocks within the region. The importance of this is that the association of the kimberlitic chromites with alluvial material derived from eroding Cretaceous rocks, when considered together with 35Ma zircons suggest the possibility of post-Cretaceous aged kimberlites to be the source for both minerals. Sample details are shown in Table 2 and 3.

Table 2. Detrital Zircon age dating results

<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>
</tr>
<tr>
<td></td>
<td>40.8</td>
<td>1.8</td>
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<tr>
<td></td>
<td>112</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>35.9</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td>91.2</td>
<td>3.4</td>
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6.0 EXPLORATION COMPLETED DURING REPORTING PERIOD

No field activity was completed during the reporting period. Most of the Company’s focus has been on advancing the prospectivity of adjoining tenement EL25676.

A 50% reduction was submitted during the reporting period with the relinquishment of 86 blocks. A total of 80 blocks are to be retained for Year 3.

7.0 EXPENDITURE STATEMENT

The exploration expenditure attributed to EL27895 during the current reporting period was
a total of $2,400 as per attached expenditure statement.

8.0 PROPOSED EXPLORATION PROGRAM FOR 2012-2013

The proposed work program for next twelve months includes excavation of approximately 15 exploration costeans. A total of approximately 30 samples will be collected and transported to Perth for processing and recovery of indicator minerals and diamonds. This will allow a detailed investigation into the distribution of alluvial material for comparison with the indicator mineral bearing alluvial material on adjoining EL25676.

A covenant of $50,000 is proposed as per expenditure statement.
9.0 REFERENCES

Department of Mines and Energy, Northern Territory Geological Survey. Wallhallow and Bauhinia Downs 1:250,000 Explanatory Notes.

Table 3. 2010-2011 Sample Details

<table>
<thead>
<tr>
<th>SAMPLE</th>
<th>TYPE</th>
<th>EASTING</th>
<th>NORTHING</th>
<th>DATUM</th>
<th>ZONE</th>
<th>RESULTS</th>
<th>DIAMONDS</th>
<th>CHROMITES</th>
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<tr>
<td>11-004-001</td>
<td>GRAVEL</td>
<td>619237</td>
<td>8085467</td>
<td>GDA94</td>
<td>53</td>
<td>NEGATIVE</td>
<td>0</td>
<td>0</td>
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<tr>
<td>10-037-013</td>
<td>ZIRCON STREAM</td>
<td>620795</td>
<td>8085729</td>
<td>GDA94</td>
<td>53</td>
<td>N/A</td>
<td>N/A</td>
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<td>10-037-014</td>
<td>ZIRCON STREAM</td>
<td>622392</td>
<td>8086652</td>
<td>GDA94</td>
<td>53</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>10-037-015</td>
<td>ZIRCON STREAM</td>
<td>626055</td>
<td>8083856</td>
<td>GDA94</td>
<td>53</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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Figure 1
Location Plan

Legend
- Tenement
- Drainage

Map Area

North Australian Diamonds Limited