EL 23931
Abner (Tanaburs), NT

ANNUAL REPORT

ON EXPLORATION ACTIVITIES
YEAR 6 OF TENURE
3 FEBUARY 2009 – 2 FEBRUARY 2010

Submitted by

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For

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EL 23931 Batten

Holder: Gravity Diamonds Ltd

Grant Date: 3rd Feb 2004

1:250,000 Sheet: **Bauhinia Downs SE 53-03**

Minerals Sought: Diamonds, Base metals

SUMMARY

EL23931 “Abner (Tanaburs)” (previously known as Batten) was granted to Gravity Diamonds Ltd (“Gravity”) on 03 February 2004. The immediate region is under an exploration agreement between Rio Tinto group companies and Diamond Mines Australia (DMA), a 100%-owned subsidiary of Gravity. In 2009, Gravity entered into an agreement with Legend International Holdings who are operating an extensive diamond exploration program in the region. The transfer is yet to be finalised but Legend is committed in continuing exploration.

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 effective in diamond exploration since its development by BHP Billiton in the late 1990’s. During the initial years of tenure Falcon® data was acquired over the entire area of EL 23931 including gravity gradient data, high resolution magnetics and accurate elevation data. Coverage was obtained over the entire tenement, an area of 23 km^2.

Sampling in the tenement has included sampling in the drainage that previously reported chromite occurences. The chromites historically were reported of ambiguous chemistry, however they match well with results from sampling in JV ground outside the boundary of EL23931 that are of possible kimberlitic origin. The most recent sampling recovered one chromite and one microdiamond spurring continued interest in the area.

An intensive mapping campaign in the south east of the tenement aimed at discerning the provenance of these grains and their possible relationship to a major airborne gravity feature centred only 1.5km south of the tenement. The zone is generally covered by thick sheetwash alluvium making it is unsuitable for both drainage and loam sampling.

Reassessment and modelling of airborne gravity and magnetic data by both Gravity and Legend geophysicists has highlighted zones that are consistently anomalous and require further field evaluation. An EM34 Survey was conducted late last year highlighting a few targets that will be revisited this year. Ground gravity and further EM surveys are planned for the upcoming field season with a view to drilling in the near future.

Historically, Gravity Diamonds Limited has spent approximately $5.5m on diamond exploration in the Abner Range / McArthur Basin region since it took over management of the project under the exploration agreement with Ashton Mining Limited and others. The primary targets on tenement EL23931 remain valid and are encouraged by recent positive results from sampling.

Expenditure on the tenement during the reporting period totalled **$ 25,951**.

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INTRODUCTION

EL23931 "Abner (Tanaburs)" (previously known as Batten) was granted to Gravity Diamonds Ltd ("Gravity") on 03 February 2004. The immediate region is under an exploration agreement between Rio Tinto group companies and Diamond Mines Australia (DMA), a 100%-owned subsidiary of Gravity. In 2009, Gravity entered into an agreement with Legend International Holdings ("Legend") who are operating an extensive diamond exploration program in the region. The transfer is yet to be finalised but Legend is committed in continuing exploration.

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The area of EL 23931 was included in the 2003/04 flying program which covered seven separate 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 23931 is located near old Bauhinia Downs homestead, approximately 75 kilometres west of Borroloola in the Gulf Region of the Northern Territory (Figure 1). Access to the area is via the well maintained Savannah Highway (Nathan River Rd). The tenement lies in the central part of the Billengarrah pastoral lease (administered by the Northern Territory Land Corporation) and is accessible via unrehabilitated station tracks.

GEOLOGICAL SETTING and ECONOMIC POTENTIAL

EL23931 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.

Figure 1: EL23931 Tenement Location

Figure 2: Regional Geology EL23931

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 within Tawallah Group proximal to the McArthur Project area.

Proterozoic outcrops within the project area are predominantly Tawallah Group however significant areas of the tenement are covered by recent alluvium and possibly Cretaceous or Tertiary laterite cover.

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 adjacent to EL23931.

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 sediments. 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 plateau.

WORK COMPLETED IN YEAR 1 - 5

On the basis of historic anomalous diamond and base metal results, the area of EL 23931 was included in the 2003/2004 Falcon™ airborne gravity gradiometer survey program. 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 the entire area (~23km2) of the original tenement, amounting to a total of approximately 250 line kilometres of survey data. A number of second order Falcon features were noted within the survey area but no priority targets were identified for field follow up.

Although no priority Falcon anomalies were identified within the area covered by EL 23931, previous sampling has recovered numerous, repeatable chromite results from a small

tributary within the headwaters of Ten Mile Creek. The origin of these chromite results has not been resolved. Previous explorers have suggested the chromites are non-kimberlitic. Given that chromites from the Abner Range, some 70km to the south, where DMA discovered the ABN021 kimberlite in 2004, were similarly described, Gravity maintained the view that EL 23931 could host kimberlites. A brief field reconnaissance program was conducted during the 2005 field season, but owing to deployment priorities being focused on the Abner Range discovery, access to desired sample sites was not achieved

During the third year of tenure, a gravel sample (169047) was collected in the Ten Mile Creek tributary which had previously reported chromite. The sample was collected with the aim of recovering chromite grains for SEM analysis, as no probe data for previously recovered grains was available.

The sample collected recovered 13 chromite grains of possibly kimberlitic origin although the chemistries were somewhat ambiguous, they provided sufficient encouragement when combined with sample results recovered from outside the tenement to continue exploration within the tenement.

During the fourth year of tenure, an airborne gravity anomaly with a weak to moderate magnetic signature (TAN016 anomaly) only 1.6 km southeast of the tenement (on a tenement under the Rio Tinto / Gravity exploration agreement) was loam sampled. The anomaly returned 2 chromites of unambiguous kimberlitic affinity and prompted an urgent reassessment of similar gravity / magnetic features on EL 23931, in particular in the source region of the drainage (Ten Mile Creek) that supplied the result reported in the 2007 Annual Report. The dataset was interrogated with the following products created or remodelled by Gravity staff members who had extensive experience with Falcon Gradiometer data.

This reassessment highlighted a further six target areas with gravity anomalies of similar amplitude and coherency to the TAN016 anomaly within the neighbouring tenement EL 22307. Field assessment was carried out on each of these areas and each was assessed as being in an area of thick (>2.0m) alluvial sheetwash and minor colluvium. Several areas of Tertiary laterite were also noted although this to may contain a large proportion of transported material. Access to the targets is difficult being in sandy swaley flat plains however unrehabilitated pastoral tracks exist in relative close proximity to several.

Sampling experiences of Gravity in other portions of the McArthur River basin (including in the vicinity of known kimberlite pipes) indicate that results from these regolith regimes are at best unreliable. Drill testing of the TAN016 anomaly was scheduled for the 2008 field season. The other targets were going to be drilled in a concurrent program however all programs were delayed due to the global financial crisis and later selling of the projects to Legend.

During the fifth year of tenure plans were formulated to fly a helicopter-borne Falcon® gravity program covering the tenement. An unfortunate accident associated with the heli-borne Falcon system, grounding the helicopter and system mid season led to the program

being unable to be implemented. With the onset of the global financial crisis further funding to carry out extensive ground based programs have proved unavailable. The management of Gravity Diamonds Limited secured a commercial agreement with Legend International Holdings Inc that is still being finalised.

WORK COMPLETED IN YEAR 6

While the agreement was being finalised, Legend completed a comprehensive open file review of the tenement and region. These studies identified the need for field studies and possible drilling. Field reconnaissance was conducted late in the sixth year with a view to replicate historic results in sampling and geophysics.

One stream sediment sample (ABH000066) was taken from a tributary located upstream of historic samples, and recovered one microdiamond and one chromite. Detailed examination of the microdiamond indicates it is of typically kimberlitic provenance, perhaps from the upper portions of a pipe.

Reassessment of both the morphology and chemistry of the chromites recovered from this tenement area has been undertaken by Gravity as well as independently by Legend. Both the chemistry and morphology of recent and historic grains recovered and examined continue to be comparable to weathered grains recovered from the uppermost portions of the ABN021 kimberlite pipe and have similarities with grains derived from the low-grade EMU pipe closer to Merlin.

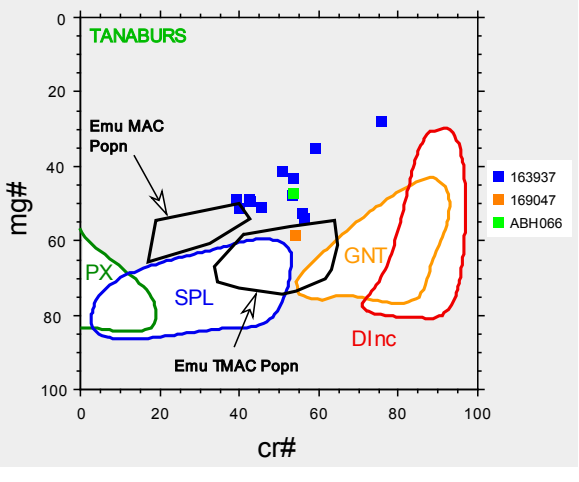

Figure 3: Tanaburs Cr-Spinel Mg distribution (W. Taylor)

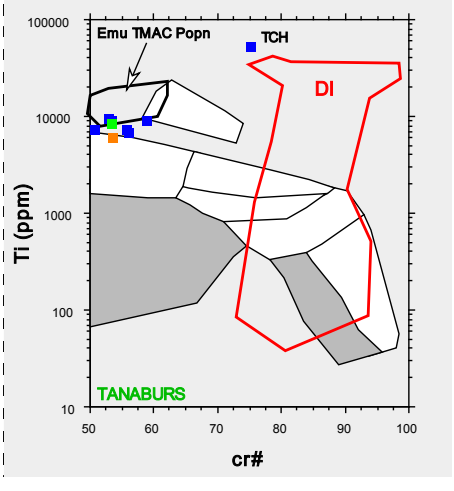

Figure 4: Tanaburs Cr-Spinel Ti- distribution (W. Taylor)

One rock sample (ABR000062) was taken from a brecciated sandstone north of the stream sediment sample. Assay results were inconclusive but did not indicate the presence of kimberlite.

An EM34 Survey was completed over the majority of the tenement, focusing on the Ten Mile Creek headwaters creek system that crosscuts the north-western corner. Several anomalous areas were identified and will be reviewed in the current field season. (Figure 5)

A regional compilation of historic geophysics data is currently underway. Retargeting of the Falcon Gravity data and historic GeoTEM has been used to identify numerous anomalies and revalidates the work completed by Gravity in the previous year. The sequence of gravity anomalies in the southern portions of the tenement area remain of priority interest.

ENVIRONMENT AND REHABILITATION

On-ground exploration activities have been of low impact with negligible impact on the environment and hence requiring no rehabilitation.

CONCLUSIONS AND RECOMMENDATIONS

EL 23931 lies within an area of anomalous indicator mineral sampling results as well as having defined base metal prospects. Historic sampling in the area recovered numerous, repeatable chromite results. The positive stream sediment sample collected in a north draining tributary reported a microdiamond and a chromite recovered. While the chemistry is not of ideal kimberlitic origin, there is significant evidence to continue work on EL23931.

Reimaging and modelling of the dataset by has highlighted several features of similar amplitude and coherency to the adjoining TAN016 anomaly. The regional geophysics compilation will hopefully highlight other areas of possible source. Drill testing is anticipated and hopes to be carried out concurrently with programs associated with testing the TAN016 anomaly on EL22307.

PROPOSED EXPLORATION BUDGET

Professional Personnel	$4,200
Ground Gravity/EM Survey	$3,000
Sampling and sample analysis costs	$4,800
Office support/Administration costs	$1,000
TOTAL	**$13,000**
EXPENDITURE STATEMENT	
Geological personnel costs	$12,795
Sampling	$1,936
Data processing / computing	$ 345
Field Operations (vehicles, fuel)	$7060
Travel and accommodation costs	$2847
Legal/Tenement maintenance costs	$405
Administration/overhead	$563
TOTAL	**$ 25,951**

Figure 5: EM Survey Outline

APPENDICES