

18th October 2007

ASX Announcement



North
Australian
Diamonds
Limited
ABN 86 009 153 119

North Australian Diamonds targeting five million carats from drilling at Merlin Project, Australia

- ◆ **First stage of resource drilling programme to commence next week**
- ◆ **1800m diamond core drilling on the higher grade Gawain pipe**
- ◆ **Gawain resource of 1.3M carats is targeted**
- ◆ **Full program is targeting five million carats**
- ◆ **Gawain drilling planned to be completed prior to onset of wet season**

North Australian Diamonds Ltd (“North Australian” or “the Company”) will commence the first stage of the planned resource drilling programme at its 100% owned flagship Merlin diamond project located in the Northern Territory, following the contracting of a drilling company.

On the 10th October 2007 the Company announced that it had raised \$2.9 million through a Share Purchase Plan. A proportion of these funds are being immediately applied to a 1800m diamond drilling programme focused on the higher grade Central cluster pipe, Gawain. The drilling programme is scheduled to commence the week of the 22nd October 2007.

The drilling program is designed primarily to determine pipe geometry and consequent tonnage at depth but combined with associated diamond test work will provide the basis for upgrading the Gawain resource to JORC compliant measured status. Gawain currently has a combined Indicated and Inferred resource of 2.1 million tonnes for a contained 742,000 carats. The resource drilling target for Gawain is a contained 1.3 million carats.

This program is the first stage of a planned larger 8,000m drilling program aimed at confirming a diamond resource sufficient to support a 10 year plus mining operation with an in-situ resource of approximately 5 million carats. This information will enable the progression of feasibility studies aimed at confirming the viability of a large scale mining project at Merlin prior to proceeding to a commercial development.

Potential Mining Project

A broad scoping study based on information gained from over two years of test work as well as the previous mining operation, has identified a potential commercial mining project based on a throughput of 1.4 million tpa and a recovery of up to 400,000 carats per annum. This large scale project is based on a combined resource for the Central and Southern cluster pipes of 14.3 million tonnes. The current inferred and indicated resources for these clusters

are 11 million tonnes. Because it is the usual nature of kimberlites to extend to great depths, the company has a high level of confidence that the additional tonnes required to satisfy the scoped mining model will be achieved.

For further information please contact:

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Tom Reddicliffe, a full time employee of the company, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Tom Reddicliffe consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.