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ASX Announcement



North  
Australian  
Diamonds  
Limited  
ABN 86 009 153 119

## **NORTH AUSTRALIAN'S MERLIN DIAMOND PROJECT TARGETS 5 MILLION CARAT INSITU RESOURCE**

### **Highlights**

- **Following a comprehensive review of all information gathered during two years of test work, mining trials and diamond sales, the new Board together with management intend to implement a strategic plan to accelerate the development of the Company's Merlin diamond project;**
- **A potential large scale mining project, based on the higher grade Central and Southern pipe clusters could produce 400,000 carats pa;**
- **To confirm resources to underpin a 10 year plus operation the Company, subject to satisfactory funding, intends to undertake a comprehensive drilling programme to potentially increase the known combined indicated and inferred resource by around 30 per cent to 15 million tonnes containing approximately 5 million carats;**
- **At current diamond prices, Merlin diamonds previously recovered and sold would achieve values of US\$150-180 per carat;**
- **To drive its strategic development initiative, the Board is in discussions with parties to identify a senior executive with significant relevant diamond mining experience to step into the role of CEO.**

Following substantial changes to the Board and Management of North Australian Diamonds Limited ("North Australian" or "the Company") earlier this year, the Company has spent considerable time assessing options with respect to its flagship Merlin diamond project in the Northern Territory.

Merlin comprises 14 kimberlite pipes of which 9 were subject to open-pit mining over a 5 year period commencing 1998. The operations ceased in 2003 having produced 507,000 carats of diamonds. During its short operational life Merlin became renown for the production of both top quality white diamond and large specials, the largest being 104.73 carats. North Australian acquired the project from the Rio Tinto parties in 2004.

There has been a complete review of all information gathered over two years including the results of a variety of test work, including trials of new technology in the liberation and recovery of diamonds, diamond marketing and limited pre-feasibility studies. Based on this data and previous mining data, scoping studies demonstrated that a 1.4mta mining project delivering 400,000 carats pa was required for optimum return for shareholders.

**An operation of this scale would see North Australian enter the ranks of the top 20 diamond producers globally.**

This large scale project is based on a combined resource for the Central and Southern pipe clusters of 15 million tonnes. The current combined inferred and indicated resources for these two pipe clusters, comprising 4 individual pipes, are 11 million tonnes. Because it is the usual nature of kimberlites to extend at depth, the Company has a high level of confidence that the additional tonnes required to satisfy the scoped large scale mining project can be achieved. Based on established grade models for the pipes, 15 million tonnes would represent approximately 5 million carats.

**Subject to satisfactory funding, the Company plans to undertake a comprehensive drilling programme to prove up the resource required to underpin this potential large scale mining operation.** The drilling programme which will comprise some 8,000 metres of core drilling, will not only aim to confirm the geometry of the pipes at depth and consequent contained tonnes, but also to provide samples to undertake grade analysis work using fine diamond fractions, including micro-diamonds. This test work is aimed at further increasing confidence in the grade and value models on which on going feasibility studies will be based.

**The full programme could be completed within 6 months the results of which should provide the baseline information required to progress the Merlin project towards final bankable feasibility and potential commercial development.**

Trial mining undertaken in 2006 has provided statistically significant numbers of 'run of mine' diamonds, 9,304 carats in total, to enable current price points for the diamonds from pipes Ywain and Gawain to be established. **Based on recent sales, Merlin diamonds have achieved average prices ranging from US\$150 to US\$180 per carat for 'run of mine' production.**

In keeping with the Boards' strategic initiative to accelerate the potential development of a large scale mining operation at Merlin, **the Company is in discussions with a number of parties to identify a senior mining executive, with significant relevant diamond mining experience, with a view to the person stepping into the role of CEO with a mandate to progress Merlin to bankable feasibility and potential commercial development.**

For further information please contact:

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*Tom Reddcliffe, 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 Reddcliffe consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*