

North Australian Diamonds Limited ("NAD")

12th September 2005

Commencement of Diamond Production at Merlin Mine Signals NAD as: "Australia's Third Diamond Producer"

- Production of diamonds at NAD's 100% owned Merlin Project has recently commenced.
- Impressive recoveries from Stage 1 reprocessing tails, marks the start of production placing NAD as Australia's third diamond producer behind Argyle (Rio Tinto) and Ellendale (Kimberley Diamond Company).
- Significant combined Indicated and Inferred resource base of 3.3 million carats at Merlin, underpinning production.
- Changes to existing board being implemented and viewed as a positive for the Company.
- International forward selling of the first A\$0.5 million viewed as a recognition of Merlin's quality and branding.

RECOMMENDATION: SPECULATIVE BUY

Recent Developments

• Commencement of Diamond Production

On 14th July 2005, NAD announced that diamond production was now underway at the Company's 100% owned Merlin Diamond Project in the Northern Territory. Initial production for a period of approximately four months will be from high grade historical sort-house tails. A Stage 2 campaign of processing the remaining ore from various stockpiles and remnant ore mining from several pipes in the field will immediately follow. The merits of a Stage 3 open pit at two pipes (Palomides and Sacamore) known to join together at depth and subject of an internal Rio Tinto study, is also being assessed, along with potential long term underground mining operations. Production to date reported on 12th September 2005 has been impressive, with significant amounts of diamonds approaching previous run of mine size being recovered. In addition several large stones including a 14.21 carat stone announced on 9th September 2005 have been recovered.

• Production from a Large 3.3 Million Carat Resource Base

In the latest July quarterly report NAD detailed a combined Indicated and Inferred resource of 3.3 million carats averaging 17.3cph, from 9 of 13 known kimberlite pipes in the field. Initial production is scheduled to be around 50,000 carats in the first 4 months from the sort-house tails. Production of 250,000 carats over the first two years is anticipated.

• Forward Sale of First Diamonds

On 19th August 2005 NAD announced that it had secured a forward sale of A\$0.5 million of rough diamonds to Knightsbridge Corporate. The forward sale indicates to us the recognition in the market for the Merlin brand and quality. The sale with Knightsbridge, also retains an option to purchase any single diamond, with an independently assessed value in excess of A\$580,000, signaling a reputation for Merlin diamonds as being a historical source for large quality stones, the largest of which recovered was 104.73 carats (Officially Australia's largest diamond recovered).

• Board & Management Restructure and Name Change

Over the period of 3 months the Company has been implementing a significant restructuring of the original Striker Resources board with the assistance of new corporate advisers and financial backers. The board changes are detailed later in this report. We understand that further positive changes to board and management will continue. This recent restructuring programme, in addition to a company name change, now provides a stronger company, supported by new market focused corporate advisers capable of driving the Merlin operations into production.

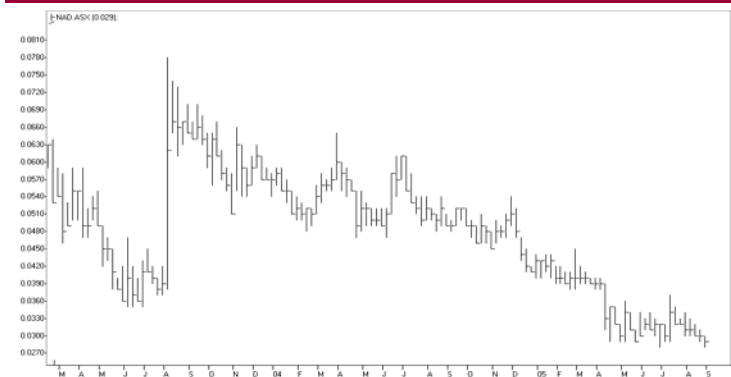
KEY ASX DATA

| | |
|--------------------------------|--------|
| Price of Ords (Cents) | 3.1 |
| No of Ordinary Fully Paid (M)* | 674.19 |
| Market Cap (\$M) | 20.90 |
| No of Options on Issue** (M) | 162.50 |

**22.5 million options are unlisted.

Directors: Mr Ewen Tyler (Chairman), Managing Director to be announced, Mr. Glenister Lamont (Non-Exec. Director), Mr. Charles W. Dutchatel (Non-Exec. Director), Mr. Tom Reddcliffe (Chief Executive Officer).

Price Chart



Background Information

North Australian Diamonds Limited (NAD), formerly known as Striker Resources NL, is a junior resource company focused on exploration and production of diamonds in the Northern Territory and Kimberley region of Western Australia. The Kimberley projects, (notably Seppelt) are not discussed in this report.

The Company's main focus of activity is the exploration and production of diamonds from its flagship Merlin Project, located in the Northern Territory. Merlin, a significant diamond asset was discovered in 1993 by Ashton Mining, later taken over and operated by Argyle Diamonds (a subsidiary company of Rio Tinto PLC) between 1998 and 2003. In 2003, Striker Resources (now NAD) acquired the project from Argyle Diamonds, following the operations closure, recognising the potential of the Merlin project for further resource delineation from the 13 known pipes that

existed (9 from which production had occurred) in addition, to the significant potential for further new discoveries in the district.

New Board, New Corporate Backers, New Company

NAD as a company, has undergone a rapid positive transformation in recent weeks. Prior, to this, the Company under its Striker Resources branding, had been unable to fulfill its commitment to get the Merlin Project back into production, with a timely sustainable cashflow and provide shareholders welcome share price leverage. Despite very positive technical progress at the Merlin project the Company found itself out of favour with the market.

In May 2005, Melbourne based Dalkeith Corporate and McClintock Associates supported by a number of financial backers started to reinvigorate interest in what is, in our view, a very significant, high quality asset. The reinvigoration has included the renaming of the Company, a significant board and management restructure starting with the appointment of mining engineer and corporate identity Mr. Glenister Lamont. Glenister brings with him highly regarded corporate and operating diamond industry experience, having held the previous role as General Manager Corporate for Ashton Mining Limited.

The board restructure has also included the stepping down of the previous Managing Director and reassignment of Tom Reddicliffe to CEO. To allow Tom to focus away from administration and onto technical issues, his area of expertise, we understand that the Company is currently in the process of negotiating a market focused diamond operation specialist for the role of Managing Director. We also understand that further changes to the board will take place in coming months. With this restructure, the Company is now starting to attract significant market interest again.

Brief Overview of the Merlin Project

Location and Tenure

The Merlin Diamond Project near Borroloola is located approximately 800km southeast of Darwin and 300km northeast of Tennant Creek, in the Northern Territory. The Project consists of a single mining lease and ten exploration licences and applications, covering an area of approximately 4,150km². Despite the Project's remoteness, access to the project is considered good, with the project serviced for the most part by an all weather road, also servicing the nearby large McArthur River lead-zinc mine.

Geology & Diamond Occurrences

The majority of NAD's tenements are covered regionally with Mesozoic sediments, resting unconformably on an older Proterozoic basement. The Merlin field is covered with a 100metre thick sandstone unit, overlying a thick shale. These country rock sediments have been later intruded by clusters of kimberlites. The 13 known kimberlite pipes, first discovered in 1993, have been heavily oxidized and weathered down to 40 to 50 metres.

Resources

In the Company's latest July quarterly, NAD detailed Merlin's current resources total in excess of 3.3 million carats. This combined Indicated, Inferred resource of 19.1 million tonnes grading 17.3 cpht (including 50% of the resource in the Indicated category) encompasses the remaining remnant open pit resources in 9 of the 13 known kimberlite occurrences at the project. Not included in this figure, are the substantial tonnages of tails and oversize rejects from processing (discussed later in this report) which are the basis of the current operations.

Mining & Processing

Historical mining by Ashton and Argyle between 1998 and 2003 occurred only within the top 50-80 metres of the largely oxidised weathered part of the kimberlite pipes. Little mining of fresh kimberlite was ever undertaken. Mining of the kimberlite was free-digging, with no drill and blast undertaken. No underground mining has occurred at Merlin. Historical processing involved

treatment by a Dense Media Separation (DMS) plant followed by simple screening and sorting of certain size fractions by the use of an X-ray sorting machine. Remarkably, only minor crushing and milling of any oversized material was undertaken to liberate possible contained diamonds.

Traditionally, as the open pit operations mined to the transitional and fresh kimberlite, a very notable *drop off* in diamond recoveries occurred. The recoveries dropped off so significantly in fresh rock that the previous owners decided to cease mining operations instead of investing in suitable crushing facilities.

New Optical Sorting Technology Employed for First Time to Increase Recoveries

NAD and its independent geological consultants AMC from studies undertaken, believe the drop off in grades in increasingly fresh kimberlite is not a function of the differing grade of the kimberlites at depth, but a combination of poor diamond liberation from fresher material during processing and the poor recovery of non fluorescing diamonds by the X-ray fluorescing sorter.

Studies and sampling of the sort-house tails and various other processed kimberlite stockpiles and dumps on site, indicate to date that the Merlin kimberlites have a significant portion of diamonds that poorly fluoresce (approximately 20% in total). This realisation of a significant non fluorescing population has undoubtedly lead historically to a large portion of the diamonds not being recovered by traditional x-ray fluorescence methods in the sort-house. NAD has recently engaged the services an optical sorter, relying on lasers and the translucency of diamonds to identify and recover the diamonds.

Diamond Recoveries Reported to Date have Substantially Outperformed Expectation

Recovery results reported to date on 12th September 2005, have been impressive with recoveries higher than expected and not only of small stones, but the recovery of numerous larger plus 1 carat stones. The largest recovered stone to date being 14.21 carats. Importantly, unexpected median recovery of diamonds around 0.10 carats in size is approaching Run of Mine size of 0.137 carats. This strongly suggests that the previous sorting and recovery inefficiencies affected all size ranges.

In addition, recent processing has demonstrated that Merlin kimberlites have a significant rare 'Fancy Yellow' population of stones. It appears that these very valuable Fancy Yellow's have historically for the most part not been recovered, due to their poor x-ray fluorescence.

New 4 Staged Approach to Production at Merlin With Early Stages Commercially Establishing Grade

NAD and AMC with these new findings, has outlined a staged approach to production with stages 1 & 2 aimed at commercially establishing the operations grade:

Stage 1, involves the reprocessing of the old sort-house tails (approximately 10,000 tonnes). This is scheduled to take around 4 months to complete, with a minimum of 50,000 carats being recovered. Reprocessing has already begun, with encouraging early results.

Stage 2, dependent on the results obtained from Stage 1, is scheduled to begin immediately after completion of stage 1. This stage involves the reprocessing of remaining ore from tailings, the crushing and processing of oversized ROM pad rejects, trommel rejects and several other stockpiles throughout the site, which have indicated high grades from sampling. In addition, the Company plans to mine the remnant oxide resources without waste stripping in a number of the open pits as well as ore which has become available as a consequence of re-optimisation studies by AMC initiated by NAD.

NAD, based on this AMC study, has estimated a remaining tonnage of surface and remnant open pit ore in the region of 475,000 tonnes.

As part of Stage 2, the Company plans to relocate its wholly owned larger 100,000tpa Ashmore Processing plant from the Northern Kimberley Seppelt project to Merlin. NAD plans to design an appropriate *front-end* to the plant, involving appropriate scrubbing and crushing capacity to allow a throughput of between 300,000 and 400,000tpa.

NAD has indicated that assuming a reduced rate of processing for the first 6 months, the plant in Stage 2 is scheduled to produce around 20,000cts from 60,000 tonnes of ore from the Ywain, Gawain, and Gareth pipes. In the 2006/2007 year, the plant will produce an estimated 180,000carats from the remaining 415,000 tonnes of ore delineated.

Stage 3, named the PALSAC project is viewed as being 12-24 months away. This stage (subject to a positive outcome from further testwork and exploration) will in concept, involve the mining of two adjacent kimberlite pipes Palomides and Sacamore by a single large pit. It is known from an earlier Argyle study that these two pipes join together at depth to form a single larger kimberlite pipe. It is also noted that within the larger pipe at depth, a core of primary kimberlite is known to exist. This core is believed to hold significantly higher grades than the previously mined ore at shallower depths. This was reflected in a sudden pickup in grade at the end of mining within the Sacamore pit, as the pit, when finishing up, intersected the start of this primary kimberlite. NAD has indicated that the Palsac project has around 380,000 carats contained within 1.7 million tonnes of ore, which potentially could be mined by both open pit and underground methods.

Stage 4, involves conceptually at this stage, the development of a number of underground operations, in addition to Palsac feeding a centralised processing operation. NAD has indicated that production would potentially occur on a JORC resource base of 10.1 million tonnes for 2.6 million carats, over a 10 year mine life.

In summary, NAD has earmarked the production of 250,000 carats over the first two years with Stages 1 & 2 having potential to produce a surplus cash flow of approximately A\$11.4 million. Stages 3 & 4 demonstrate strongly the potential longevity of mine life based on a large resource base.

Further Exploration Potential Anticipated at Merlin

In addition to what we view as being a very significant large diamond resource base within the confines of the Merlin lease, previous regional exploration work by NAD and the previous owners has indicated that alluvial diamonds discovered from drainage sampling on the Company's surrounding exploration leases point strongly to further potential discoveries being made.

In particular, a number of alluvial diamonds, with distinctly different geochemical signatures to the Merlin pipes diamonds have been located in stream drainage patterns south of the Merlin field. The details of these are beyond the scope of this report, but indicate that in addition to several geophysical targets, further diamondiferous kimberlite discoveries have potential to be made in the future.

The Merlin Brand is All About Large Gem Quality Stones in Addition to Fancy Yellows

Large Stones are Clearly part of the Normal Population

The Merlin field has historically demonstrated that it is a producer of predominantly gem quality stones. However, importantly the operations produced a significant quantity of large stones greater than 1 carat, with a significant number of stones larger than this. One historical fact to note, which further bolsters this claim, is that Merlin actually holds the Australian record for the largest recovered diamond in Australia at 104.73 carats.

This is an important factor to consider, as large quality diamonds are easy to sell and often command a premium price at auction or pre arranged sales.

Positively for NAD, even when reprocessing sort-house tails and stockpiles, some of these larger size stones have not been picked up by x-ray methods, due to some of the stones having characteristics of poor fluorescence.

Fancy Yellow Stone Potential

Recent studies and sampling by NAD and independent consultants has noted that the Merlin field likely has two main populations of diamonds, a Group 'B' which makes up about 75% of the total diamonds present. These diamonds have a moderate to high fluorescence and have been the focus of production historically. In addition however, a second population has been identified which poorly fluoresces under x-ray. This population Group 'A' (the remaining 25%) is believed to have been effectively overlooked and missed by previous production. Very significantly, within this population are the rare poorly fluorescing 'Fancy Yellow' population, which historically had been thought to be extremely rare at the project.

Early reprocessing of the sort-house tails has already produced a significant number of both Yellow and Fancy Yellow stones, which in addition to the large stones, fetch significant premium over standard stones.

Recent Forward Sale of First Production is Recognition of the Merlin Brand for producing Quality Large Stones and now Fancy Yellows.

We believe that Merlin has been recognised as a quality brand, large stone producer and in addition a producer of high quality Fancy Yellows.

On 19th August 2005, NAD announced that it had reached agreement in principle with Knightsbridge Corporate for the advance sale of \$0.5 million of rough diamonds. Under the agreement Knightsbridge will purchase a selection of rough gem quality diamonds from production. This forward purchase will be at a 16% discount to independently assessed value of the stones. Knightsbridge also has an option to purchase any independently valued large diamond produced at a similar discount

We view this advanced sale very positively, providing NAD in its early production months with cash flow stability, as it establishes itself both in terms of production, but also as it reestablishes itself as a quality brand in the international diamond market.

Comment on the Current Diamond Market

A detailed analysis of the current and future rough diamond market is not the aim of this report, however, we note the continuing strength of the diamond market.

A leading UK broker noted in a recent diamond report that the rough diamond market remains strong with what it describes as a classic case of a supply crunch coinciding with continuing reasonable demand now increased by China and India.

De Beers raised its rough diamond prices by 3% in June 2005. This is on top of a 3% rise earlier this year, in January 2005.

A UK broker in a recent conference delivery in May 2005 predicts widening supply/demand shortages of diamonds based on very conservative demand growth figures between now and 2012. This they note, equates to about 4% increase per annum.

In support of that comment, we note a significant lack of large discoveries to replace an increasingly mature global production base from large traditional producers, including Argyle and a number of African miners.

Recommendation: Speculative Buy

North Australian Diamonds Limited, formerly known as Striker Resources has recently undergone a rapid transformation and restructure.

The Company, has been out of favour and off the 'radar screens' of the investment community, despite several important technical advances at its flagship Merlin Diamond Project.

In May 2005, the Company backed by new investors and supporters, implemented a favourable board restructure and management reshuffle.

On 14th July 2005, the Company announced it had commenced Stage 1 of 4 planned production stages, based on a recently announced large 3.3 million carat resource base. Stage 1, the reprocessing of sort-house tails, has performed to expectation so far, with higher than expected recoveries of large stones to date.

The recent forward sale of diamonds to Knightsbridge Corporate encourages us that Merlin will likely re-establish itself as a quality brand source of gem quality diamonds, large stones and now Fancy Yellows. With the forward sale agreement in place the

Company can now in its early production months rely on an early cashflow, whilst it establishes further production in Stage 2.

We recommend an **Speculative BUY** on NAD at these low price levels of around 3.0 cents. We believe significant share price upside may occur on announcement of further diamond recoveries as the Company ramps up production in Stage 2.

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Risks Associated With Investments in North Australian Diamonds Limited

Potential Investors need to be aware that investment in North Australian Diamonds Limited, like all investments in mineral exploration and development companies, is of a speculative nature. Normal share market risk conditions apply including commodity price, currency fluctuations, sentiment, supply and demand and general economic outlook. Normal exploration, development, mining and processing risks also apply as well as operating, native title and environmental risks.

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The views expressed within this report accurately express the personal views of the author. Under no circumstances, has Montagu or the author been influenced, either directly or indirectly, in providing any information contained in this report. Author: Ian Spence BSc Hons, MSc, MBA – Montagu Stockbrokers Pty Ltd. At the time of release of this report the author did not have an interest in the securities of North Australian Diamonds Limited.

Contact with North Australian Diamonds Limited has been made during the preparation of this report for assistance with verification of facts.

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