



'Diamond Joe' in a comeback

The AGE, December, 24, 2008

North Australian Diamonds Limited (NAD) as at 10th November 2009 A\$0.059

**RECOMMENDATION – Strong BUY Short Term target A\$0.10
Long Term target A\$0.48**

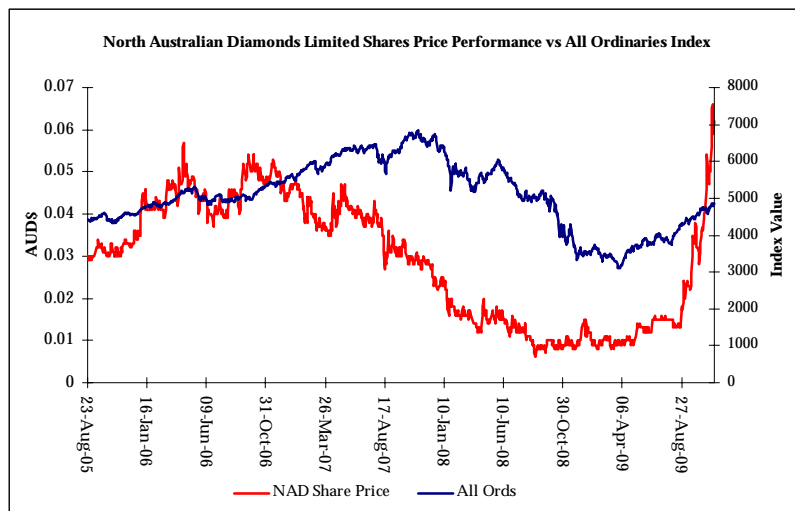
November 2009

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Conclusion

North Australian Diamonds Limited (NAD) was established by former senior management associated with Western Australia's Argyle diamond mine. The Company's diamond exploration activities are primarily in Northern Australia.

In 2009, US-based Legend International Holdings Ltd, led by mining magnate Joseph Gutnick acquired 55% of North Australian Diamonds Limited. In his ambitious quest for discovering and operating one of the world's largest diamond mine's, following Lubavitcher Rebbe Menachem Schneerson's "Diamond Blessing", Gutnick's mission is to lead NAD to become Australia's only vertically integrated diamond Company focusing on delivering large gem quality fine diamonds. Since the 80's, Gutnick has invested over A\$85 million into diamond exploration via Astro Diamond Mines NL, Quantum Resources Limited, Great Central Mines Ltd and North Australian Diamonds Limited. NAD is now Gutnick's flagship diamond company.



Market Capitalisation (A\$ Million) as at	11/11/2009	123
Current Shares Outstanding (Millions)	30/06/2009	1,980
52 week High (A\$)	9/11/2009	0.072
52 Week Low (A\$)	18/11/2008	0.008
Cash Balance as at (A\$ Million)	30/09/2009	1.9
Average Turnover Per Day (six months ended 10/11/2009)		7,625,668

Overall Outlook for Diamond : Time To Stock Up On Diamond Investment ?

Despite the recent recovery in world diamond prices, significant demand for diamonds has not yet eventuated and consumption levels have not improved to pre-September 2008 levels. Nevertheless, the abrupt fall in demand experienced in early 2009 has stopped.

We expect overall demand to remain flat for the next two years with more sustainable increase thereafter. In the long term, it is expected that demand will outstrip supply for rough

and polished stones and diamond jewellery, resulting in sustained price rises over the next decade.

Supply will be driven by increased production from Russia, southern Africa, and development of a number of underground mines in Canada and Russia, and of course, Joseph Gutnick's Australian mines.

The key drivers of diamond demand are increased urbanisation resulting in growth in urban household disposable income, change in cultural preferences, continued expansion of discount retailers offering low-priced diamond jewellery and increased effort by manufacturers and retailers to provide new product packages.

There has been a significant increase in demand for larger categories of diamonds, mainly polished diamonds in the 3, 4 and 5 carats categories with demand increasing in double digits. These increases in demand have occurred despite the economic weakness in the United States and Japan. Nevertheless, the United States market remains the main demand driver and consumer of gem quality diamonds at present. However, significant diamond consumer markets are emerging in Russia, the Middle East, China and India.

China in particular, followed closely by India, has seen accelerated growth in demand for diamonds fuelled by brand investment by retailers and manufacturers and a strong cultural preference to display wealth and invest in jewellery. The younger age groups, with increasingly high disposable income and interests in European and American products and trends are the core targets in these markets.

The annual total world production of rough diamonds has exceeded US\$10 billion per annum for the last 5 years. Tabulated below is the annual rough diamond production from 2004 to 2008:

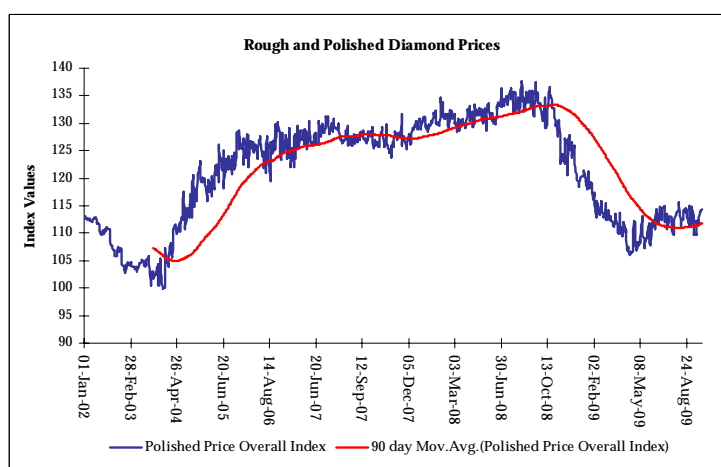
Year	Volume in carats (Millions)	Value in US\$ (Billions)
2008	162.91	12.73
2007	167.92	11.94
2006	176.03	12.13
2005	176.70	11.61
2004	159.13	10.22

Source: Kimberley Process Certification Scheme

Rough and Polished Prices

During the third quarter of 2009, prices of rough diamonds resumed an upward trend, however rough prices remained substantially below the pre-September 2008 levels.

Polished diamond prices have also stabilised and started to trend upward, but it is expected that prices will be subdued until the existing stockpiles with the cutters diminish.



Source: Bloomberg

Rising Price of Large Stones

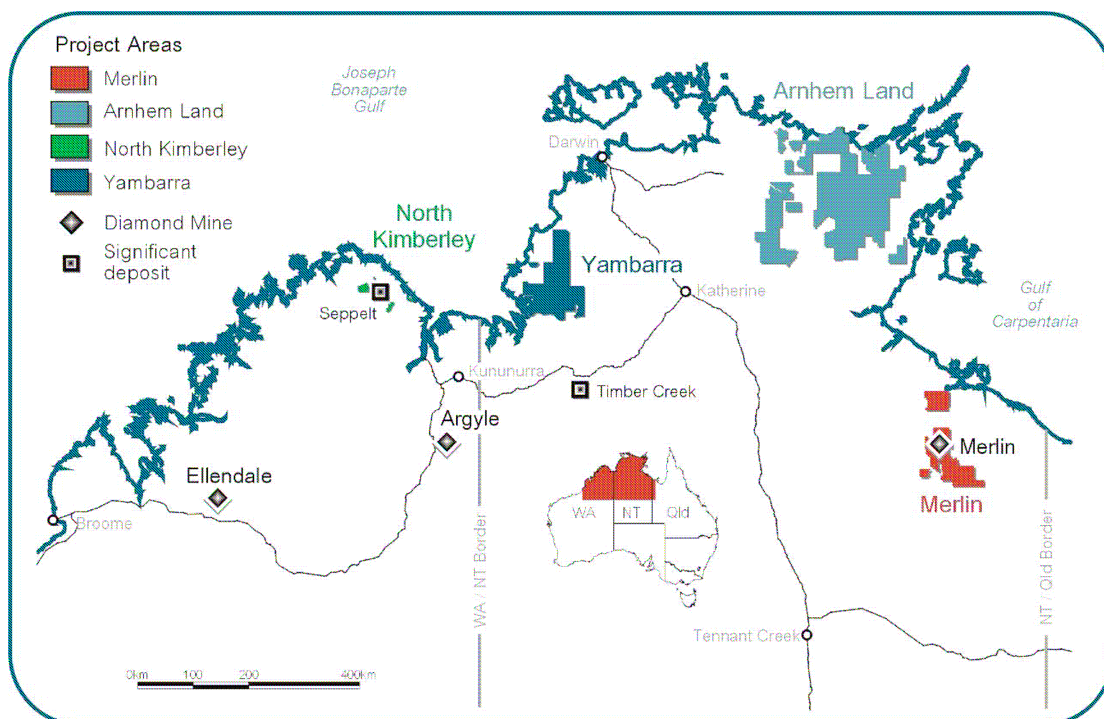
The weakening of the US dollar since March 2009 has acted as an ally for large and rare diamonds giving the market an upward push. With the US dollar depreciating, large and rare diamonds have been transformed into a “safe haven” and a status symbol for more affluent investors especially from the Middle East. Diamonds are also increasingly gathering momentum as a mode of accumulating wealth primarily in the Far East.

Statistics from the international Diamond and Jewellery Exchange shows, in 2008, the price of high quality gem diamonds above 3 carats increased by 30.2% and above 5 carats by 57.9%.

With the stabilisation of the diamond market, we believe the timing is now right to invest in diamond stocks again and we believe NAD is a real gem led by a passionate and dedicated management under Joseph Gutnick.

NAD's Projects

The Company has seven diamond projects located in the Northern Territory and Western Australia. The project areas are Merlin, Merlin Orbit, Borroloola, Seppelt, Ashmore, Arnhem Land and Yambarra.



Source: North Australian Diamonds Ltd

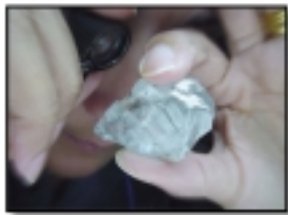
The Merlin Project

The Merlin Project is NAD's flagship mine having significant near-term production potential and high priority exploration targets.

The project area is located 80km south from the town of Borroloola and 720km Southeast of Darwin of the Northern Territory, covering a tenement area of 23.23 sq. km. There are fourteen kimberlite pipes, grouped into four clusters, of which nine pipes are subject to either open pit mining or testing.

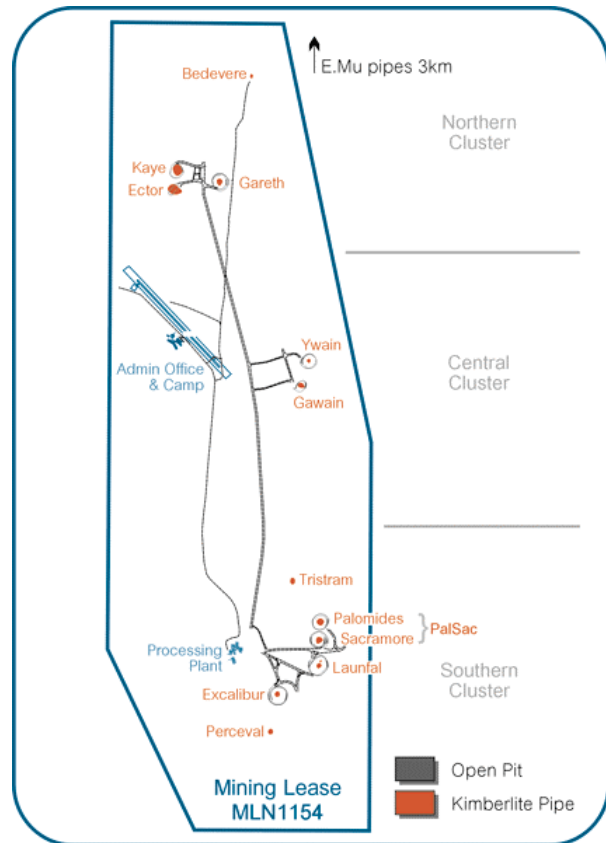
NAD acquired 100% of Merlin's mining lease from Rio Tinto in 2004. Prior to 2003, the mine produced 507,000 carats of diamonds with the largest being 104.73 carats. This diamond was the largest diamond discovered in Australia. Diamonds produced in Merlin were 80% gem quality and were renowned for gem quality white diamonds and large specials.

Below is a picture of Australia's largest diamond produced by the Merlin mine, valued at US\$525,000 in 2002.



Merlin's rough sales prices per carat in US\$	
Past Production (2000-2004) US\$	127.87
Evaluation (2005-2008) US\$	215.28

Source: North Australian Diamonds Ltd



Merlin Project's Main Pipes

Current Development at Merlin

The Company is upgrading the pilot processing plant to enable efficient processing of large bulk samples. At present a High Pressure Grinding Roll ("HPGR") unit has been incorporated into the process circuit to improve diamond liberation with the aim of increasing the project resource through improving the number of recovered carats per tonne. An optical sorter will be incorporated into the circuit in the forthcoming quarter. The optical sorter, located at the front end of the circuit, will be aiming to capture the large size diamonds known to exist within the Merlin kimberlites.

The Gwain open-pit is currently used for bulk sampling. These pit samples are used to interpret deep core sampling which are required for ongoing pre-feasibility studies. The Kaye, Palomides, and Sacramore pipes together with excavated and stockpiled material from previous mining operations will also be used during pre-feasibility production trials. Pre-feasibility production trials will be conducted using improved liberation and recovery techniques.

Currently NAD is focusing on building a "run of mine" diamond parcel to be used for valuation and marketing purposes.

The Merlin project has a combined resource base of 22.46Mt of ore representing 4.0Mcts of diamonds at a grade of 18.2cpt, which are compliant with JORC reporting standards. In addition, the management estimates a further 1.47Mcts of diamonds attributable to the Palsac/Launfal underground pipe.

Other Projects

Lancelot

The Project area was acquired in 2006 and is located 40km south of Merlin. NAD commenced drilling in mid October 2009 and has started a 2,000 metre drilling program. The drilling program is aimed to test the early diamondiferous indications at surface, which would be repeated at depths, and present the potential of another Merlin style property.

Field work to-date has comprised a combination of ground geophysics and soil sampling. Several anomalous soil geochemical responses have been identified associated with areas of abundant indicator minerals and micro diamonds.

Merlin Orbit

The Merlin Orbit consists of 15 tenements covering 4,550 sq. km surrounding the Merlin mining lease. The Tintegel area to the south of Merlin is of key importance as previous exploration had resulted in alluvial diamonds.

In addition, a review of the Merlin exploration sampling data has identified 25 indicator minerals and diamond anomalies of which 17 are considered to be high priority exploration targets. Follow-up sampling and ground inspection are carried out and further exploration programmes are planned. The Company continues to strengthen its land holdings in this area.

Borroloola

The alluvial diamond deposits of Borroloola tenements cover an area of 1,150 sq km, located 100km north of the Merlin project. Initial exploratory sampling was undertaken during 2006, with a total of 7 diamonds recovered for a combined weight of 0.225cts.

Kimberley

The Seppelt project area within the Kimberly mineral field has two kimberlite pipes known as Seppelt 1 and 2. The project area lies 220 km south east of Kununurra.

The Ashmore project area covering a tenement area of 7.48 sq. km also lies within the Kimberly mineral field 25km northwest to the Seppelt project. There are four kimberlite pipes within the diamondiferous Asmore kimberlite pipe cluster.

The Company has identified a total resource of 1.57 million carats, contained within the Ashmore and Seppelt 1 and 2 pipes. NAD holds these resources under mining leases, and they continue to retain commercial potential.

Arnhem Land

NAD controls the mineral rights to diamonds over a portfolio of exploration tenements aggregating 28,500 sq. km within the Arnhem Land region which falls within an Aboriginal Reserve Area in the Northern Territory.

Yambarra

NAD has entered into a farm-in agreement with Rio Tinto to earn 100% interest for diamonds in a total project area of 9,100 sq. km. The project area is 150km south west of Darwin covering thirteen tenements. Eight tenements are granted and available for immediate exploration. The Project is at an early stage of exploration. However, it is considered to be a prime target for a number of commodities, including uranium, base metals and diamonds.

Expansion Plans

The Diamond Value Chain

The Company's vision is to become Australia's only vertically integrated fine gem quality diamond producer. In realising this vision, NAD is aggressively forming solid relationships with diamond cutters in India and China, and retail connections with appropriate Asian retail operators to gain retail presence in order to achieve substantial value add in its product.

Production in Carats

The Company's current drilling and mining program in the Merlin project is expected to result in the following **production profiles**:

Year	Gawain Open Pit	Kaye Open Pit	PalSac Open Pit	Gawain Underground	Ywain Underground	PalSac/Launful Underground	Total
2010	-	28,800	-	-	-	-	28,800
2011	138,900	115,200	-	-	-	-	254,100
2012	69,400	-	516,400	13,400	3,070	64,000	666,270
2013	-	-	343,600	117,700	66,236	158,856	686,392
2014	-	-	-	105,100	66,236	213,150	384,486
2015	-	-	-	105,100	66,236	265,843	437,179
2016	-	-	-	152,600	66,236	265,843	484,679
2017	-	-	-	152,600	-	265,843	418,443
2018	-	-	-	142,700	-	265,843	408,543
2019	-	-	-	40,800	-	265,843	306,643
2020	-	-	-	-	-	265,843	265,843
2021	-	-	-	-	-	265,843	265,843
2022	-	-	-	-	-	265,843	265,843
2023	-	-	-	-	-	322,848	322,848
2024	-	-	-	-	-	278,848	278,848
Total	208,300	144,000	860,000	830,000	268,014	3,164,446	5,474,760

Source: North Australian Diamonds Ltd

Valuation

Should NAD achieve its vision of becoming a fully integrated diamond producer and marketer, its value will increase significantly. We have valued NAD at A\$0.48 per share at a discount rate of 20%.

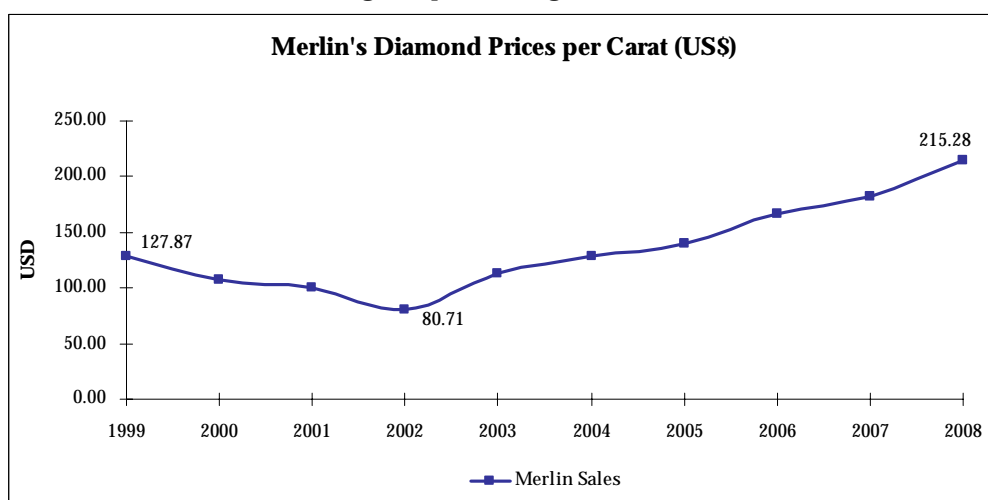
Tabulated below are NPV per share value for a range of discount rates:

Discount Rate	NPV Per Share (AUD)
15%	0.62
17.5%	0.54
20%	0.48

Key Assumptions

- As per the Company, in overall retail value terms, the value of Merlin diamonds with a cut-off grade of 0.06 per carat could increase by 10 folds as they progress through the mine gate to the ultimate consumer. In our financial model, we have used a value add multiple of 5 to arrive at the final valuation.
- Production profiles tabulated above were used in our financial model.
- Merlin's diamond prices are assumed to achieve a growth rate of 2% per annum throughout the financial model.
- A constant exchange rate of A\$/US \$0.90.

As depicted below, market value for Merlin's rough diamond per carat from 1999 to 2008 have been volatile, with the highest price being US\$215.28 in 2008.



Source: North Australian Diamonds Ltd

In determining Merlin's rough diamond prices, NAD's management has advised that at present, rough diamond prices have stabilised and retreated to 2006 levels of US\$160. Hence, we have used a base price of US\$160 for Merlin's rough diamond sales price for 2010 in our financial model.

Tabulated below is the Compound Annual Growth Rate (CAGR) required for Merlin's rough diamond sale price to reach the pre-September 2008 peak of US\$215.28 from a base price of US\$160 at different time intervals.

Time interval to reach US\$215.28	CAGR
5 years	6.12%
10 years	3.10%
15 years	2.00%

In our model we have considered a base price of US\$160 per carat for 2010 with a growth rate of 2% per annum over the term of the financial model.

Key Management

In late 2008 the Board was restructured at NAD with Mr. Joseph Gutnick (President and CEO of Legend International Holdings) installed as Chairman and Managing Director and Mr. Tom Reddicliffe as Chief Executive Officer. In September 2009, Mr. Craig Michael joined NAD's Board as Executive Director.

Mr. Joseph Gutnick, winner of the prestigious "Diggers Award" presented by the Diggers and Dealers Industry Awards in 1997, chairs many Boards in both Australia and the United States. He was responsible for the discovery of the Plutonic gold deposit, and the discovery, development and operation of the world class Bronzewing and Jundee goldmines in Australia. Mr. Gutnick is a Fellow of the Australian Institute of Mining and Metallurgy.

Mr. Tom Reddicliffe, ex Rio Tinto - Ashton Mining, was directly responsible for the discovery of the Merlin Mine. Tom has over 30 years of experience in the diamond industry and joined NAD in 2001 as General Manager – exploration and evaluation and was then appointed as Technical Director for NAD before his current appointment.

Mr. Craig Michael, a geologist by profession brings in mining expertise from both Australia and overseas. He has over 10 years of mining industry experience and is the Executive General Manager for Legend International Holdings Inc. Prior to this appointment, Craig spent 4 years in the Lao PDR at the Sepon Copper Gold Project where he trained the Lao national geologists in all aspects of mining and resource development skills.

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Sources:

Bloomberg.

Read, G.H., A.J.A. (B.), Diamonds: Exploration, mines and marketing, Lithos (2009), doi:10.101016/j.

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