



North
Australian
Diamonds
Limited
ABN 86 009 153 119

Annual Report – Year 2

Exploration Licence 24500

29th August 2006 to 28th August 2007
Northern Territory, Australia

Holder: Merlin Diamonds Pty Ltd
Operator: North Australian Diamonds Limited
Reporting Period: 29th August 2006 to 28th August 2007
Sheet Reference: Walhallow 1:250,000 (SE53-07)

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SUMMARY

This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 24500 between the 29th August 2006 and the 28th August 2007. This period represents year two of the licence.

Exploration Licence 24500 is situated on the Walhallow (SE53-07) 1:250,000 mapsheet, and the Lancewood 1:100,000 topographic mapsheet in the Batten Region of the Northern Territory. It is located approximately 100 kilometres south of Borroloola and is accessed via existing unsealed tracks leading south from the Merlin Mine or east from Kiana Station.

CRA Exploration and Ashton Mining Limited has undertaken exploration for diamonds throughout the area since the early 1980's. Exploration has included airborne and ground geophysical surveys, stream gravel and loam sampling, and drilling of identified anomalies. A review of available historic data identified six indicator mineral anomalies that have not been resolved. NADL collected seven stream gravel samples in 2005-2006 however, due to a shift in company focus these samples have not yet been processed.

Work undertaken during the reporting period included the evaluation of the licence for potential to host base metals and uranium mineralization. Proposed work program for the next reporting period include stream sampling, ground geophysics, structural geological mapping and drilling.

1.0 INTRODUCTION

This annual report outlines exploration activities undertaken by North Australian Diamonds Limited (NADL) on Exploration Licence 24500 between the 29th August 2006 and 28th August 2007. This period represents year two of the licence.

2.0 LOCATION AND ACCESS

Exploration Licence 24500 is situated on the Walhallow (SE53-07) 1:250,000 mapsheet, and Lancewood 1:100,000 topographic mapsheet in the Batten Region of the Northern Territory. It is located approximately 100 kilometres south of Borroloola and is accessed via existing unsealed tracks leading east from the Merlin Mine or east from Kiana Station. A tenement location map is provided as Figure 1.

3.0 TENURE

EL 24500 consists of 116 blocks, and was granted to Bulgurri Diamonds (a wholly owned subsidiary of North Australian Diamonds Limited) on 29th August 2005 for six years. Bulgurri Diamonds has subsequently changed name to Merlin Diamonds Pty Ltd. Tenement schedule for EL 24500 is outlined in Table 1 below.

Table 1: Tenement Schedule for EL24500.

Name	Status	Effective Date	Grant Date	Expiry Date	Blocks	Holder	Percentage
EL24500	Grant	29/08/06	29/08/06	28/08/11	116	Merlin Diamonds Pty Ltd	100

4.0 GEOLOGY

A main drainage divide occurs in the southern part of the licence where drainages on the northern side drain to the north and drainages on the southern side drain to the south. The topography slopes in a northerly direction from approximately 300m above mean sea level in the south to approximately 190m above mean sea level in the north.

The northern half of the licence is comprised of Bukalara Sandstone of Neoproterozoic age that attains a maximum thickness of approximately one hundred metres and is underlain by Proterozoic sediments. The Bukalara Sandstone is mostly covered by Cainozoic soils and

Quaternary alluvial deposits. The southern part of the licence is comprised of Bukalara Sandstone overlain by Cretaceous age sediments. The NNW-SSE trending Emu Fault Zone is a broad, major fault zone that passes through the licence and contains numerous faults that parallel to subparallel the Emu Fault Zone.

Airborne geophysical surveys conducted by CRA over the licence during the 1980's indicate the magnetic relief to vary from relatively short wavelength anomalies of amplitude typically 100nT typical of shallow dipping to flat lying volcanics to very subdued relief indicative of thicker non-magnetic Lower Proterozoic sediments. The surveys also show that considerable faulting is evident in the licence with the Emu Fault Zone prominent in the northern part of the licence.

Drilling by CRA during the 1980's confirmed that volcanic rocks occur within the licence. The Merlin Kimberlite Field is located approximately thirty-five kilometers to the north of the licence. The geology of the licence is similar to that which hosts the Merlin Kimberlite Field and the licence is considered prospective for kimberlite.

5.0 PREVIOUS EXPLORATION

CRA Exploration (1988) held the area covered by EL 24500 during the mid nineteen eighties for a period of four years. During that time CRA implemented several ground sampling programs aimed at recovering kimberlitic indicator minerals in stream gravel samples. Several photo features were also loam sampled with negative results. In 1984 CRA completed a Daedalus spectral survey and identified a number of targets for follow-up. Ground investigation and loam samples were collected at the anomalies with all reporting negative for kimberlitic indicator minerals and microdiamonds except anomaly Daedalus 6/7/1 where a single microdiamond was reported in sample 970862. In 1986 a detailed low level airborne magnetic and radiometric survey was flown over the licence and seven anomalies were identified. Ground magnetic surveys were completed that showed multiple dipolar responses indicative of discrete, shallow magnetic sources. A drill program was then conducted that showed the anomalies to be doleritic bodies that CRA concluded as being feeder conduits for a subsequently eroded sheet of Cambrian flow volcanics. CRA downgraded the prospectivity of the licence by elimination of all primary and selected secondary targets to the extent that no further exploration was recommended.

CRA surrendered the licence in 1988.

The only other diamond exploration completed within the licence was by Ashton Mining who collected several stream gravel samples during the mid nineteen-nineties as reconnaissance field work.

In 2005-2006 North Australian Diamonds Limited (NADL) completed a small helicopter based geological reconnaissance and field sampling program in which a total of seven stream gravel samples were collected. Due to a shift in company focus the samples are yet to be processed.

6.0 EXPLORATION COMPLETED DURING REPORTING PERIOD

Work undertaken during the current reporting period included desktop studies that comprised the following.

- Internal review of uranium and base metal potential of the EL
- External review of uranium and base metal potential of the EL

The review of the EL to potentially host uranium and base metal mineralization was conducted both internally and externally utilizing the services of an external consultant. This work is still in progress and will be reported in the next annual report.

7.0 EXPENDITURE STATEMENT

The exploration expenditure attributed to EL24500 during the current reporting period is listed below.

Table 2: Expenditure within EL24500

Description	Amount (\$)
Office Administration and Support	\$14,000
Property Management Fees	\$500
Field Logistical Support	\$14,500
Geological Reporting (internal and external)	\$15,000
Total	\$44,000

8.0 PROPOSED WORK PROGRAM

The proposed work program for next twelve months is described below;

Stream Sampling (diamonds and uranium)	\$20,000
Ground geophysics	\$15,000
Structural mapping	\$5,000
Drilling	\$20,000

Includes administration, logistics, helicopter, field support, laboratory processing etc.

9.0 REFERENCES

Colliver, I. C. May 1988. EL4550 Corkwood Creek, NT. Final Report Period to 7th March 1988. CRA Report 15162. NT Mines Department Report CR1988-0208.

Kammermann, M. S. Annual Exploration Report for EL24500, 29th August 2005 to 28th August 2006. NADL Report 06-035.

APPENDIX 1

Sample Data

Sample Number	Location (AGD66, 53K)		Sample Type	Sample Weight (kg)	Results
	Northing	Easting			
24500-001	646,670	8,099,250	Stream	Approx 80	Awaited
24500-002	658,310	8,096,200	Stream	Approx 80	Awaited
24500-003	646,140	8,095,260	Stream	Approx 80	Awaited
24500-004	646,950	8,094,280	Stream	Approx 80	Awaited
24500-005	647,680	8,089,790	Stream	Approx 80	Awaited
24500-006	647,780	8,089,400	Stream	Approx 80	Awaited
24500-007	643,330	8,087,520	Stream	Approx 80	Awaited