



North Australian Diamonds Limited

ABN 86 009 153 119

31 October 2012

Manager Companies
Australian Securities Exchange
Level 6, 20 Bridge Street
Sydney NSW 2000

By E-Lodgement

REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2012

North Australian Diamonds Limited
ABN 86 009 153 119

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Directors

Mr Joseph Gutnick
Executive Chairman and
Chief Executive Officer

Mr Henry Herzog
Non-Executive Director

Dr David S Tyrwhitt
Non-Executive Director

Mr Craig Michael
Non-Executive Director

Senior Management

Mr Peter Lee
CFO & Company Secretary

Mr Mike Kammermann
Exploration Manager

Merlin Mine - Feasibility Study

- A second site assessment by Jet Mining Pty Ltd, an affiliate of USA based Kinley Exploration and drilling contractors has been completed. The assessment confirms the viability of the planned project.
- The Company's aim is to commence production in the first quarter of 2013. To meet this aim, capital items and personnel are currently being sourced.

Merlin Exploration

- A drilling program totalling 3,000 metres has commenced at the Merlin Diamond Mine. The program is targeting geophysical and geochemical anomalies identified during an extensive study of exploration data.
- Lancelot Prospect (EL25676) - A mine management plan has been submitted and accepted by the Department of Mines and Energy for an exploration costeaning program. The program is targeting coincidental geophysical anomalies and aims to identify primary kimberlite.

Merlin Reserves and Resources

Ore Classification	Material (Mt)	Average Grade (ct per tonne)	Carats (Mcts)
Probable Ore Reserves	11.07	0.26	2.89
Indicated & Inferred Mineral Resources	19.02	0.23	4.31
TOTAL	30.09	0.24	7.20

The above Ore Reserves are additional to the Mineral Resources and are estimated on open pit and underground mining assumptions. A Reserve for alternative mining methods has not yet been estimated.

Corporate

- At a general meeting to be held on 4 December 2012, the Company will seek shareholder approval to change its name to Merlin Diamonds Limited.



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Merlin Diamond Mine Feasibility Study Update

Studies aimed at optimising material processing, diamond liberation and detection techniques are still in progress. A number of processing plant configuration designs, incorporating the current plant at site have been generated.

Merlin Exploration Program

Since the early 1990's, a total of 11 kimberlite pipes have been discovered on the Merlin Diamond Mine Lease. The mine's previous owners conducted extensive geochemical sampling and followed up with a drilling program resulting in the discovery of a lens shaped kimberlite body, 100m south of Bedevere.

The Company holds a significant historical database and data derived from NAD sampling and drilling programs. The Company believes that the area covered by and near the Merlin Diamond Mine Lease has the potential to host undiscovered kimberlites. After an extensive review of exploration data, a drilling program totalling 3,000 metres commenced in October 2012. The program is targeting geophysical and geochemical anomalies.

Lancelot Prospect

An analysis of airborne gravity and magnetic data acquired in 2004, in conjunction with geochemical sampling has highlighted overlapping geophysical anomalies in proximity to geochemical anomalies. The goal of the program is to target primary kimberlite, but additional data regarding the distribution of chromites and micro diamonds in alluvial material will also be gathered. This data will be used in further exploration programs to identify locations of primary kimberlite sources. The costeaning program is expected to be completed in November 2012 and will target 30 sites.

Borroloola Alluvial Diamond Prospect

Following the grant of the exploration licence for the Borroloola Alluvial Diamond Prospect (EL24512) in August 2011, the Company immediately commenced the excavation of 5,000 tonnes of alluvial material from known diamond bearing gravel deposits. The purpose of the tests was to commence the assessment of the economic potential of the gravels by determining diamond quality, quantity and distribution in the alluvial material.

The current bulk sampling program focused on an area of outcropping gravel. 3000 tonnes of material from three pits has been processed at the Merlin Diamond Mine, yielding 22 stones with a total weight of 1.09 carats. Thirteen of the recovered diamonds are white in colour including the largest two at 0.19 and 0.25 carats.

High water levels in rivers leading to the Merlin Diamond Mine prevented 2,000 tonnes of gravel from two pits from being transported during the wet season. The Company is focussing its efforts on the commissioning of mining and processing at the Merlin Diamond Mine. Further exploration and drilling at Borroloola is expected later in the year to define the architecture of the gravels.

Merlin Diamond Mine Project

Background

The Merlin Diamond Mine Project is located some 100km south of the settlement of Borroloola and comprises 14 kimberlite pipes. Since 1998, 9 of the Merlin pipes have been subject to open-pit



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mining over a 5 year period. These previous mining operations produced 507,000 carats of diamonds. This included Australia's largest diamond at 104.73cts which in 2002 was valued at in excess of US\$500,000. In 2004, NAD acquired the project from the Rio Tinto parties.

Mining Operations

The Company's aim is to commence production in the first quarter of 2013. To meet this aim, capital items and personnel are currently being sourced.

Resource Estimate

Mining studies have enabled some of the Indicated Resources to be upgraded to Probable Ore Reserves. This resource estimate makes the Merlin Diamond Mine Project the second largest combined diamond resource and reserve in Australia. The combined Mineral Resource and Ore Reserve for all of the diamond pipes at Merlin is 30.1 million tonnes representing a total contained 7.2 million carats. A Reserve for alternative mining methods has not yet been estimated.

Probable Ore Reserve

The combined Probable Ore Reserve for all diamond pipes at Merlin is 11.1 million tonnes for an average grade of 26 carats per hundred tonnes ("cpht") representing a total contained 2.89 million carats.

	Probable Ore Reserve (Mt)	Grade (cpht)	Carats (Mcts)
Southern Cluster			
PalSac ²	8.1	30	2.41
Sub-Total	8.1	30	2.41
Central Cluster			
Gawain ²	0.5	39	0.21
Ywain ²	0.1	81	0.05
Sub-Total	0.6	44	0.26
Northern Cluster			
Kaye ²	0.9	12	0.10
Ector ¹	1.5	7	0.11
Sub-Total	2.4	9	0.22
TOTAL	11.1	26	2.89

¹Resource grade based on previous mining operation recovery using a +0.95 mm slotted bottom screen and a +0.95mm cut-off.

²Resource grade based on bulk sample test work using a +0.85 mm slotted bottom screen and a +1mm cut-off.

The above Ore Reserves are additional to the Mineral Resources and are estimated on open pit and underground mining assumptions. A Reserve for alternative mining methods has not yet been estimated.



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Inferred and Indicated Resources

The combined Indicated and Inferred Mineral Resource for all diamond pipes at Merlin is 19.02 million tonnes for an average grade of 24 carats cpht representing a total contained 4.31 million carats and is inclusive of the Reserves.

	Indicated Mineral Resource (Mt)	Inferred Mineral Resource (Mt)	Total (Mt)	Grade (cpht)	Carats (Mcts)
<i>Southern Cluster</i>					
PalSac ²		6.59	6.59	30	1.96
Launfal ²	1.58	1.70	3.28	25	0.82
Excalibur ¹	0.46	0.31	0.77	34	0.26
Tristram ²		0.74	0.74	6	0.04
<i>Sub-Total</i>			11.38	27	3.09
<i>Central Cluster</i>					
Gawain ²	0.53	0.61	1.14	39	0.45
Ywain ²	0.02	0.10	0.12	81	0.09
<i>Sub-Total</i>			1.26	43	0.54
<i>Northern Cluster</i>					
Gareth ¹	0.13	0.14	0.27	22	0.06
Kaye ²		2.14	2.14	12	0.26
Ector ¹		3.47	3.47	7	0.26
Bedevere ²	0.37	0.14	0.50	21	0.11
<i>Sub-Total</i>			6.38	11	0.68
TOTAL	3.09	15.93	19.02	24	4.31

¹Resource grade based on previous mining operation recovery using a +0.95 mm slotted bottom screen and a +0.95mm cut-off.

²Resource grade based on bulk sample test work using a +0.85 mm slotted bottom screen and a +1mm cut-off.

The above Mineral Resources are additional to the Ore Reserve and are estimated on open pit and underground mining assumptions. A Reserve for alternative mining methods has not yet been estimated.



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DIAMOND EXPLORATION OVERVIEW

Merlin Orbit Projects , Northern Territory

The Merlin Orbit Project comprises an area of some 2,000km², and encompasses numerous known unresolved occurrences of indicator minerals and diamonds.

Borrooloola Alluvial Diamond Prospect Background

Ten kilometres south of the township of Borrooloola lies one of the Company's most exciting exploration prospects. An application was lodged in 2004 (Exploration Licence Application 24512) for an area of 289 blocks (approximately 230,000 acres). The Northern Land Council's Full Council ratified the Borrooloola traditional owners' decision to consent to the grant of the licence. On 29 August 2011, Exploration Licence 24512 was granted to the Company for a period of six years.

The Borrooloola Alluvial Diamond Prospect represents a significant and unique opportunity to explore for a large volume, high value alluvial diamond deposit.

The gravels are exposed at surface in an area covering 5km². However, the total area which could potentially host alluvial gravel deposits, and is yet to be explored on the Company's tenements, is in the order of 300km². This significantly increases the opportunity to identify a large volume, high value alluvial diamond deposit.

The Borrooloola gravels represent the only major concentration of alluvial material in a catchment that is known to host significant diamond deposits. Sampling has confirmed that the Borrooloola alluvial gravels are diamond bearing. The Company is now implementing an exploration and bulk sampling program to evaluate the diamond bearing potential of the gravels over a much wider area.

Being in proximity to testing equipment at the Merlin Diamond Mine ensures rapid evaluation of the material extracted in the program.

Arnhem Land Projects, Northern Territory

The total Arnhem Land project area now encompasses 21,280km².

North Australian Diamonds Tenements

Swanrove and Red River Resources Joint Venture Agreement – NAD Earning 80%

NAD has a contractual right to obtain an 80% interest in two tenements covering approximately 2,097km² of land in the prospective western region of Arnhem Land. The Company's right to acquire an 80% interest in the two tenements is conditional on the grant of these tenements which are currently at the application stage.

KIMBERLEY PROJECTS

North Kimberley

Within the Company's North Kimberley project area, the Company had previously identified a total inferred resource of 1.57M carats, contained within the Ashmore and Seppelt 1 and 2 pipes. The Company holds these resources under mining leases, as they continue to retain commercial potential.



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CORPORATE

At a general meeting to be held on 4 December 2012, the Company will seek shareholder approval to change its name to Merlin Diamonds Limited.

The information in this report that relates to exploration results is based on information compiled by Dr DS Tyrwhitt who is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr DS Tyrwhitt is a consulting geologist employed by DS Tyrwhitt & Associates Pty Ltd. Dr DS Tyrwhitt has 50 years experience in the industry and has more than 5 years experience which is relevant to the style of mineralisation being reported upon to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Tyrwhitt consents to the inclusion in the report of the matters based on the information in the form and context to which it appears. Attached is a copy of the Company's Mining Exploration Entity Quarterly Report in accordance with Listing Rule 5.3.

A handwritten signature in black ink that reads "J. I. Gutnick". The signature is written in a cursive, slightly slanted style.

J I GUTNICK
Chief Executive Officer
31 October 2012

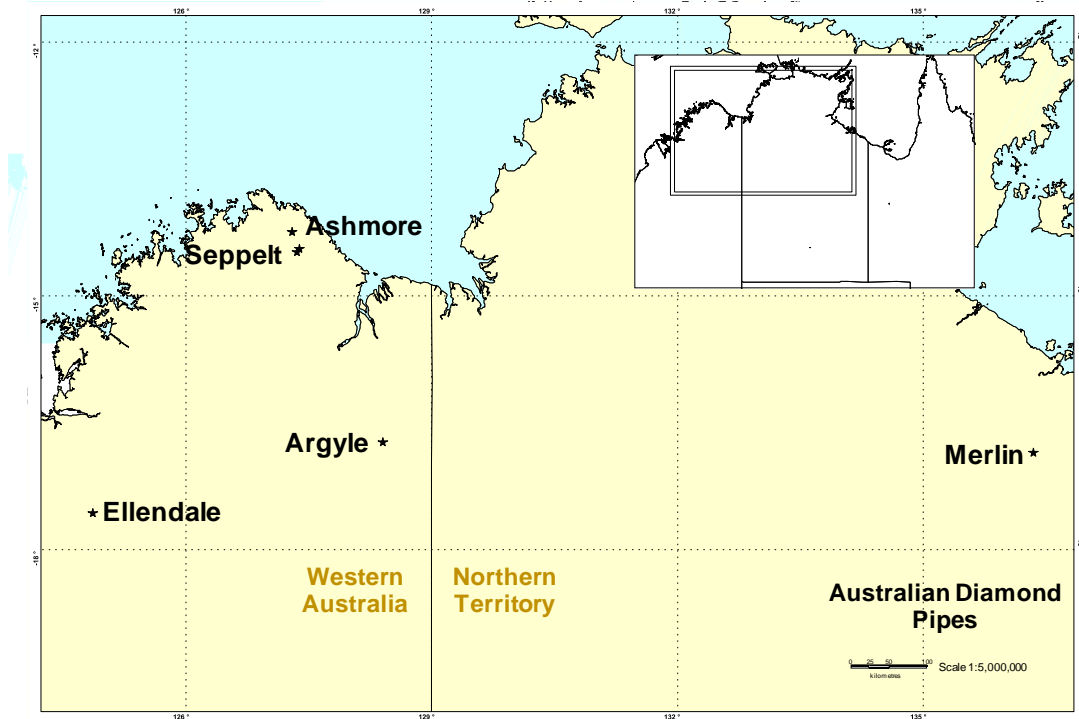


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Figure 1 **Merlin Diamond Mine and Surrounds**



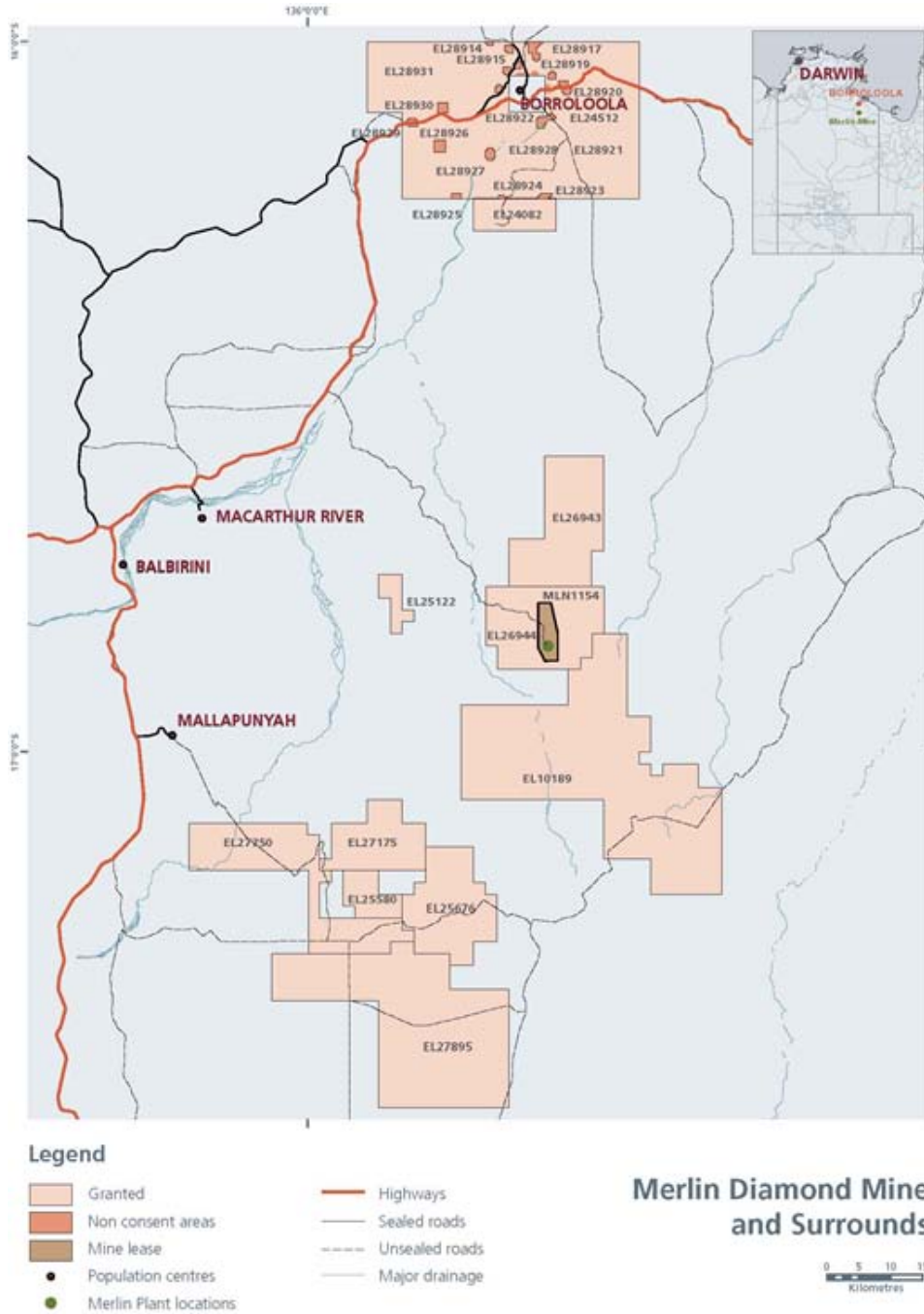


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Figure 2 Merlin Diamond Mine and Surrounding Areas



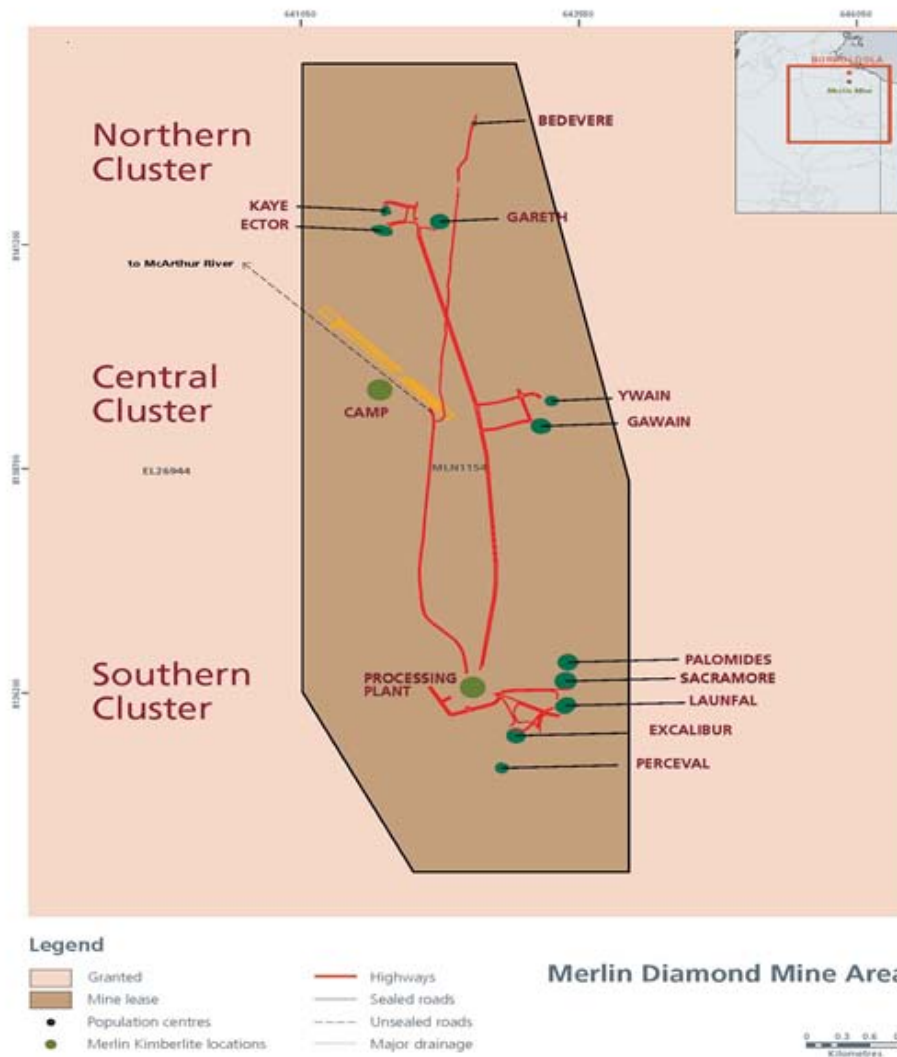


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Figure 3 Merlin Diamond Mine Area



Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

NORTH AUSTRALIAN DIAMONDS LIMITED

ABN

86 009 153 119

Quarter ended ("current quarter")

30 SEPTEMBER 2012

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(575)	(575)
(b) development	-	-
(c) production	-	-
(d) administration	(873)	(873)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	13	13
1.5 Interest and other costs of finance paid	(1)	(1)
1.6 Income taxes paid	-	-
1.7 Other (GST & Fuel tax credits, R&D refund)	86	86
Net Operating Cash Flows	(1,350)	(1,350)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(3)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	(339)	(339)
1.11 Loans repaid by other entities	-	-
1.12 Other (Security Deposits)	10	10
Net investing cash flows	(332)	(332)
1.13 Total operating and investing cash flows (carried forward)	(1,682)	(1,682)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,682)	(1,682)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Finance leases, fees for share consolidation)	(19)	(19)
	Net financing cash flows	(19)	(19)
	Net increase (decrease) in cash held	(1,701)	(1,701)
1.20	Cash at beginning of quarter/year to date	2,925	2,925
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,224	1,224

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	323
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

-

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

-

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	784
4.2 Development	-
4.3 Production	-
4.4 Administration	285
Total	1,069

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,224	1,224
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,224	1,224

+ See chapter 19 for defined terms.

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EL27175	Partial Relinquishment	39 BI	17 BI
	EL27750	Partial Relinquishment	72 BI	35 BI
	EL27895	Partial Relinquishment	166 BI	80 BI
	EL3338	Surrendered	64 BI	0 BI
	EL10381	Withdrawn from JV	235 BI	0 BI
	EL10433	Withdrawn from JV	33 BI	0 BI
	EL10434	Withdrawn from JV	60 BI	0 BI
	EL10435	Withdrawn from JV	3 BI	0 BI
	EL22348	Withdrawn from JV	345 BI	0 BI
	EL24500	Surrendered	20 BI	0 BI
	EL26241	Surrendered	3 BI	0 BI
	EL26954	Withdrawn from JV	111 BI	0 BI
	EL26956	Withdrawn from JV	372 BI	0 BI
	EL26958	Withdrawn from JV	365 BI	0 BI
	EL26959	Withdrawn from JV	375 BI	0 BI
	EL26960	Withdrawn from JV	377 BI	0 BI
	EL27755	Surrendered	45 BI	0 BI
	EL27756	Surrendered	32 BI	0 BI
6.2 Interests in mining tenements acquired or increased	-	-	-	-

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>	NIL			
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	132,783,427	132,783,427		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	- -	- -	- -	- -
7.5 +Convertible debt securities <i>(description)</i>	NIL			
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	-			
7.8 Issued during quarter	-			
7.9 Exercised during quarter	-	-	<i>Exercise price</i> -	<i>Expiry date</i> -
7.10 Expired during quarter	-			
7.11 Debentures <i>(totals only)</i>	NIL			
7.12 Unsecured notes <i>(totals only)</i>	NIL			

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Director/Company Secretary)

Date: 31 OCTOBER 2012

Print name: PETER LEE

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.