

**North Australian Diamonds Limited**

ACN 009 153 119

**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
31 DECEMBER 2011**

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**North Australian Diamonds Limited and its controlled entities**  
**ACN 009 153 119**

**Chairman's Report**

Dear Shareholder

North Australian Diamonds Limited is continuing work to capture the potential of the 100% owned Merlin diamond deposit in the Northern Territory and the Company's extensive exploration holdings in the north of Australia.

Highlights include:

- Upgrading of 11.07Mt of material classified as Indicated Resource to Probable Ore Reserves
- Continuing development of hydraulic mining at Merlin as a low cost method to ramp up into production
- Confirmation that the Borroloola alluvial gravels host a macro-diamond population

The Company is working with Consulmet to confirm the technical and commercial viability of operating dredges over flooded kimberlite. Rockcrush Group, a market leader in dredge technology has been engaged to design a dredge and pumping equipment for this task. The advantages of low operating and capital costs combined with a short development timeline makes dredging a compelling option for further development.

The results of NADL's bulk sampling at Borroloola are partially complete with the recovery of 22 diamonds. At the conclusion of the wet season, the remaining material will be processed and a full evaluation of diamond quality will be undertaken.

Rough diamond prices continued to recover in 2011 with demand from emerging countries, especially China and India, being key drivers. The Company now owns Australia's second largest diamond resource and we are actively working to bring a new diamond supply into the market.



Joseph Gutnick  
Executive Chairman and Managing Director

**North Australian Diamonds Limited and its controlled entities**  
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**Directors' Report**

The directors present their report together with the financial report of North Australian Diamonds Limited (the 'Company') and of the Group, being the Company and its subsidiaries for the half year ended 31 December 2011.

**Directors**

The directors of the Company at any time during or since the end of the interim period are:

J Gutnick	Executive Chairman and Managing Director
C Michael	Executive Director
H Herzog	Non-Executive Director
D Tyrwhitt	Non-Executive Director (appointed 16 December 2011)
T Reddicliffe	Executive Director (resigned 8 July 2011)

**Review and Results of Operations**

During the half-year to December 2011, the Company has continued with its feasibility study into mining at Merlin and advanced its exploration of the Borroloola alluvial gravels.

Consulmet have presented a number of operational options for Merlin. These include hydraulic mining of the kimberlite using an electric cutter dredge. Dredging is an established mining technique and the abundance of ground water at Merlin facilitates the use of this technology.

During the half year, the Company extracted 5,000 tonnes of alluvial material from 5 different areas in Exploration Licence 24512. To date, 3,000 tonnes of alluvial material has been processed at the Merlin Diamond Mine yielding 22 diamonds 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. Full assessment of diamond quality is pending completion of the processing.

To assist in mapping out target areas likely to have formed traps of larger stones and higher grades, the Company is planning an exploration program to better understand the subsurface characteristics of the alluvial gravels.

The results of operations for the six months ended 31 December was a loss of \$682,832 (2010: profit of \$114,900). Employee benefits expense for the half year was \$831,145 (2010: \$360,562) as a result of increased resources for the increase in activity at the Merlin operations. Administration fees of \$73,282 (2010: \$nil) are a result of service fees charged by AXIS as of 1 July 2011. Net finance income for the six months ended 31 December 2011 was \$93,246 (2010: \$212,876) due primarily to a decrease in funds held on deposit.

At 31 December 2011, the Company had cash at bank of \$1,362,389.

## **Directors' Report**

### **Merlin Reserves and Resources**

Mining studies have enabled some of the Indicated Resources at Merlin to be upgraded to Probable Ore Reserves. This resource estimate makes the Merlin Diamond 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.

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

### **Auditor's independence declaration**

The auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half year ended 31 December 2011.

Signed in accordance with a resolution of the directors:



J Gutnick  
Executive Chairman and Managing Director  
Dated at Melbourne this 15th day of March 2012

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Dr DS Tyrwhitt who is a member of the Australasian Institute of Mining and Metallurgy. Dr DS Tyrwhitt is an independent consultant to the Company and 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 Competent Person as defined in the 2004 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr DS Tyrwhitt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*



Chartered Accountants  
& Business Advisers

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

**To: The Directors  
North Australian Diamonds Limited and the entities it controlled during the financial  
half- year ended 31 December 2011**

I declare to the best of my knowledge and belief, in relation to the review of the financial half-year ended 31 December 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review, and
- no contraventions of any applicable code of professional conduct in relation to the review.

**J A Mooney  
Partner  
PKF**

15 March 2012  
Melbourne

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**Consolidated Statement of Comprehensive Income  
for the half year ended 31 December 2011**

		Consolidated	
	<i>Note</i>	2011 \$	2010 \$
Revenue	2	106,047	96,622
Other income	3	705,284	742,775
Employee benefits expense		(831,145)	(360,562)
Consultancy fees		(23,216)	(11,146)
Insurance expenses		(40,036)	(34,705)
Lease rental expenses		(19,841)	(24,278)
Tax consultancy		(11,475)	(13,757)
Legal fees		(1,184)	(6,706)
Audit fees		(16,875)	(12,330)
Travel expenses		(113,067)	(29,951)
Depreciation expenses		(4,060)	(5,029)
Exploration impaired	5	(291,269)	(268,545)
Administration fees		(73,282)	-
Impairment of investment in associate		(12,489)	-
Other expenses		(98,933)	(138,545)
<b>Loss from continuing operations</b>		<b>(725,541)</b>	<b>(66,157)</b>
Net finance income	4	93,246	212,876
Share of loss of equity accounted investee		(50,537)	(31,819)
<b>(Loss)/profit before income tax</b>		<b>(682,832)</b>	<b>114,900</b>
Income tax expense		-	-
<b>(Loss)/profit for the period</b>		<b>(682,832)</b>	<b>114,900</b>
<b>Other comprehensive income for the period, net of income tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (loss)/income for the period</b>		<b>(682,832)</b>	<b>114,900</b>
(Loss)/profit attributable to members of North Australian Diamonds Limited		<b>(682,832)</b>	<b>114,900</b>
<b>Total comprehensive (loss)/income attributable to members of North Australian Diamonds Limited</b>		<b>(682,832)</b>	<b>114,900</b>
<b>Basic (loss)/earnings per share (cents per share)</b>		<b>(0.58)</b>	<b>0.00</b>
<b>Diluted (loss)/earnings per share (cents per share)</b>		<b>(0.58)</b>	<b>0.00</b>

The accompanying notes form part of these half year financial statements.

**North Australian Diamonds Limited and its controlled entities**  
**ACN 009 153 119**

**Consolidated Statement of Financial Position**  
**as at 31 December 2011**

		<b>Consolidated</b>	
		<b>31 December 2011</b>	<b>30 June 2011</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>	<b>Note</b>		
<b>Current Assets</b>			
Cash and cash equivalents		1,362,389	4,853,789
Trade and other receivables		451,282	180,113
Inventories		93,894	1,735
<b>Total Current Assets</b>		<b>1,907,565</b>	<b>5,035,637</b>
<b>Non-Current Assets</b>			
Other receivables		789,642	577,654
Plant and equipment		2,299,414	2,582,661
Investment in equity accounted investee		1,067,418	1,126,841
Exploration and evaluation expenditure	5	27,184,763	24,464,570
<b>Total Non-Current Assets</b>		<b>31,341,237</b>	<b>28,751,726</b>
<b>Total Assets</b>		<b>33,248,802</b>	<b>33,787,363</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance leases		70,332	67,065
Trade and other payables		537,000	246,647
Provisions		43,935	226,077
<b>Total Current Liabilities</b>		<b>651,267</b>	<b>539,789</b>
<b>Non-Current Liabilities</b>			
Finance leases		24,970	60,972
Provisions		891,106	875,613
Deferred tax liability		566,648	566,648
<b>Total Non-Current Liabilities</b>		<b>1,482,724</b>	<b>1,503,233</b>
<b>Total Liabilities</b>		<b>2,133,991</b>	<b>2,043,022</b>
<b>Net Assets</b>		<b>31,114,811</b>	<b>31,744,341</b>
<b>Equity</b>			
Contributed equity	6	107,810,895	107,728,146
Reserves		319,368	348,815
Accumulated losses		(77,015,452)	(76,332,620)
<b>Total equity</b>		<b>31,114,811</b>	<b>31,744,341</b>

The accompanying notes form part of these half year financial statements.



**Consolidated Statement of Changes in Equity  
for the half year ended 31 December 2011**

<b>Consolidated</b>	<b>Contributed equity \$</b>	<b>Options reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
<b>Balance at 1 July 2010</b>	107,736,441	348,815	(75,028,052)	33,057,204
Total comprehensive income for the period, net of tax	-	-	114,900	114,900
<b>Balance at 31 December 2010</b>	<b>107,736,441</b>	<b>348,815</b>	<b>(74,913,152)</b>	<b>33,172,104</b>
<b>Balance at 1 July 2011</b>	107,728,146	348,815	(76,332,620)	31,744,341
Total comprehensive loss for the period, net of tax	-	-	(682,832)	(682,832)
Transactions with owners, recorded directly in equity				
Issue of shares, net of transaction costs	82,749	(29,447)	-	53,302
<b>Total transactions with owners</b>	<b>82,749</b>	<b>(29,447)</b>	<b>-</b>	<b>53,302</b>
<b>Balance at 31 December 2011</b>	<b>107,810,895</b>	<b>319,368</b>	<b>(77,015,452)</b>	<b>31,114,811</b>

The accompanying notes form part of these half year financial statements.

**North Australian Diamonds Limited and its controlled entities**  
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**Consolidated Statement of Cash Flows**  
**for the half year ended 31 December 2011**

	Consolidated	
	2011	2010
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from laboratory customers (inclusive of GST)	24,916	80,214
Receipt of government concession	546,890	91,039
Receipts from settlement of litigation	-	329,181
Payments to suppliers and employees (inclusive of GST)	(1,029,360)	(228,530)
Interest received	100,815	224,237
<b>Net cash (used in)/from operating activities</b>	<b>(356,739)</b>	<b>496,141</b>
<b>Cash flows from investing activities</b>		
Payments for exploration expenditure	(2,589,747)	(2,286,966)
Payments for acquisition of investments	(3,603)	(257,544)
Payments for acquisition of plant and equipment	(55,709)	(718,578)
Payments for security deposits	(11,988)	(128,648)
<b>Net cash used in investing activities</b>	<b>(2,661,047)</b>	<b>(3,391,736)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(38,204)	(38,204)
Loan advanced to other entity	(488,712)	-
Proceeds from issue of equity securities, on exercise of options	55,040	-
Equity securities issue transaction costs	(1,738)	-
<b>Net cash used in financing activities</b>	<b>(473,614)</b>	<b>(38,204)</b>
Net decrease in cash and cash equivalents	(3,491,400)	(2,933,799)
Cash and cash equivalents at 1 July	4,853,789	9,495,560
<b>Cash and cash equivalents at 31 December</b>	<b>1,362,389</b>	<b>6,561,761</b>

The accompanying notes form part of these half year financial statements.

**Notes to the consolidated interim financial statements  
for the half year ended 31 December 2011**

**1. Basis of preparation**

North Australian Diamonds Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the half year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the 'Group').

The half year consolidated financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (AASBs) including AASB 134 Interim Financial Reporting.

Except as described below, these interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2011 annual financial statements contained within the Annual Report of the Group.

The half year financial report does not include notes of the type normally included in the annual financial report. This half year financial report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made during the interim period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

**(a) Change in accounting policy**

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant for the Group.

These interim financial statements were approved by the directors on 15 March 2012.

Notes to the consolidated interim financial statements (continued)  
for the half year ended 31 December 2011

2. Revenue

	Consolidated	
	2011	2010
	\$	\$
Provision of laboratory services	106,047	96,622

3. Other income

	Consolidated	
	2011	2010
	\$	\$
Associate management fees	120,000	120,000
Research and development tax concession	546,890	91,040
Fuel tax credits	30,998	126,495
Asset usage	6,190	75,150
Settlement of litigation	-	329,181
Other	1,206	909
	<b>705,284</b>	<b>742,775</b>

4. Net finance income

	Consolidated	
	2011	2010
	\$	\$
Interest income	96,463	214,040
<b>Finance income</b>	<b>96,463</b>	<b>214,040</b>
Bank charges	(763)	(727)
Borrowing costs	(2,454)	(437)
<b>Finance expenses</b>	<b>(3,217)</b>	<b>(1,164)</b>
<b>Net finance income</b>	<b>93,246</b>	<b>212,876</b>

5. Exploration and evaluation expenditure

	Consolidated	
	31 December 2011	30 June 2011
	\$	\$
Balance at beginning of period	24,464,570	21,721,621
Capitalised during the period	3,011,462	3,072,657
Impaired during the period	(291,269)	(329,708)
<b>Balance at end of period</b>	<b>27,184,763</b>	<b>24,464,570</b>

Notes to the consolidated interim financial statements (continued)  
for the half year ended 31 December 2011

6. Contributed equity

	31 December 2011 No. Shares	30 June 2011 No. Shares	31 December 2011 \$	30 June 2011 \$
Balance at beginning of period	116,712,206	2,334,241,368	107,728,146	107,736,441
Consolidation of shares 20:1		(2,217,529,162)		
Exercise of options 26 July 2011 @ 16 cents per share	194,000	-	31,040	-
Exercise of options 23 August 2011 @ 16 cents per share	150,000	-	24,000	-
Transaction costs arising on consolidation of shares	-	-	-	(8,295)
Exercise of broker options	-	-	29,447	-
Transaction costs arising on share issues	-	-	(1,738)	-
<b>Balance at end of period</b>	<b>117,056,206</b>	<b>116,712,206</b>	<b>107,810,895</b>	<b>107,728,146</b>

7. Segment reporting

Operating segment information is disclosed on the same basis as information used for internal reporting purposes by the board of directors.

At regular intervals, the board is provided with management information at a group level for the Group's cash position, the carrying values of exploration permits and a Group cash forecast for the next twelve months of operation.

On this basis, no segment information is included in these financial statements.

8. Contingent liabilities

There is no change to contingent liabilities that the Company has become aware of since 30 June 2011.

9. Subsequent events

On 25 January 2012, 3,326,000 unlisted options over fully paid shares of the Company were exercised by payment of \$532,160.

On 7 February 2012, 330,000 unlisted options over fully paid shares of the Company were exercised by payment of \$52,800.

**Directors' Declaration**

In the opinion of the directors of North Australian Diamonds Limited (the 'Company'):

1. the financial statements and notes, set out on pages 6 to 12, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance, for the half year ended on that date; and
  - (b) complying with the Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



J Gutnick  
Executive Chairman and Managing Director

Dated at Melbourne this 15th day of March 2012.

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF NORTH AUSTRALIAN DIAMONDS LIMITED**



Chartered Accountants  
& Business Advisers

**Report on the Half-Year Financial Report**

We have reviewed the accompanying consolidated half-year financial report of North Australian Diamonds Limited which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity. The consolidated entity comprises North Australian Diamonds Limited (the company) and the entities it controlled at 31 December 2011 or from time to time during the half-year ended on that date.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of North Australian Diamonds Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of North Australian Diamonds Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**PKF**

15 March 2012  
Melbourne

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**J A Mooney**  
Partner

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