



## Feature Story

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### North Australian Diamonds Determined To Show Rio Tinto What It Missed At Merlin.

By Our Man In Oz

Somewhere in the world there is an investor with a treasured memory of the skyrocket ride taken in 1985 by a small Australian diamond hopeful, Striker Resources, when it shot from A38 cents to A\$13.35 in a matter of months. Sadly the crash back to earth was as memorable as the trip up. For much of the next 20 years Striker has been listed among the walking wounded, limping along in the sub A30 cent range, before sliding even further into the sub A3 cent range. Today, it's a different picture, thanks almost totally to the magic of Merlin – not the chap who waved a wand around the court of King Arthur, but Merlin the diamond mine that was too small for Rio Tinto, but is just the right size for Striker under its new name of North Australian Diamonds.

Over the past year, largely unnoticed, North Australian has lifted itself from the ranks of explorers to the status of diamond miner. Output, admittedly, has been modest at around 12,000 carats from retreating sort house tailings left by Rio Tinto. But, the quality of the diamonds has been high with the last parcel fetching an average price of US\$128 a carat. Important as it is for the company to make the transition to producer the next 12 months will be much more interesting with the staged redevelopment of Merlin shifting up a notch as mining remnant ore gathers pace, followed by a potential cutback of two open pit mines, and then a possible move to a much longer life series of underground mines.

Newly-appointed managing director of North Australian, Alan Campbell, cautiously chooses his words when asked by Minesite whether the investment world is missing the change underway. "We have had to deal with a number of legacy issues," he said. "And I think it's important that we get some runs on the board before we're re-rated." Such diplomatic answers to questions about the past, such as two decades of beavering away at the Seppelt diamond pipes in Western Australia, are to be expected from a chap who spent 19 years working for De Beers, the diamond industry leader. Whatever happened back then is clearly of little interest to a man who joined North Australian in February.

Campbell's focus is on Merlin and its potential to become the company-maker so keenly sought by a business that ranks as one of the pioneers of the Australian diamond industry with roots that can be traced by the 1979, around the same time Ashton Mining and CRA (one of the predecessors to Rio Tinto) first discovered the Ellendale diamond field, followed by the giant Argyle mine. The new boss at North Australian believes the company has been "ticking all the right boxes" but still has a number of tests to pass before winning wider recognition. That assessment is borne out on the market where North Australian's share price, after a flurry up to A5.7 cents earlier this year, has eased back to around A4 cents, a price which capitalises the company at a modest A\$36 million.

"We've had to pass a series of tests," Campbell said. "First was to show that we could liberate the stones from the sort house material, then show we could recover sufficient material to sell to the market, and the third big test is the value of the diamonds we're producing." Working in North Australian's favour is strong worldwide demand for diamonds with Campbell confident that a price around \$US140 a carat is achievable from future production. "We'll get a better

idea when we get a run- of -mine parcel out to the market in the next month or so and see how we go," Campbell said. "I think we're in the ballpark with our price estimates."

Following events at Merlin is not easy for a casual observer, largely because of the staged nature of the redevelopment, with one phase of work overlapping the next, and because it is hard to imagine that Rio Tinto left much behind when it sold the project. Essentially, stage one - sort house re-treatment- is complete. "Stage two -mining remnant ore- commenced, albeit in a rather slow fashion, about a month ago," Campbell said. "That will run for the next 20 to 24 months and yield around 200,000 carats which represents around US\$8.1 million in cash flow." Campbell said the aim for stage three (dual pit cutbacks) was to start before stage two ended. "The plan is to make sure we have a continuous operation," he said. Current analysis points to stage three providing around 380,000 carats, but potentially more as the company looks at the potential for additional cutbacks at the different diamond pipes previously worked by Rio Tinto.

Following up the first three stages is the potential underground development, a project which could put Northern Australian back on investor radar screens. "What we're going to do is get some good ideas on the grades as we move towards the underground phase," Campbell said. Having said that, Campbell drops his surprise. The latest work at Merlin, including changes to the way diamonds are sorted, has achieved a remarkable 41 per cent uplift in grade. "What we're seeing is better liberation of stones, and better recovery in the sort house with non-fluorescing stones being recovered which were not previously caught," Campbell said.

The enhanced recovery factor is one of the more interesting aspects of the re-awakening of Merlin. Under Rio Tinto management, recovering was largely by relying on the fluorescent property of diamonds under X-rays. "About 19 per cent of the population of diamonds from Merlin have a low fluorescence," he said. "If they don't fluoresce then they're not picked up. What we're doing is using optical and physical hand sorting to recover the stones which were previously missed."

The underground plan for Merlin could see four pipes mined, Palomides, Sacramore, Launfal and Excalibur (no prize for guessing that the names are all from the Arthurian legend). In theory, they contain around 2.36 million carats of diamond in 10.1 million tonnes of material. That should be enough to maintain production for at least 10 years, more than enough for North Australian to expand its exploration effort which includes near-mine work, plus an investigation of alluvial potential, while also searching across a tenement package which stretches into Arnhem Land to the north, and west into the Kimberley region of Western Australia.

The challenge for Campbell is to continue ticking the right boxes, and to do what North Australian (as Striker) failed to do in the past, deliver on promises. With Merlin in production, and with a staged development plan that should not prove to be too taxing on the capital requirement, there is every chance of a significant revival, and substantial re-rating by a sceptical market.

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