



North  
Australian  
Diamonds  
Limited  
ABN 86 009 153 119

ASX Announcement  
31<sup>st</sup> January 2005

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## Quarterly Activities Report for 3 months ended 31st December 2005

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### Corporate Highlights

- ◆ Alan Campbell appointed Chief Executive Officer

### Exploration Highlights

- ◆ In excess of 12,000 carats of diamonds recovered from the sorthouse tailings to date.
- ◆ Largest diamonds recovered being 14.21ct, 10.97ct and 10.27ct.
- ◆ Largest yellow diamond is 4.33ct near gem.
- ◆ Yellow diamonds receive average valuation of US\$1,454/ct.
- ◆ Samples from pipes Ywain and Kaye report grades of 84.6cpht and 13.37cpht, representing increases of 43% and 32% on the previously mined grades.
- ◆ NADL's Kimberley based DMS plant has been relocated to Merlin for reassembly.
- ◆ A drilling program was completed in mid December with 5 holes drilled for 941.8 metres.
- ◆ Inferred resource for pipe Tristram increased from 410,000t to 740,000t
- ◆ Merlin combined inferred and indicated resources upgraded to 19.45 million tonnes at 18cpht for a total contained 3.5 million carats.

## MERLIN MINING LEASE & ASSOCIATED EXPLORATION TENEMENTS

### Merlin Diamond Mine – MLN 1154

Processing of the Merlin x-ray sorthouse tailings continued up to commencement of the wet season with 2,600 tonnes processed. This was the first step in a staged approach to evaluate and redevelop the Merlin diamond mine which ceased open pit production in 2003. The Merlin Mining Lease contains 11 of the 13 known kimberlite pipes in the Merlin field (of which 9 were subject to open-pit operations by previous holders), producing approximately 500,000 carats of diamonds at an average value of US\$108 per carat. Two pipes with potential economic ore grades remain to be evaluated these being Tristram and Bedevere. In line with world increases in diamond prices a revaluation of Merlin goods undertaken in early 2005 indicated a 30% increase in price to approximately US\$140 per carat.

### Inferred and Indicated Resources

As a consequence of the work completed in 2005 the combined **Indicated** and **Inferred Resources** has been upgraded to **19.45Mt** at a grade of **18cpht** for a total of **3.5Mcts**. **Over 50% of the total resource is in the Indicated category.**

	<b>Indicated</b>	<b>Inferred</b>	<b>Total</b>		
<b>Southern Cluster</b>					
PalSac	4,015,000t	2,713,000t	6,728,000t	@ 20cpht	
Launfal	730,000t	510,000t	1,240,000t	@ 22cpht	
Excalibur	464,000t	309,000t	773,000t	@ 34cpht	
Tristram		740,000t	740,000t	@ 18cpht	
			<b>9,481,000t</b>	<b>@ 21.2cpht</b>	<b>(2,014,000cts)</b>
<b>Central Cluster</b>					
Gawain	868,000t	1,252,000t	2,120,000t	@ 30cpht	
Ywain	80,000t	95,000t	175,000t	@ 81cpht	
			<b>2,295,000t</b>	<b>@ 33.9cpht</b>	<b>(778,000cts)</b>
<b>Northern Cluster</b>					
Gareth	125,000t	143,000t	268,000t	@ 22cpht	
Kaye	1,498,000t	1,335,000t	2,833,000t	@ 12cpht	
Ector	2,357,000t	2,221,000t	4,578,000t	@ 7cpht	
			<b>7,679,000t</b>	<b>@ 9.5cpht</b>	<b>(728,000cts)</b>
<b>Total</b>	<b>19.45Mt</b>	<b>18cpht average</b>	<b>3.5million carats</b>		

*Inferred and indicated resource grades are based on a bottom slotted screen size of 1.0mm.*

*Grades reflect the variation of grade due to increases in rock density with depth.*

### Processing of Sorthouse Tailings

The x-ray sorted tails (sorthouse rejects) were deposited in Ywain pit on cessation of previous mining operations. This pit was dewatered and some 5,000 tonnes of tailings was excavated. Approximately 3,000t of this can be dry processed, while the remainder will be required to be processed by DMS plant due to being heavily contaminated with both country rock and weathered kimberlite. To date 2,600t has been processed by means of dry screening, magnetic separation and optical sorting. Processing on the remaining material will recommence as soon as the weather permits.

### Diamond Recovery

Diamond recoveries now exceed 12,000cts, with some 5% of the diamonds being yellow. The grade of the tailings is approximately 5 carats per tonne and is consistent with initial projections. The largest diamond recovered to date is a clear white 14.21ct gem quality stone. Two additional large near gem quality stones have also been recovered these being 10.97ct and 10.27ct. These large diamonds are a characteristic of the Merlin diamond field. The largest yellow diamond is near gem quality and 4.33ct. These yellow diamonds are non-fluorescing and were not previously recovered in large numbers from the Merlin 'Run-of-Mine' production. Details of the recoveries are as follows;

<b>Carats Recovered</b>				<b>Diamonds Recovered</b>			
-25+10mm	-10+4mm	-4+1mm	<b>Total</b>	-25+10mm	-10+4mm	-4+1mm	<b>Total</b>
14	1,083	11,000	<b>12,097</b>	1	1,877	144,738	<b>146,616</b>

## **Diamond Valuation**

A selected 5,000ct parcel of diamonds produced from the Merlin x-ray sorthouse tailings has been independently valued. While the diamond parcel broadly reflects the Merlin diamond population, the relative proportion of the diamonds in the various categories is not typical of previous Merlin ‘run of mine’ production. The valuation was designed to obtain a guide to the values for the diamond categories previously not recovered.

### ***Yellow Diamonds***

Yellow diamonds many of which fall into the ‘fancy yellow’ category represent 5% of the diamonds recovered from the x-ray sorthouse tailings. The valuation for these diamonds achieved an average value of US\$1,454/ct. The most valuable diamonds were two ‘fancy yellow’ stones which were valued at US\$4,500/ct. These yellow diamonds are non-fluorescent and will be a new addition to the Merlin ‘run of mine’ gem category.

### ***White Diamonds***

The valuation of both gem and near gem white diamonds achieved an average value of US\$109/ct, but includes a number of gem quality stones valued in excess of US\$1,000/ct. A previously reported 14.21ct white gem quality diamond was valued at US\$1,815/ct.

### ***Combined Gem and Near Gem Diamonds***

When combined the average value for the yellow, white and brown gem and near gem diamonds which represents approximately two-thirds of the valuation diamond parcel from the tails is US\$140/ct. The relative proportions of the various categories recovered from the sorthouse tails is not representative of ‘run of mine’.

### ***Run of Mine Diamond Valuation***

The tailings material from which these diamonds were recovered has previously undergone multiple passes through concentrating cyclones and x-ray sorters. These recoveries demonstrate that the previous operations not only discarded high value non-fluorescing diamonds but also a high proportion of smaller near gem and industrial quality diamonds. Where the Merlin ‘run of mine’ diamond production fits in the present diamond market will be better gauged when a valuation parcel of 5,000 – 10,000 carats of ‘run of mine’ diamonds has been recovered from the processing of kimberlite.

## **TESTING OF PRIMARY KIMBERLITE PIPE MATERIAL, Kaye and Ywain pipes**

Examination of previous mining activities undertaken at Merlin indicates a significant discrepancy between recovered mining grades and higher grade expectations from earlier bulk sampling.

Part of the current re-evaluation of the remaining resources at Merlin was to take representative bulk samples from selected pipes and to process them utilizing HPGR (High Pressure Grinding Roll) technology and improved diamond recovery techniques.

Kimberlite samples from pipes Kaye and Ywain were excavated from the base of these previously mined pits, crushed by HPGR and processed through the MK 111 DMS plant onsite at Merlin. Sorting of the concentrates was undertaken on site in late 2005. The results from both samples confirm a significant improvement in grade compared to the previous reported mining grades. This is a consequence of a number of factors including the improved liberation and recovery of the diamonds and demonstrates the effectiveness of the HPGR technology in this application.

### **Kaye**

Kaye is one of the larger pipes at Merlin with a surface area of 0.8ha. It was mined to a depth of 33m from surface producing 18,599cts from a total of 177,753 processed wet tonnes.

#### *Previous mining results*

Average mined grade*	Bottom mined flitch grade	Total tonnes mined	Total carats recovered
10.46cpht	10.13cpht	177,753	18,599

\* Processing plant used a 0.95mm slotted bottom screen

#### *Test sample results*

Sample size	Total carats recovered	Grade*	Grade improvement**
76.6 wet tonnes	10.24	13.37cpht	32%

\* recovered diamonds screened using a 1mm slotted bottom screen

\*\* slotted screen grade compared to the bottom mined flitch grade  
cpht - carats per 100 tonnes

## **Ywain**

Ywain is the smallest and highest grade pipe in the Merlin field. It has an area of 0.05ha and was mined to a depth of 27m from surface producing 8,084 carats from 14,422 tonnes processed wet.

### *Previous mining results*

Average mined grade*	Bottom mined flitch grade	Total tonnes mined	Total carats recovered
56.05cpht	59.23cpht	14,422	8,084

*\* Processing plant used a 0.95mm slotted bottom screen*

### *Test sample results*

Sample size	Total carats recovered	Grade*	Grade improvement**
14.1 wet tonnes	11.93	84.6cpht	43%

*\* recovered diamonds screened using a 1mm slotted bottom screen*

*\*\* slotted screen grade compared to the bottom mined flitch grade*

*cpht - carats per 100 tonnes*

## **Results**

The significant improvement in the recovered grade for both pipes is as expected, and is a measure of the effectiveness of the HPGR and improved recovery techniques. Grades have been assessed using a 1mm slotted bottom screen to better approximate and compare to the previous processing plant recoveries which operated using a 0.95mm slotted bottom screen for the processing of the kimberlite from these two kimberlite pipes.

Further analysis is required to fully assess the diamond size ranges in which the improved diamond recovery has been achieved and the effect this will have to increase revenue per tonne.

## **OTHER TESTING**

### **Gawain**

A test sample of primary kimberlite has been excavated from pipe Gawain and crushed by HPGR. This sample will be processed early February. Plant operators are currently on site preparing the MK111 DMS plant for processing operations.

### **Sizer Reject/ Trommel Oversize**

The testing of a number of samples taken from sizer reject and trommel oversize stockpiles remaining from previous mining operations are partially completed. These results will be assessed and reported when the samples are completed.

## **RELOCATION OF KIMBERLEY DMS PLANT**

NADL's wholly owned DMS plant previously located in the company's North Kimberley project area has been disassembled and relocated to the Merlin project area. Work has commenced on the reassembly of the plant and the establishment of associated infrastructure. In its current configuration the plant has the capacity to process 100,000tpa. The current test work being undertaken at Merlin will enable the design of an appropriate front-end to this plant with a view to increasing its capacity to 300,000 – 400,000tpa.

## **DRILL PROGRAM**

A drill program was completed in mid December with 5 holes drilled for 941.8m. The majority of the drill holes investigated the geometry of pipe Tristram at depth. As a consequence the Inferred Resource for Tristram has increased from 410,000t to 740,000t at a grade of 18cpt. As Tristram has not been previously mined it is an important resource which could potentially be exploited at an early stage. A follow-up program of work is being investigated with a view to obtaining a large bulk sample. The current grade is based on the results of a limited RC drill sampling program completed in 1996.

## **MERLIN EXPLORATION**

The Merlin Orbit properties consist of nine tenements surrounding the mining lease of the former Merlin Diamond Mine totalling approximately 3,000km<sup>2</sup>, encompassing the currently known extent of the Merlin kimberlite field.

### **New Targets**

A review of the Merlin exploration sampling data has identified 25 indicator mineral and diamond anomalies of which 17 are considered to be high priority exploration targets. During 2005 follow-up sampling and ground inspection was carried out on 16 of the geophysical targets and 14 of the indicator mineral anomalies resulting in the collection of 14 loam, 17 gravel and 84 soil samples. These samples were despatched to the Company's Perth laboratory for analysis. Four of these samples have reported positive results. The most significant is 4 microdiamonds from a sample taken on a geophysical target in the Tintagel area. A previous sample taken by Rio Tinto Exploration Pty Ltd (RTE) reported 1 chromite. A total of 28 additional follow-up samples have been collected the results of which are awaited.

## **NORTH KIMBERLY PROJECTS, Western Australia.**

### **Seppelt Project**

The Seppelt Project comprises a number of related kimberlite dykes, blows and pipes constrained within a narrow corridor over a strike length of some 6km. No additional work was undertaken in this area during the quarter.

## **RIO TINTO JOINT VENTURES**

### **Kimberley Data Base**

The Company has an exclusive data licensing agreement with RTE over the majority of its extensive Kimberley diamond database. The Kimberley diamond database contains information relating to approximately 13,000 sample sites. The data has been accumulated over a 30 year period and includes SEM probe as well as indicator-mineral and diamond recovery data.

### ***Narrie Anomaly***

The first exploration target to be identified from the database was secured by a tenement application in 2004, which was subsequently granted in September 2005. Previously limited follow-up sampling in this area had confirmed the presence of kimberlitic chromite with probe analysis indicating the source rock has good diamond bearing potential. The recovery of a single +0.3mm microdiamond associated with the chromite supports this analysis. A follow-up sampling program was completed in late 2005 with 11 samples collected. These samples are currently being processed through NADL'S laboratory in Perth.

## **OTHER**

### **North King George Falcon™ System Joint Venture, Western Australia**

Diamond Mines Australia Pty Ltd, (DMA) a wholly owned subsidiary of Gravity Diamonds Limited, are in a 50/50 joint venture with the Company to follow-up the results of the Falcon™ survey that was funded by DMA. The Company is managing the field program on behalf of the joint venture.

### ***Follow-up of Anomalies***

The follow-up of 5 priority targets and 5 moderate priority targets was completed in 2005 with the collection of a total of 47 loam, 10 stream, 11 rock and 9 soil samples. These targets were selected from the 25 priority targets which were sampled in 2004. Positive results received to date include 4 samples reporting single microdiamonds, one sample reporting a macrodiamond and 4 samples reporting positive for indicator minerals.

While results from the substantial field sampling program predominantly involving costeaning and sampling of several priority Falcon™ targets during 2005 did not lead to a new kimberlite discovery, several very strong and unresolved indicator mineral anomalies remain within the JV area. A re-evaluation of the Falcon™ data utilising recently-developed signal enhancement procedures is planned prior to any further work on the project.

### **AKD Joint Venture - E80/1590, Western Australia**

No follow-up sampling was done on this tenement during the reporting period.

## **DE BEERS JOINT VENTURE**

### **Arnhem Land Northern Territory –NADL Earning 100%**

The Company has a farm-in agreement with De Beers Exploration Australia Limited (DBAE) to earn 100% interest in tenements with a total project area of 13,500km<sup>2</sup> in the Arnhem Land region of the Northern Territory. The Company has made application for a further 4 tenements which brings a total area of 7,700km<sup>2</sup> in which the Company has 100% interest. The project area now covers twenty-seven separate tenements of which 18 are in joint venture with De Beers.

Work programs have been submitted for two of the tenements, totalling 1,400km<sup>2</sup> that are available for immediate exploration. Heritage clearances and final meetings with Traditional Owners scheduled to take place in 2005 have been delayed until 2006.

The Company considers these tenements to be highly prospective for diamond-bearing kimberlites and other minerals. Regionally the area is situated within stable platform Proterozoic-aged sediments in close proximity to a major crustal trough, a setting geologically analogous to the Merlin kimberlite field which is located some 400km to the south. Initial exploration will include the taking of traditional indicator mineral and diamond stream samples, as well as the interpretation of photo and satellite imagery and aeromagnetic data sets.

## **CORPORATE**

### **Alan Campbell Appointed Chief Executive Officer**

The Chairman of North Australian Diamonds Limited announced the appointment of Mr Alan Campbell as Chief Executive of the company on 7<sup>th</sup> December 2005. He commenced duties in January 2006.

Mr Campbell holds degree in geology and business administration, joins the company after an extensive 19 year career with DeBeers.

His most recent position, as Exploration Manager of De Beers India saw De Beers successfully negotiate access agreements with a number of state governments and established the exploration operations in highly prospective areas of India. Previously he worked in De Beers Corporate Head Office in Johannesburg. Alan started his career with De Beers in Australia.

The terms and conditions of Mr Campbell's employment based on a letter of offer exchanged between Mr Campbell and the company are as follows;

### ***Fixed Remuneration***

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis including FBT charges) as well as employer contributions to superannuation. Base remuneration is \$250,000 per annum. Superannuation contributions is calculated at 9% of the base remuneration

### ***Performance Linked Remuneration***

A performance based bonus of up to 30% of base salary “at risk” bonus for meeting or exceeding annual performance objectives. These performance targets remain to be set by the remuneration committee.

### ***Long term incentive (LTI)***

The objective of the LTI is to reward and incentivise in a manner which aligns this element of remuneration with shareholder wealth and is dependent upon achieving certain key performance hurdles which remain to be set by the remuneration committee. The LTI’s are as follows;

- ◆ The issue of 3,000,000 ordinary fully paid shares upon the second anniversary of Mr Campbell’s appointment.
- ◆ The issue of 5,000,000 options with a 3 year vesting period being 3 years from appointment and exercisable by payment of 7.5 cents each on or before 30 June 2011.

### **North Australian Diamonds Limited v Australian Goldfields NL (In Liquidation) (‘AFN’) - Litigation**

#### **Refer Appendix 5B – Note 1 (attached)**

On October 11 2000, the company (having obtained leave from the court) filed proceedings against AFN (in liquidation) for:

- (a) A Declaration that the company has suffered loss and damage as claimed
- (b) A Declaration that in respect of any indebtedness on the Company’s part by reason of the receipt of funds from AFN, that any obligation to repay those amounts have been set-off and full extinguished at law in equity; and
- (c) A Declaration that the liquidators of AFN are bound to accept the proof of debt of the applicant having made due allowance for the amounts set off therein

It is Senior Counsel’s opinion that the repudiatory breach by AFN will give rise to substantial issues of set-off and counter claim which will bear on any obligation by the Company to repay amounts advanced. The right set-off for the counter claim by AFN makes the future sacrifice of economic benefits unlikely, however this is contingent on the outcome of future court proceedings.

The trial of the above proceedings took place in the Supreme Court of Western Australia before Justice Heenan from 21 – 28 November and 1 and 2 December 2005.

The parties are waiting for a decision to be handed down in the matter.

Alan Campbell  
Chief Executive Officer

*Tom Reddicliffe is a full time employee of the company. Tom Reddicliffe 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 a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Tom Reddicliffe consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## Appendix 5B

### Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

North Australian Diamonds Limited

ABN

86 009 153 119

Quarter ended ("current quarter")

31 December 2005

#### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for		
(a) exploration and evaluation	(1,177)	(1,899)
(b) development		
(c) production		
(d) administration	(558)	(954)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	10	20
1.5 Interest and other costs of finance paid	(6)	(8)
1.6 Income taxes paid		
1.7 Other (provide details if material)		
<b>Net Operating Cash Flows</b>	(1,731)	(2,841)
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a)prospects – Merlin Orbit		
(b)equity investments		
(c) other fixed assets	(46)	(127)
1.9 Proceeds from sale of:		
(a)prospects		
(b)equity investments		
(c)other fixed assets		
1.10 Loans to other entities	(20)	(20)
1.11 Loans repaid by other entities		
1.12 Other – Security deposits		
<b>Net investing cash flows</b>	(66)	(147)
1.13 Total operating and investing cash flows (carried forward)	(1,797)	(2,988)

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(1,797)	(2,988)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	(265)	4,091
1.15	Proceeds from sale of forfeited shares		
1.16	Proceeds from borrowings		25
1.17	Repayment of borrowings		(25)
1.18	Dividends paid		
1.19	Other (proceeds from forward sales of diamonds)	250	500
	<b>Net financing cash flows</b>	(15)	4,591
	<b>Net increase (decrease) in cash held</b>	(1,812)	1,603
1.20	Cash at beginning of quarter/year to date	3,754	339
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	1,942	1,942

**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	83
1.24	Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Remuneration

**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

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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

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Refer Note 1	\$2,200
3.2 Credit standby arrangements		

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	1,300
4.2 Development	
<b>Total</b>	<b>1,300</b>

**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	64	154
5.2 Deposits at call	1,878	3,600
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>1,942</b>	<b>3,754</b>

**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	E80/1840	Surrendered	50%	NIL
	E80/2921	Surrendered	100%	NIL
6.2 Interests in mining tenements acquired or increased	E80/3390	Granted	NIL	100%
	EL24082	Granted	NIL	100%
	ELA25122	Applied For	-	-

**Appendix 5B**  
**Mining exploration entity quarterly report**

**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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	817,217,552	817,217,552		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	20,500,000		<i>Exercise price</i> 7.5 cents	<i>Expiry date</i> 31/07/08
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	139,999,771	139,999,771	15cents	31/11/05
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <i>(totals only)</i>				

+ 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 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: ..... Date: 31 January 2005  
(~~Director~~/Company secretary)

Print name: KEVIN R. HART

## 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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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**Appendix 5B**  
**Mining exploration entity quarterly report**

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**NOTE 1**

**SECTION 3**

Australian Gold Fields NL (In Liquidation) ('AGF') had an obligation to underwrite a pro-rata offer by the Company to raise a minimum amount of \$7.5 million by prospectus with the shares to be offered at a price at least equal to 12.5 cents ('AGF's Underwriting Obligation').

Due to delays requested by AGF in proceeding with the rights issue, AGF provided interim funding of \$2.2 million to the Company pending completion of the rights issue. AGF has a funding obligation in the order of \$3.0 million. Repayment of the advance was not to the detriment of the Company or any of its controlled entities until at the earliest after 12 December 1998 and only out of the proceeds of a rights issue ('AGF's Funding Obligation').

The Company obtained the opinion of Senior Counsel that both AGF's Underwriting and Funding obligations are valid and enforceable. The then Administrators of AGF denied liability in respect of both such obligations.

On 25 August 1998, the Company advised the then Administrators of AGF that AGF's continuing failure to comply with its Underwriting Obligation was a repudiatory breach which the Company accepted, and reserved all its rights against AGF including a claim for all the loss and damages suffered by the Company as a result of the breach which the Company accepted.

It is Senior Counsel's opinion that the repudiatory breach by AGF will give rise to substantial issues of set-off and counter claim which will bear on any obligation by the Company to repay the amounts advanced.

The Company has lodged with the liquidator of AGF a formal proof of debt claiming the sum of \$11,566,621 being the loss and damage suffered by the Company as a consequence of the failure of AGF to comply with its Underwriting Obligation.

On 8<sup>th</sup> September 2000, the Company lodged an application in the Supreme Court of Western Australia seeking leave to commence proceedings against AGF.

Following grant of leave, the Company has filed and served a writ seeking:

- (a) A Declaration that it has, by reason of the breach, alternatively repudiation of the Residual Underwriting Commitment, suffered loss and damage, as set out in the Company's Proof of Debt, of the amount of \$11,566,621.
- (b) A Declaration that in respect of any indebtedness on its part by reason of the receipt of funds from AGF, that the obligation to repay such amounts has been set off and fully extinguished against its damages claim, being amounts totalling \$2,328,580.
- (c) A Declaration that the liquidators of AGF accept the proof of debt of the Company having made due allowance for amount set off, being an amount of \$9,238,041.
- (d) Costs.

The writ relates to the non-performance of the obligations of AGF pursuant to an Underwriting Agreement and Residual Underwriting Agreement entered into with the Company on the 2<sup>nd</sup> December 1996 and subsequent interim funding monies advanced to the Company up until 6<sup>th</sup> March 1998.

The trial of the above proceedings took place in the Supreme Court of Western Australia before Justice Heenan from 21 – 28 November and 1 and 2 December 2005.

The parties are waiting for a decision to be handed down in the matter.

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+ See chapter 19 for defined terms.