



Merlin Diamonds Limited

ABN 86 009 153 119

31 July 2017

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

By E-Lodgement

REPORT FOR THE QUARTER ENDED 30 JUNE 2017

Merlin Diamonds Limited
ABN 86 009 153 119

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42 Moray Street
Southbank, VIC, 3006

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www.merlindiamonds.com.au

Directors

Mr Mordechai Gutnick
Chairman & Managing Director

Mr Henry Herzog
Non-Executive Director

Dr David S Tyrwhitt
Non-Executive Director

Senior Management

Mr Peter Lee
CFO & Company Secretary

HIGHLIGHTS

Merlin Mine –Operations

Production

- **4,605 carats of diamonds produced at 100%-owned Merlin mine in Northern Territory**

Sales

- **Diamonds to be auctioned next month in Antwerp through industry-leading rough & polished diamond tender house Koin International**

Purchase of Tomra XRT Machine

- **Merlin plans to enhance recovery of larger diamonds through installation of Tomra XRT machine – machine to be installed by end September 2017**

Exploration

- **Current 3,500 metre drilling program progressing**



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MERLIN DIAMOND MINE PROJECT

Merlin Diamond Mine Operations

1. PRODUCTION AND MINING OPERATIONS UPDATE

- 86,407 tonnes for 4,605.764 carats produced since mining operations commenced.
- 22,000 diamonds.
- 37 diamonds above 5 carats with the largest diamond being 35.74 carats have been recovered.
- Current production a standout in proportion of larger stones.
- 26 high quality diamonds chosen to be polished – largest cut and polished reached over 8 carats.
- A high proportion of large diamonds have been recovered in the current production.
- A high proportion of large high quality diamonds was also evident in historical production.
- No non-fluorescent ore and not all oversized material has been processed to-date.

Production summary: (diamonds only 5 carats and larger from 86,407 tonnes throughput)

Carats	Carats	Carats	Carats	Carats	Carats	Carats	Carats
35.74	15.20	13.12	9.39	8.45	6.60	6.05	5.02
20.04	14.63	12.16	9.27	8.26	6.59	5.84	5.00
18.48	13.69	11.45	9.19	7.72	6.45	5.71	
17.25	13.26	10.65	8.76	7.30	6.33	5.49	
16.64	13.26	9.47	8.74	6.91	6.16	5.37	

2. SALE OF DIAMONDS

Merlin is pleased to confirm that its production inventory of polished and rough diamonds are to be sold in Antwerp by tender in late August 2017, after the Northern Hemisphere summer holidays, by Koin International DMCC.

Koin provides specialist rough and polished diamond expertise and services, specifically diamond tenders and auctions, to select clients globally. Koin develops innovative sales and marketing strategies to extract maximum value and revenues for clients, particularly rough producers.



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Staffed with an experienced multi-disciplinary team including seasoned diamond experts, marketing and client service personnel, Koin uses a sophisticated IT platform to conduct global tenders, auctions and trading. Koin management and staff have broad exposure to the field of rough diamond tenders/auctions.

Merlin will update shareholders on the outcome of the tender in September.

3. TOMRA XRT MACHINE TO ENHANCE RECOVERY OF LARGER DIAMONDS AT MERLIN

Following consultation and engagement with leading diamond industry experts the installation of a Tomra XRT machine has been strongly recommended.

Following a meeting between Merlins executives' and the manufacturers of the Tomra XRT machine, an agreement for the purchase of a XRT machine has been signed. Installation and commissioning is expected towards the end of September. The Company is considering the purchase of additional XRT sorters as they become required.

Tomra Sorting diamond recovery solutions replace the conventional concentration and recovery stages such as Dense Media Separation (DMS) and X-Ray Luminescence (XRL) sorting in a diamond recovery process.

Advanced [X-Ray transmission technology \(XRT\)](#) reliably detects all diamonds including coated, low-luminescent and Type II diamonds.

Being integrated at the earliest stage of the recovery process, TOMRA Sorting's advanced XRT equipment considerably simplifies the flow sheet thereby reducing the risk of diamond damage.

Advantages of Tomra's sorters include:

- Compact footprint,
- Low operating costs,
- High diamond recovery rates and
- Extremely low concentrate yields.

The integration of automated sorting allows the overall complexity of recovery plants to be reduced, resulting in lower capital and operating costs. There is no need to further process a sorter's concentrate before final hand sorting.

The large Tomra XRT machine is the latest state of the art sorting machine and has been used by Lucara Diamond Corp (TSE: LUC) to find large diamonds (the largest diamond recovered is 1,100 carats which is the second largest diamond ever recovered).

Photos and a description of the Tomra XRT machine are annexed to this release.



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Rationale for Tomra XRT machine

The Merlin diamond mine is famous for its large high quality diamonds. Australia's largest diamond, 104 carats, was found at Merlin as well as a 43 carat, 32 carat, and 28 carat diamond. See picture. In addition up to 2,000 diamonds larger than five carats were found at Merlin.

In recent production, 37 diamonds above five carats were produced from only 86,407 tonnes of ore, of which 15 diamonds are above 10 carats with the largest diamond being 35.74 carats.

Leading Diamond Industry consultants strongly recommend the purchase of a Tomra Large Diamond XRT Machine for use in future production because of its compact footprint, low operating costs, high recovery rates and extremely low concentration yields. This will be beneficial to the Company given the number of high quality large stones at Merlin.

The highest distribution and amount of larger diamonds are found in the northern cluster more so than the other eleven kimberlite pipes at Merlin (see attached).

The Ector kimberlite pipe at Merlin has the highest proportion of larger stones than any other of the pipes. The 104 carat diamond (likely half a stone) was found in the Northern Cluster of which Ector is one of them. Ector is at a depth of only 30 metres. Current open pits depths range between 30-100 metres. Core drill holes has found kimberlite as deep as 718 metres at Palsac.

Currently there is 4.35 million carats of JORC code resource at Merlin with the potential for this to increase significantly within existing kimberlite pipes with further drilling delineation.

With the recent outstanding successes at Lucara following the implementation of the state of the art large XRT sorting machines to recover very large diamonds it is blatantly obvious that the Company will benefit from the purchase and use of Tomra XRT machines for production at Merlin.

The amount of large diamonds in proportion to the tonnage processed makes Merlin a perfect fit to recover very large diamonds. The Tomra XRT machine allows larger diamonds to be captured before the crushing process (which may reduce the size of diamonds recovered as they are crushed) or sorting process which may result in diamonds being transferred to non-fluoro or oversized material stockpiles.

Very few mines in the world have the proportion of high quality large diamonds like Merlin.

Therefore, the use of the Tomra XRT machine should prove Merlin to be a world class deposit.

A major overhaul of the scrubber is required after constant failure. This has temporarily halted production, with recommencement expected when the Tomra XRT is installed.

4. EXPLORATION UPDATE

As announced on 12 July 2017, a 3,500 metre RC drilling program is being undertaken to identify undiscovered kimberlites on the Merlin mine lease in the Northern Territory.



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A recent extensive study of all exploration data has identified 74 potential additional targets for more kimberlite pipes. The Merlin mine lease is largely underexplored, with only 11 kimberlite pipes discovered so far within the Lease. The Company and its geological team believe the lease has the potential to host many more undiscovered kimberlite pipes.

The Company holds a significant historical database comprising airborne and ground geophysical, soil geochemical, diamond and indicator mineral datasets compiled by the previous owners of the lease. Since 2004, this work has been supplemented by diamond and additional indicator mineral sampling in areas with insufficient sample density, and detailed ground EM surveys over anomalous areas. The careful analysis of this data, and some fieldwork, has helped the Company determine these new exploration targets.

This drilling program will test 40 priority targets selected from the Company's exploration data sets. Prioritisation is based on each target's similarity to the geophysical and geochemical signatures of known Merlin kimberlite pipes. Many targets are proximal to unresolved positive indicator mineral results.

Any discovery that materialises from the initial drill program will be followed with further RC drilling to delineate the size of the discovery, and thereafter, diamond drilling to determine the depth of the discovery.



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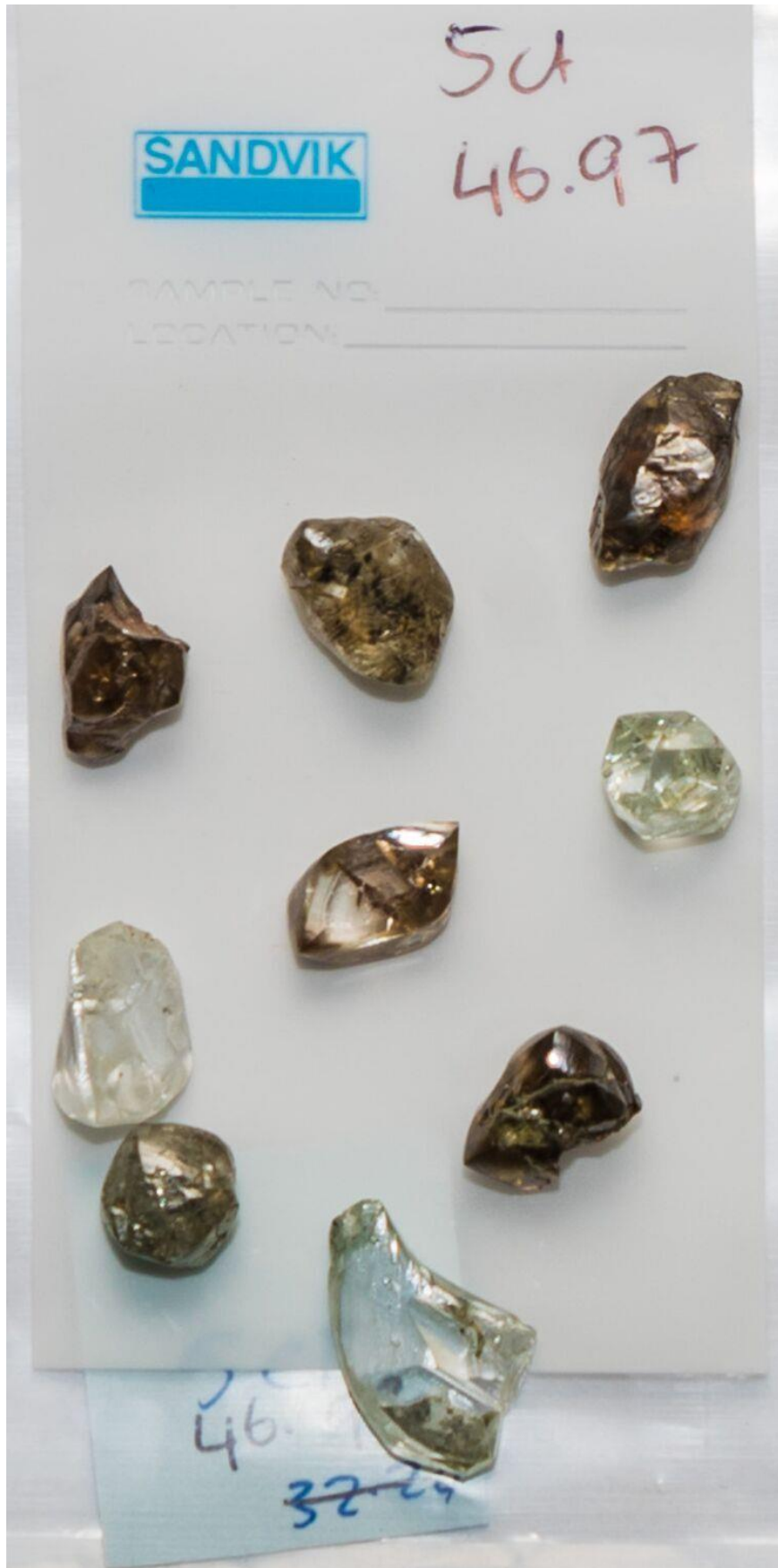
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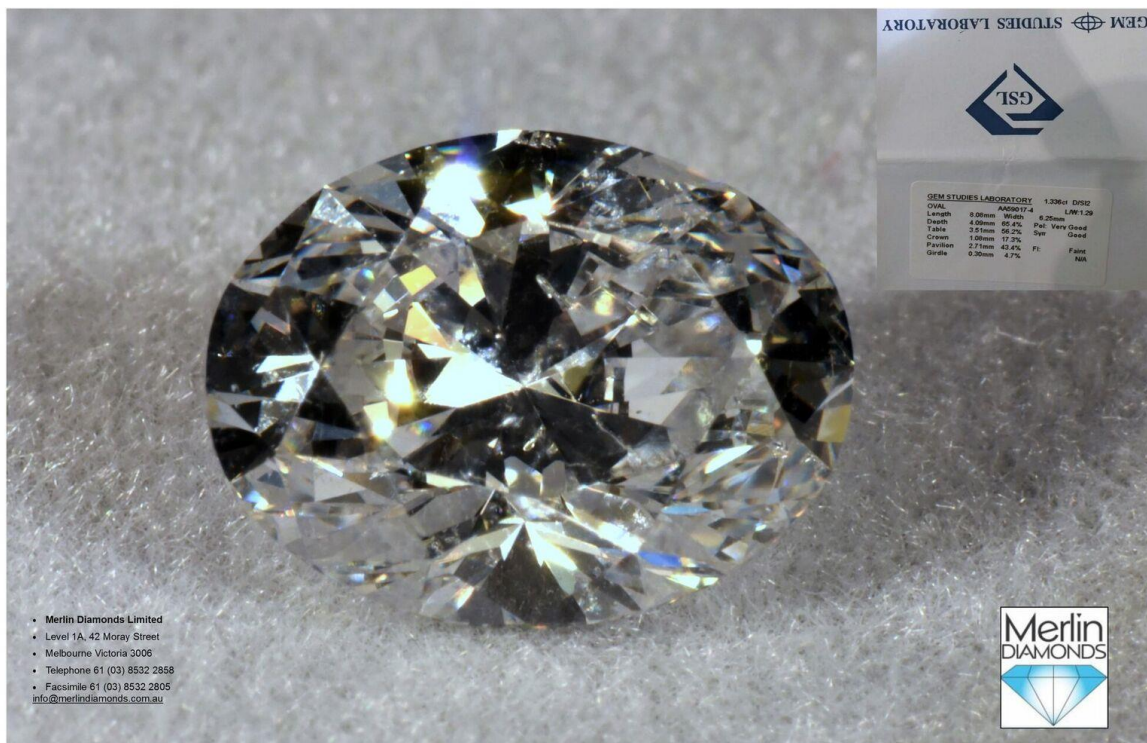
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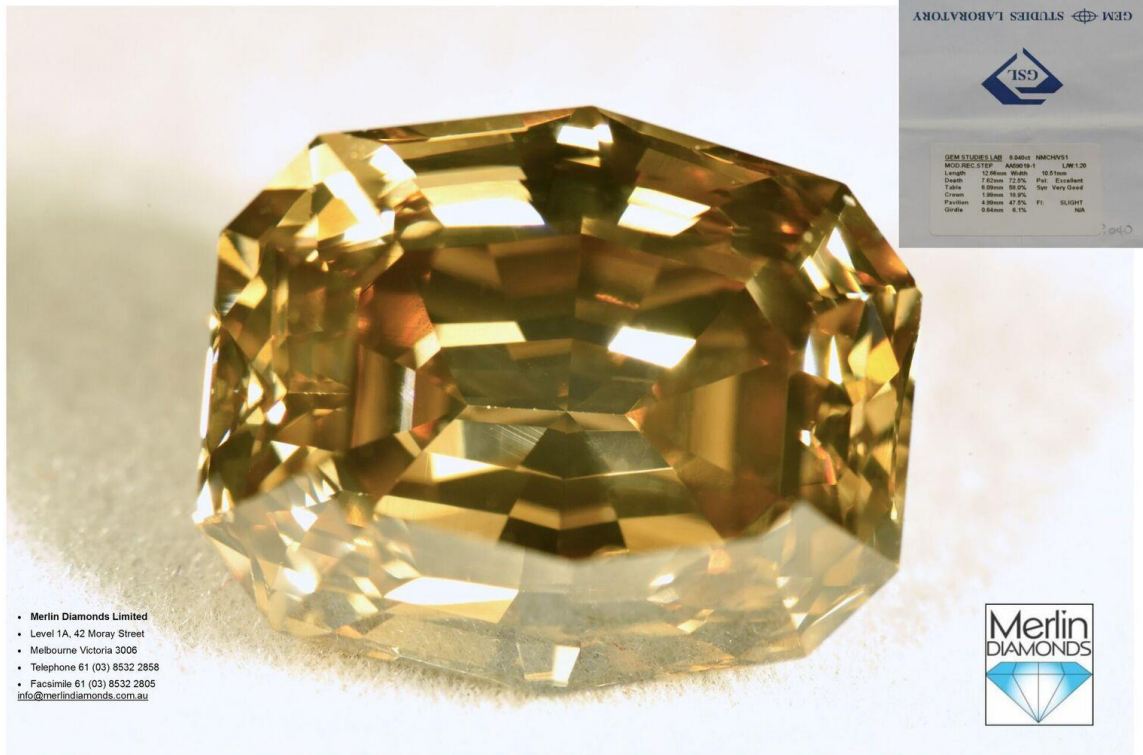
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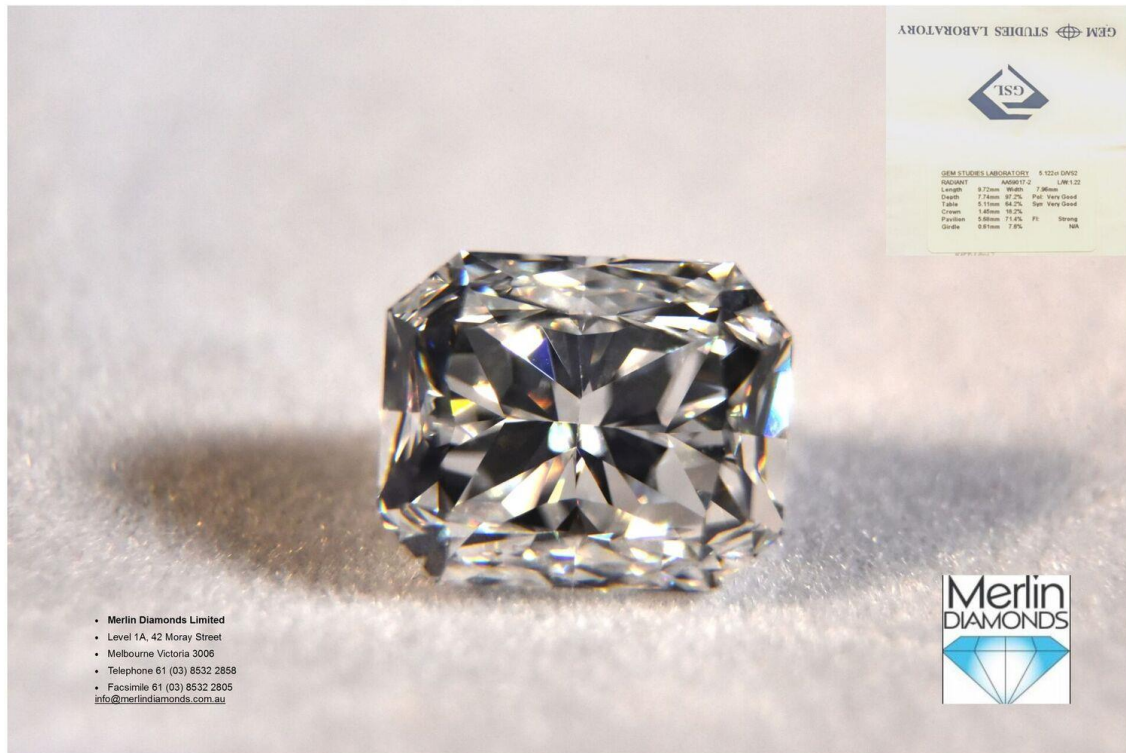
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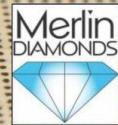


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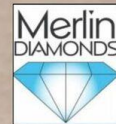


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The information in this report is based on information compiled by Dr DS Tyrwhitt who is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr DS Tyrwhitt is a consulting geologist employed by DS Tyrwhitt & Associates Pty Ltd. Dr DS Tyrwhitt is a director of Merlin Diamonds Limited, 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 2012 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.



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Table 1: Merlin Diamonds Limited Tenement Interests

Tenement	Project	State	Holder	Status	% Interest (Start of Quarter)	% Interest (End of Quarter)
EL26944	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100%	100%
M80/526	Seppelt	WA	Merlin Diamonds Limited	Granted	100%	100%
M80/532	Seppelt	WA	Merlin Diamonds Limited	Granted	100%	100%
M80/492	Ashmore	WA	Striker Diamonds P/L	Granted	100%	100%
MLN1154	Merlin	NT	Merlin Operations Pty Ltd	Granted	100%	100%
EL10189	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100% Diamond rights only	100% Diamond rights only
EL10230	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL26206	Arnhem Land	NT	Merlin Diamonds Limited	Granted	100% Diamond rights only	100% Diamond rights only
EL28066	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28067	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28068	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28069	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL28070	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL28071	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29398	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29399	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29400	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29401	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29402	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL29403	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%



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Tenement	Project	State	Holder	Status	% Interest (Start of Quarter)	% Interest (End of Quarter)
EL29567	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	0%
EL6532	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only
EL8681	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only
EL8682	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only

Appendix 5B

Mining exploration entity and oil and gas 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, 01/05/13, 01/09/16

Name of entity

MERLIN DIAMONDS LIMITED

ABN

86 009 153 119

Quarter ended ("current quarter")

30 JUNE 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(21)	(250)
(b) development	-	-
(c) production	-	-
(d) staff costs	(478)	(1,054)
(e) administration and corporate costs	(379)	(2,951)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	(12)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (GST Refund, Fuel Rebate Refund)	273	1,228
1.9 Net cash from / (used in) operating activities	(605)	(3,039)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(303)	(499)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(454)	(2,668)
2.4	Dividends received (see note 3)		
2.5	Payments for development expenditure	(2,369)	(6,809)
2.6	Other (Environmental Bond)	-	(346)
2.7	Net cash from / (used in) investing activities	(3,125)	(10,322)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	9,144
3.2	Proceeds from issue of convertible notes	75	1,401
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	219	1,410
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (transaction costs re issue of shares)	(26)	(484)
3.10	Net cash from / (used in) financing activities	268	11,471

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	3,479	1,907
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(605)	(3,039)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,125)	(10,322)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	268	11,471
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	17	17

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	17	3,249
5.2 Call deposits	-	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	17	3,479

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
47
-

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

As at 30 June 2017, the Company has a convertible note facility with Edensor Holdings Pty Ltd (refer notice of general meeting dated 8 May 2017). It also has the capacity to raise capital under Listing Rules 7.1 and 7.1A. Furthermore, as announced on 27 July 2017, the diamonds from production are to be sold through tender by Koin International in late August 2017.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	200
9.2 Development	1,700 inc production
9.3 Production	-
9.4 Staff costs	300
9.5 Administration and corporate costs	400
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	2,600

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	Refer table 1 of quarterly report.	-	-
10.2 Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company Secretary)

Date: 31 July 2017

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.