



12 February 2015

Mr Dean Litis
Principal Advisor
Listings Compliance (Melbourne)
ASX Compliance Pty Ltd
Level 4, North Tower
525 Collins Street
Melbourne VIC 3000

Dear Dean

Appendix 5B – Quarter ending 31 December 2014

I refer to your letter dated 9 February 2015.

In response to the questions raised in your letter, we respond as follows:

1. No. As referred to in the Appendix 5B for the quarter ended 31 December 2015, the capital raising approved by shareholders at the 2014 annual general meeting is progressing. In addition, the Company has a loan facility to assist its cash flows. Finally, as referred to in the annual report of the Company for the year ended 30 June 2014, an R & D claim that was being made in relation to activities at the Merlin diamond mine. A substantial refund is imminent although the exact amount cannot be confirmed at this time.
2. Whilst development activities continue at its Merlin diamond mine, the Company will have negative operating cash flows however the exact amount is difficult to estimate. We refer you to our comments in 1) above.
3. As the Company has previously announced, the Merlin diamond mine is on schedule to recommence production during 2015 and the feasibility study that was released to the market on 30 September 2014 disclosed a NPV at an 8% discount rate of \$102.2 million, life of mine total net cash (undiscounted) of \$132.9 million and a maximum negative cash flow of \$4.23 million.
4. The Directors believe the Company is in compliance with the listing rules and in particular listing rule 3.1.
5. The Company believes the comments in 1) above address listing rule 12.2.

Please contact me if you have any questions.

Yours faithfully,

PETER LEE
Chief Financial Officer
& Company Secretary

Merlin Diamonds Limited ABN 86 009 153 119
Level 8, 580 St Kilda Road, Melbourne VIC 3004
PO Box 6315, St Kilda Road Central, Melbourne VIC 8008
T: +61 3 8532 2858 F: +61 3 8532 2805
W: www.merlindiamonds.com.au E: info@merlindiamonds.com.au



ASX Compliance Pty Ltd
ABN 26 087 780 489
Level 4
North Tower
525 Collins Street
Melbourne VIC 3000

GPO Box 1784
Melbourne VIC 3001

Telephone 61 3 9617 8625
Facsimile 61 3 9614 0303
www.asx.com.au

9 February 2015

Peter Lee
Company Secretary & Chief Financial Officer
Merlin Diamonds Limited
Level 8, 580 St Kilda Road
Melbourne VIC 3004

By email only

Dear Peter

Merlin Diamonds Limited (the "Company")- Appendix 5B- Quarter Ending 31 December 2014

I refer to the Company's Quarterly Report in the form of Appendix 5B for the period ended 31 December 2014, released to ASX Limited ("ASX") on 30 January 2015 (the "Appendix 5B").

ASX notes that the Company has reported the following.

1. Receipts from product sales and related debtors of \$4,000;
2. Net negative operating cash flows for the quarter of \$1,873,000; and
3. Cash at end of quarter of \$67,000.

In light of the information contained in the Appendix 5B please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 5B, taking into account future exploration, development and administration costs, the Company may not have sufficient cash to fund its activities. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 5B for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous Disclosure: Listing Rules 3.1 – 3.1B".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by return email. It should not be sent to the Market Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than **9.30am AEDT Thursday 12 February 2015**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

If you have any queries, please do not hesitate to contact me

Yours sincerely

[Sent electronically, without signature]

Dean Litis

Principal Adviser

Listings Compliance (Melbourne)