



Merlin Diamonds Limited

ABN 86 009 153 119

31 July 2018

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

By E-Lodgement

REPORT FOR THE QUARTER ENDED 30 JUNE 2018

Merlin Diamonds Limited
ABN 86 009 153 119

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www.merlindiamonds.com.au

Directors

Mr Joseph Gutnick
Executive Chairman

Mr Mordechai Gutnick
Managing Director

Mr Henry Herzog
Non-Executive Director

Dr David S Tyrwhitt
Non-Executive Director

Senior Management

Mr Peter Lee
CFO & Company Secretary

Mr Joshua Harper
General Manager
Operations

HIGHLIGHTS

- Merlin to double ore processing capacity with new scrubber. The new scrubber, screen and conveyor belts are currently in preparation for shipment. Delivery is expected in late August 2018. This new addition will increase current head feed rate from 50tph to 100tph, doubling the production of diamonds. It will also reduce the recirculation of oversize material significantly and give Merlin the ability to feed damp ore directly from the pit. Once the new DMS circuit arrives from South Africa, the head feed rate will increase upwards of 150 tph.
- MMP approved for mining of five pits - Excalibur, Gwain, Ywain, Ector and Kaye.
- A research report on the Company has been issued by Empire Capital partners. A copy is on the Company's website.



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MERLIN DIAMOND MINE PROJECT

Merlin Diamond Mine Operations

Australian diamond mining company Merlin Diamonds Limited (“Merlin” or “the Company”) reports that with the scaling up of mining activities at the Merlin Diamond Mine in the Northern Territory, ore processing capacity will double with the installation of a new scrubber.

Processing will increase from the 50 tonnes per hour to 100 tonnes per hour, thus doubling the production of diamonds. The new scrubber, screen and conveyor belts are being prepared for shipping and are expected to arrive at Merlin in late August 2018. Merlin’s team conducted a final inspection last week prior to shipping.

The scrubber will also significantly reduce the recirculation of oversize material and give Merlin the ability to feed damp ore directly from the pit.

As well, Merlin has purchased a jaw crusher which will be introduced into the processing circuit to treat the trommel oversize material.

As previously advised, a Dense Medium Separation (DMS) circuit has also been ordered from South Africa, and once installed, capacity will increase upwards of 150 tonnes per hour.

During the period, the Northern Territory Government Department of Primary Industry and Resources reviewed the amended Mine Management Plan (“MMP”) for the Merlin Mine Project. The Department is satisfied that the MMP meets the requirements of section 40 of the Mining Management Act and the Company can commence mining five pits - **Excalibur, Gwain, Ywain, Ector and Kaye**. Additional security of \$316,369.00 has been paid taking total security to \$1,092,215.00.

The mining contract for the Merlin Mine has been awarded to Rusca Bros Services. Rusca Bros Services has mobilised to site and mining of fresh ore from the pits has commenced.

A new very positive phase has commenced, from processing past stockpiles, to now mining in the Merlin Pits.

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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Figure 1: Trommel scrubber washing plant



Figure 2: High frequency vibrating screen



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Figure 3: Conveyor belt

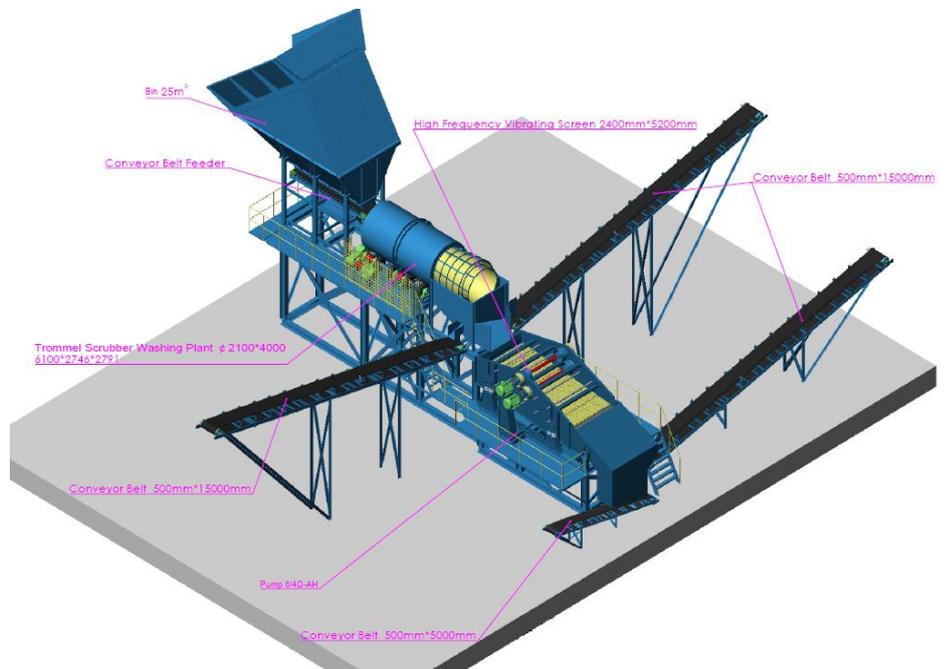


Figure 3: Schematic of second ore processing plant being installed



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Figure 4: Jaw crusher to be installed shortly at Merlin Diamond Mine

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 |
| 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 2018

| 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 | (98) | (550) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | (273) | (390) |
| (e) administration and corporate costs | (852) | (2,680) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | - | - |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Research and development refunds | - | - |
| 1.8 Other (GST Refund, Fuel Rebate Refund) | 123 | 601 |
| 1.9 Net cash from / (used in) operating activities | (1,055) | (3,019) |

| | | |
|--|-------|---------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (226) | (1,854) |
| (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 | (15) | (509) |
| 2.4 | Dividends received (see note 3) | | |
| 2.5 | Payments for development expenditure | (1,167) | (4,055) |
| 2.6 | Other (Environmental Bond) | - | (40) |
| 2.7 | Net cash from / (used in) investing activities | (1,448) | (6,458) |

| | | | |
|-------------|---|--------------|---------------|
| 3. | Cash flows from financing activities | | |
| 3.1 | Proceeds from issues of shares | - | 3,936 |
| 3.2 | Proceeds from issue of convertible notes | - | 2,601 |
| 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 | 2,406 | 4,672 |
| 3.6 | Repayment of borrowings | - | (1,139) |
| 3.7 | Transaction costs related to loans and borrowings | - | - |
| 3.8 | Dividends paid | - | - |
| 3.9 | Other (transaction costs re issue of shares) | (31) | (64) |
| 3.10 | Net cash from / (used in) financing activities | 2,375 | 10,006 |

| | | | |
|------------|--|------------|------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 674 | 17 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (1,055) | (3,019) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (1,448) | (6,458) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 2,375 | 10,006 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 546 | 546 |

| 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 | 546 | 674 |
| 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) | 546 | 674 |

| 6. Payments to directors of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2 | 18 |
| 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 | |

| 7. Payments to related entities of the entity and their associates | Current quarter \$A'000 |
|--|----------------------------|
| 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 | |

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. | | |

The Company is in the process of negotiating a \$2m financing facility. Since 30 June 2018, the Company has raised \$1,886,500 through the issue of convertible notes and notes.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|----------------|
| 9.1 Exploration and evaluation | 100 |
| 9.2 Development | - |
| 9.3 Production | 1,200 |
| 9.4 Staff costs | 375 |
| 9.5 Administration and corporate costs | 750 |
| 9.6 Other (provide details if material) | - |
| 9.7 Total estimated cash outflows | 2,425 |

| 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 2018

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.