



Merlin Diamonds Limited

ABN 86 009 153 119

30 April 2018

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

By E-Lodgement

REPORT FOR THE QUARTER ENDED 31 MARCH 2018

Merlin Diamonds Limited
ABN 86 009 153 119

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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

- A 7.313cts fancy yellow diamond and a 1.448cts blue/green diamond were recovered, along with 6 pink diamonds, the largest being .28cts and the total pink diamonds recovered weighed 1.03cts. A significant occurrence for Merlin and its future prospects for coloured diamonds.
- Over 1000 diamonds have been recovered since the commissioning of the scrubber and DMS, from stockpiles on the ROM.
- Production of diamonds will be announced on a quarterly basis, from the June quarter.
- Refurbishment of scrubber and DMS onsite completed.
- Commissioned scrubber, dewatering screen and DMS.
- Mobile screening plant introduced into new circuit to remove over size before entering scrubbing.
- Ector pit dewatered, tender for mining contractor currently active for Ector, Gawain and Ywain.
- New processing plant from South Africa and China ordered and manufacturing has begun.
- XRT machine has been reprogrammed and received enhancement modification to run larger size fraction of 18-40mm at a higher feed rate.

Planned activities in June 2018 quarter

- Prepare civil works for new processing plant
- Choice of mining contractor to be finalised
- Recruitment of additional personal for the larger scale operation and night shifts
- Process ROM ore from Ector, Gawain and Ywain pits



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MERLIN DIAMOND MINE PROJECT

Merlin Diamond Mine Operations

1. MINING OPERATIONS UPDATE

Merlin is expecting to lock in a deal with one of many local mining contractors and begin mining operations in Ector. The large kimberlite pipe in Ector has one of the highest proportions of larger diamonds compared to other pipes at Merlin and has had very little mining in the past. Ease of mining will also allow plenty of ore to be relocated to the ROM in a short time frame, in order to feed the increased rate of the state of the art XRT machine. High focus will also be on valuable Gawain and Ywain as soon as pits are ready for mining.

2. TROMMEL SCRUBBER

Scrubbers and trommels are key instruments in any mineral recovery process. Combining the two, by taking a top grade scrubber and adding a high performance screening and sizing trommel onto the end of it will result in streamlining the process. In turn reducing down time and increasing through put. This is exactly what will be achieved in the trommel scrubber wash plant arriving from China, it will separate the material into 3 different size fractions early in the upstream process increasing head feed rate from the current 40tph to 150tph through the processing plant. It will also produce an even cleaner 18-40mm product for the X-ray sorter.

3. DENSE MEDIUM SEPARATION

Dense medium separation or DMS is a simple process based on specific gravity. It has been the basis of heavy mineral separation as far back as 1858. It is a robust process when conducted across mixed size fractions from 1-20mm with extremely high separation efficiency. This technology has been used in diamond recovery for decades. It has been improved and refined over time, with South Africa leading the market producing high quality plants. The DMS module arriving from South Africa will boost the 2-18mm production rate from 15tph to 40tph.

4. TOMRA X-RAY TRANSMISSION SORTER

X-ray transmission sorting or XRT is state of the art technology. It uses an electric X-ray tube and a highly sensitive cutting-edge X-ray Camera to penetrate material and capture a density image at high speed to separate high and low density fractions. The XRT will be used to process larger size material and find 100ct + diamonds. With the new plant setup the expected feed rates are above 80tph through the XRT sorter.

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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BLUE/GREEN, PINKS AND YELLOW DIAMONDS



COLLECTION OF OTHER DIAMONDS RECOVERED





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ECTOR DEWATERED





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NEW SCRUBBER TROMMEL WASH PLANT ORDERED



NEW DMS MODULE ORDERED





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OVERVIEW OF REFURBISHED SCRUBBER



OVERVIEW OF REFURISHED DMS PLANT



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 |
| EL26206 | Arnhem Land | NT | Merlin Diamonds Limited | Relinquished | 100% Diamond rights only | 00% |
| 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")

31 MARCH 2018

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (108) | (452) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | (71) | (117) |
| (e) administration and corporate costs | (420) | (1,872) |
| 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) | 197 | 478 |
| 1.9 Net cash from / (used in) operating activities | (402) | (1,963) |

| | | |
|--|-------|---------|
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | (248) | (1,628) |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (9 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 | (392) | (494) |
| 2.4 | Dividends received (see note 3) | | |
| 2.5 | Payments for development expenditure | (1,384) | (2,888) |
| 2.6 | Other (Environmental Bond) | - | - |
| 2.7 | Net cash from / (used in) investing activities | (2,024) | (5,010) |

| | | | |
|-------------|---|--------------|--------------|
| 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 | 1,092 | 2,266 |
| 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) | - | (33) |
| 3.10 | Net cash from / (used in) financing activities | 1,092 | 7,630 |

| | | | |
|------------|--|------------|------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 2,008 | 17 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (402) | (1,963) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | (2,024) | (5,010) |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | 1,092 | 7,630 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 674 | 674 |

| 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 | 674 | 2,008 |
| 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) | 674 | 2,008 |

| 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 | 65 |
| 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 | |

| 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.

| 9. | Estimated cash outflows for next quarter | \$A'000 |
|------------|---|----------------------|
| 9.1 | Exploration and evaluation | 50 |
| 9.2 | Development | 1,350 inc production |
| 9.3 | Production | - |
| 9.4 | Staff costs | 200 |
| 9.5 | Administration and corporate costs | 400 |
| 9.6 | Other (provide details if material) | |
| 9.7 | Total estimated cash outflows | 2,000 |

| 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: 30 April 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.