Merlin Diamonds Limited (MED.ASX)

Nearing Production at Merlin Diamond Mine
Northern Territory, Australia

March 2015
Corporate Overview

Major Shareholders | % Ownership
-------------------|-------------
Joseph I Gutnick   | 15.87
ISR Investments Ltd| 10.17
SH Rayburn Nom Pty Ltd | 7.87
Citicorp Nominees Pty Ltd | 7.8
Newton Centre Development Ltd | 6.14
Tan Boon Kiat     | 5.63
Lim Kuan Yew      | 5.52

Corporate Snapshot

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ASX Code</td>
<td>MED</td>
</tr>
<tr>
<td>Cash (as at 20 March 2015)</td>
<td>$4.0M</td>
</tr>
<tr>
<td>Market Cap (at $0.065/share)</td>
<td>$27.4M</td>
</tr>
<tr>
<td>52 week high ($/share)</td>
<td>$0.12</td>
</tr>
<tr>
<td>52 week low ($/share)</td>
<td>$0.04</td>
</tr>
<tr>
<td>Shares on issue</td>
<td>408.96M</td>
</tr>
</tbody>
</table>

Experienced Board & Management Team

Joseph Gutnick
Executive Chairman and Chief Executive Officer

Henry Herzog
Non-Executive Director

David Tyrwhitt
Non-Executive Director

Craig Michael
Executive General Manager

Peter Lee
Chief Financial Officer and Company Secretary
Poised for Near-Term Production

Merlin Diamonds is focused on developing its Merlin Diamond Mine in the Northern Territory, Australia, and plans to recommence mining kimberlite ore at 8 of the existing open pits in 2015:

- $4.5 million R&D grant received – a major step towards recommencing production
- Bankable Feasibility Study completed in 2014
- JORC 2012 Mineral Resource and Ore Reserve completed
- Transition to proven and sustainable operations will result in value adding to the shareholders
- EBITDA of $17.6 million anticipated in first year of production
Bankable Feasibility Study Completed

<table>
<thead>
<tr>
<th>METRIC</th>
<th>RESULT</th>
</tr>
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<tbody>
<tr>
<td>Net Present Value at 8% discount rate</td>
<td>$102.2 million</td>
</tr>
<tr>
<td>Internal Rate of Return</td>
<td>52.7%</td>
</tr>
<tr>
<td>Life of Mine Total Net Cash (undiscounted)</td>
<td>$132.9 million</td>
</tr>
<tr>
<td>Payback Period</td>
<td>4 months</td>
</tr>
<tr>
<td>Maximum Negative Cash Position</td>
<td>$4.23 million</td>
</tr>
<tr>
<td>Probable Ore Reserve</td>
<td>4Mt @ 15cpht for 0.6Mcts</td>
</tr>
<tr>
<td>Life of Mine</td>
<td>11 years</td>
</tr>
<tr>
<td>Indicated Mineral Resource</td>
<td>13.4Mt @ 17cpht for 2.3Mcts</td>
</tr>
<tr>
<td>Inferred Mineral Resource</td>
<td>14.4Mt @ 14cpht for 2.0Mcts</td>
</tr>
</tbody>
</table>
Merlin Mine – Upside Potential & Expansion Options

New Exploration Discoveries
- 350km of ground based electromagnetic surveying planned
- 80 ground based geophysical targets already identified within existing Merlin Mining Lease
- Six drill-ready high confidence targets ready for resource definition drilling in 2015

Accessing the Deeper Ore – 3.7 million carats of Resource currently not in Mine Plan

Utilising the Hydraulic Jet
- The high powered hydraulic jet used in the borehole mining trial could potentially be used to break up more competent ore allowing deeper access for the mechanical clamshell grab

Underground Mining
- Previous engineering studies show underground mining (sub-level caving) is a viable extraction method and could potentially access the entire Mineral Resource
- Underground mining was not the preferred method at Merlin Mine due to substantially higher upfront costs
- Underground mining remains a potential option for the future and will be reassessed once positive cash flow is achieved

Open Pit Cut Backs
- Potential to undertake cutbacks on:
  - Ector-Kaye as one holistic pit
  - Palomides & Sacramore
- Whittle optimisation planned to be run and economics assessed in 2015

Bore Hole Mining
- 2013 trial technically successful
- Additional engineering required to achieve required production rates
- Will allow the mining of existing deep Resources, or new small pipes not amenable to open pits
Home to World-Class Diamonds

The largest diamond ever found in Australia came from the Merlin Diamond Mine measuring 104.73 cts

- Ashton Mining Ltd and Rio Tinto Ltd completed 5 years of trial mining at the Merlin Diamond Mine between 1999-2003 processing over 2.2 million tonnes to produce 507,000 cts
- Merlin diamonds is renowned for large, super white gem quality stones with over 31% of the stones previously produced being in the +13 DTC size fraction (approximately +0.7cts)
- Of the +1ct diamonds, in excess of 75% were assessed as ‘gem’ or ‘near gem’ quality
- Merlin has identified 80 exploration ready near mine targets for continued and sustained mining operations
Merlin Mine - Projected Cash Flow

8% NPV - $102.2M

<table>
<thead>
<tr>
<th>Year</th>
<th>EBITDA ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>17.6</td>
</tr>
<tr>
<td>2016</td>
<td>39.1</td>
</tr>
<tr>
<td>2017</td>
<td>12.8</td>
</tr>
<tr>
<td>2018</td>
<td>11.8</td>
</tr>
<tr>
<td>2019</td>
<td>10.2</td>
</tr>
<tr>
<td>2020</td>
<td>11.8</td>
</tr>
<tr>
<td>2021</td>
<td>5.4</td>
</tr>
<tr>
<td>2022</td>
<td>4.2</td>
</tr>
<tr>
<td>2023</td>
<td>5.6</td>
</tr>
<tr>
<td>2024</td>
<td>6.6</td>
</tr>
<tr>
<td>2025</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>$132.9M</td>
</tr>
</tbody>
</table>
Diamond Value & Quality

• Mining records and diamond sales data acquired from Rio Tinto has enabled Merlin to compile detailed grade and value models for existing kimberlite pipes
• Merlin has been able to accurately predict 2015 diamond prices for each kimberlite pipe from Rio Tinto data
• Champagne/Cognac coloured stones steadily increasing in demand and a price spike in these coloured stones is expected upon closure of Rio’s Argyle mine in 2018 (world’s largest producer of ‘brown’ diamonds)
• Champagne/Cognac diamonds have grown into a $5 billion per year industry

<table>
<thead>
<tr>
<th>PIPE</th>
<th>US$/ct</th>
<th>US$/BCM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ywain</td>
<td>336</td>
<td>407</td>
</tr>
<tr>
<td>Gawain</td>
<td>424</td>
<td>277</td>
</tr>
<tr>
<td>Excalibur</td>
<td>382</td>
<td>243</td>
</tr>
<tr>
<td>Palomides</td>
<td>344</td>
<td>137</td>
</tr>
<tr>
<td>Launfal</td>
<td>405</td>
<td>134</td>
</tr>
<tr>
<td>Gareth</td>
<td>276</td>
<td>110</td>
</tr>
<tr>
<td>Kaye</td>
<td>376</td>
<td>82</td>
</tr>
<tr>
<td>Ector</td>
<td>299</td>
<td>63</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>352</strong></td>
<td><strong>107</strong></td>
</tr>
</tbody>
</table>

2015 projected diamond prices from Rio Tinto’s 1998-2003 sales data
Global Diamond Price – Positive Outlook

- Long term global diamond growth of 9% pa (2004-2013)
- Short term diamond growth of 13% pa (2008-2014)
- Rough diamond sales value growth realised approx. 5% in Jan-Feb 2014 from Alrosa & DeBeers
- Future predictions to 2020 indicate similar continuing increasing trends
- Financial recovery of USA and Europe driving consumer demand
- Increasing demand for gem-diamonds to satisfy China and India’s middle class wealth appetite

Source: The Global Diamond Annual Report 2013 by Bain & Company
Merlin Diamonds has secured substantial tenement holdings in the North Kimberley and Arnhem Land totaling approximately 22,000km².

**Borroloola Project Areas:**
- Southern Cluster: PalSac, Launfal, Excalibur, Tristram
- Central Cluster: Gawain, Ywain
- Northern Cluster: Gareth, Kaye, Ector, Bedevere

**MERLIN ORBIT**
- Tintagel
- Lancelot

**OTHER PROJECT AREAS**
- North Kimberley
- Seppelt 1 & 2
- Ashmore
- Arnhem Land

Includes material classified as reserves and resources.
Merlin Diamond Field Overview
Mechanical Grab Excavation – The Process

- Mechanical grab will sit on existing pontoon- barge in the Ywain pit via shear leg or gantry arrangement;
  - Allows faster drum speed with a 5m³ bucket grab (larger than a traditional 100t excavator bucket)
  - Allows larger drums and wire-lines
  - Mitigates crane outriggers and slewing (balancing) whilst operating on water
  - Mitigates maintenance and failures commonly associated with cranes
- All excavation will be conducted floating in a submarine environment mitigating hazards from potential rock failures
- Barge will be maneuvered within the pit and excavate in 3 metre tranches / benches
- Material will be transported to shore in “dumb-barges”
- Traditional 30t excavator and 2 x 40t articulated dump trucks will transport the material to the ROM for processing
Low Risk + Low CAPEX Development Strategy

Low Risk: Mechanical grab mining

- Successfully trialled at Merlin Mine in 2006 by North Australian Diamonds Ltd
- Proven equipment in the dredging industry mitigating the requirement for lengthy and costly trials
- Possess high strength and force wire line closing jaws
- Amenable for use on the weathered kimberlitic clay pipes at Merlin Mine
- Mechanical grab previously successful in excavating material within the Ywain pit
- Merlin Mine kimberlite pipes extremely weathered to ca 100m depth and present an opportunity to free dig the material with this technology

Low Capex: Mechanical grab mining

- Near-term recommencement of production at Merlin Mine without traditional up-front CAPEX required for open pits, cutbacks or underground mining methods
- Mitigate timing issues between commencement of mining and commencement of processing
- Allow for faster ROI and cash flow generation
- Material mined does not require upgrades to the processing plant
- Low ongoing CAPEX required to move from pit-to-pit
### Low Risk + Low CAPEX Development Strategy

#### Low OPEX:
- Mitigate the requirement for traditional drill–blast–haul machinery and personnel
  - No risk to blasting supplies in remote areas
- Mitigates labour / machinery / maintenance / supplies and intensive operations
- Require only seven people for mining, compared with traditional open pit circa 15 people
- Site technical services requirements significantly reduced

#### Fit-for-Purpose:
- Reduced up-front CAPEX required in comparison to a traditional mining operation
- Mechanical grab will deliver ore at a rate in excess of the processing plant capabilities;
  - Allows mining shutdown for 3 months per annum during wet season by processing stockpiles
  - Processing plant can work double shift all year optimising fixed costs and providing all year revenue
- Minimal on site technical support and management required reducing labour / transport costs
- Allows the operation to proceed at a rate requiring few capital upgrades to existing circuit and infrastructure
Minimal CAPEX of $1.3m Required for Mine Upgrade

Final Recovery Facility: $600k
- Upgrade the manual trial sorting facility to an industry standard:
  - X-ray flow sorters
  - On site caustic cleaning facilities
  - Significant modifications to the optical sorter (identification of +40mm sized diamonds)
  - Security upgrades
  - Communications systems upgrades
  - Potential to hire-purchase equipment. Final commercial negotiations pending project execution

Mining: $700k
- Mechanical grab, crane & winches may be able to be hired. Final commercial negotiations pending project execution

Administration: $50k
- Upgrades to the communications systems
- Minor upgrades to the village infrastructure
Rio Tinto’s 1997 feasibility study on the Merlin Diamond Project made the following comments:

“Small pipes, such as Ywain, may be fairly common in the field...”

“There is some potential for significantly larger pipes....”

“...evidence indicates that the Merlin field is part of a broader kimberlite province.”

“These factors (cretaceous cover, poor preservation of indicator minerals) while inhibiting the exploration effort, generally increase the possibility of other kimberlite fields and larger pipes to be present in the province.”
Borroloola Alluvial Diamond Project

- Represents a significant and unique opportunity to explore for a large volume, high value, alluvial diamond deposit
- Two granted tenements cover an area of approx. 1,150km², approx. 100km north of Merlin
- Only major alluvial concentration at a low point, in this catchment, known to host significant diamond deposits
- Alluvial gravels drain through the MacArthur River, deriving material from the catchment that contains the Merlin kimberlite field and the Abner Range
- The work program began in Sep 2011, following approval of a Mine Management Plan
- By Q4 2011, Merlin Diamonds had extracted 5000 tonnes of alluvial material from 5 different work areas
- 3000 tonnes of material from 3 pits have been processed at the Merlin Mine
- 22 diamonds weighing a total of 1.09cts were recovered and diamond quality to be assessed upon completion of processing
- Results to date confirm that the Borroloola Alluvial Gravels host a macro-diamond population
Diamond Production – Supply Chain Value

- Merlin sits at the highest value margin of the diamond sales chain
- Merlin extracts diamonds **proven** to be of high quality, value and demand
- Historical production and grades mitigate performance risk and inaccurate grade estimates

*Source – Bain Annual Diamond Report 2013*
Rough Diamond Supply vs Demand

Global Demand Increasing – Global Supply Decreasing

- Continued trend of declining rough diamond production and declining global Ore Reserves
- Canadian discoveries from 2003 and Ore Reserves are reducing in size and production volumes
- Few new diamond discoveries made since 2003 - few projects to fill the supply void
- Merlin Diamonds is poised for immediate production with high quality and clarity diamonds
- Merlin’s pure-white diamonds have a high demand and high value

Global Consumption of Diamonds

Source – Bain Annual Diamond Report 2013 & RBC Diamond Digest, March 2014
Rough Diamond Supply vs Demand

Reduced Global Production 2011-2012

Middle class in China and India, millions of households

% total, China
% total, India

Note: Jewelry manufacturing value is estimated as approximately 65% of retail sales based on the historic average.
Source: IDG, Tarry Tah, and Chain Events.
Rough Diamond Supply vs Demand

Global leader DeBeers’ long term prediction
• Not possible to fill the long term supply trend with existing production levels and Ore Reserves
• The effect will be an increasing sale price as consumer demand increases
### 2014 Ore Reserve

#### PROBABLE ORE RESERVE SUMMARY @ +5DTC lower cutoff

<table>
<thead>
<tr>
<th>PIPE</th>
<th>VOLUME (Mbcm)</th>
<th>DENSITY (t/m³)</th>
<th>PROBABLE ORE RESERVE (Mt)</th>
<th>GRADE (cpht)</th>
<th>RESERVE (Mcts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ywain</td>
<td>0.03</td>
<td>2.1</td>
<td>0.06</td>
<td>58</td>
<td>0.03</td>
</tr>
<tr>
<td>Gawain</td>
<td>0.13</td>
<td>2.1</td>
<td>0.27</td>
<td>32</td>
<td>0.08</td>
</tr>
<tr>
<td>Excalibur</td>
<td>0.12</td>
<td>2.0</td>
<td>0.25</td>
<td>31</td>
<td>0.08</td>
</tr>
<tr>
<td>Palomides</td>
<td>0.17</td>
<td>2.3</td>
<td>0.39</td>
<td>17</td>
<td>0.07</td>
</tr>
<tr>
<td>Launfal</td>
<td>0.05</td>
<td>2.4</td>
<td>0.13</td>
<td>14</td>
<td>0.02</td>
</tr>
<tr>
<td>Gareth</td>
<td>0.04</td>
<td>2.1</td>
<td>0.08</td>
<td>19</td>
<td>0.02</td>
</tr>
<tr>
<td>Kaye</td>
<td>0.58</td>
<td>1.8</td>
<td>1.04</td>
<td>12</td>
<td>0.13</td>
</tr>
<tr>
<td>Ector</td>
<td>0.90</td>
<td>2.0</td>
<td>1.83</td>
<td>10</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2.02</strong></td>
<td><strong>2.0</strong></td>
<td><strong>4.04</strong></td>
<td><strong>15</strong></td>
<td><strong>0.61</strong></td>
</tr>
</tbody>
</table>

*Mbcm = million bank cubic metres, t/m³ = tonnes per cubic metre, Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.*

*These Ore Reserves are stated as at 30 September 2014 and are defined as ore delivered to the processing plant. They have been reported in accordance with 2012 JORC Code guidelines.*

*This Probable Ore Reserve is not additional material to the Mineral Resource estimates reported below but is included within the Indicated category of the Mineral Resource estimate.*

*Rounding of tonnage and carats may result in computational discrepancies.*
# 2014 Mineral Resource

## MINERAL RESOURCE SUMMARY 2014 @ +5DTC lower cut-off

<table>
<thead>
<tr>
<th>PIPE</th>
<th>INDICATED RESOURCE</th>
<th>INFERRED RESOURCE</th>
<th>TOTAL RESOURCE</th>
<th>GRADE (cpht)</th>
<th>RESOURCE (Mcts)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Mt)</td>
<td>(Mt)</td>
<td>(Mt)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ywain</td>
<td>0.07</td>
<td>0.07</td>
<td>0.14</td>
<td>60</td>
<td>0.08</td>
</tr>
<tr>
<td>Gawain</td>
<td>0.99</td>
<td>0.60</td>
<td>1.59</td>
<td>31</td>
<td>0.49</td>
</tr>
<tr>
<td>Excalibur</td>
<td>0.35</td>
<td>0.23</td>
<td>0.58</td>
<td>29</td>
<td>0.17</td>
</tr>
<tr>
<td>Launfal/Launfal North</td>
<td>1.46</td>
<td>1.48</td>
<td>2.94</td>
<td>14</td>
<td>0.40</td>
</tr>
<tr>
<td>Palomides/Sacramore</td>
<td>7.24</td>
<td>6.42</td>
<td>13.66</td>
<td>17</td>
<td>2.30</td>
</tr>
<tr>
<td>Tristram</td>
<td>0.00</td>
<td>0.61</td>
<td>0.61</td>
<td>6</td>
<td>0.04</td>
</tr>
<tr>
<td>Kaye</td>
<td>1.11</td>
<td>1.74</td>
<td>2.85</td>
<td>10</td>
<td>0.29</td>
</tr>
<tr>
<td>Ector</td>
<td>2.04</td>
<td>2.81</td>
<td>4.85</td>
<td>9</td>
<td>0.46</td>
</tr>
<tr>
<td>Gareth</td>
<td>0.12</td>
<td>0.06</td>
<td>0.18</td>
<td>18</td>
<td>0.03</td>
</tr>
<tr>
<td>Bedevere</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>22</td>
<td>0.09</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>13.4</strong></td>
<td><strong>14.4</strong></td>
<td><strong>27.8</strong></td>
<td><strong>16</strong></td>
<td><strong>4.35</strong></td>
</tr>
</tbody>
</table>

1Resource grade based on previous mining operation recovery using a +0.95mm slotted bottom screen and reported at +5DTC cut-off
2Resource grade based on bulk sample testwork using a +0.8mm slotted bottom screen and reported at +5DTC cut-off
3Insufficient data available to determine cut-off grade for Tristram and Bedevere pipes.

Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.

Rounding of tonnage and carats may result in computational discrepancies.

These Mineral Resource estimates have been reported in accordance with 2012 JORC Code Guidelines.
Appendix 1: Notices

Disclaimer - Forward Looking Statement
This presentation contains “forward looking statements”. Such “forward looking statements” may include without limitation (1) estimates of future earnings, the sensitivity of such earnings to diamond values and foreign exchange rate movements (2) estimates of future diamond production (3) estimates of future cash costs (4) estimates of future cash flow, the sensitivity of such flows to diamond values and foreign exchange rate movements (5) statements regarding future debt payments (6) estimates of future capital expenditure (7) estimates of reserves, resources and statements regarding future exploration results.
Where the Company expresses or implies an expectation or belief as to future events or results such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, “forward looking statements” are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such “forward looking statements”. Such risks include but are not limited to diamond values, currency fluctuations, increased production costs and variances in grades or recovery rates from those assumed in mining plans, as well as political and operational risks in the countries and states in which the Company operates or sells product and governmental regulation and judicial outcomes.
The Company does not undertake any obligation to release publicly any revisions to any “forward looking statement” to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events, expect as may be required under applicable securities laws.

Competent Persons Statement
The information in this report that relates to Exploration Targets, Exploration Results or Mineral Resources is based on information compiled by Mr Mike Kammermann, a Competent Person who is a Member of The Australasian Institute of Geoscientists. Mr Kammermann is employed by Axis Consultants Ltd and has been engaged by Merlin Diamonds Ltd to prepare the documentation for the Mineral Resource estimates. Mr Kammermann has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Kammermann consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Ore Reserves is based on information compiled by Dr David Tyrwhitt, a Competent Person who is a Fellow of The Australasian Institute of Mining and Metallurgy. Dr Tyrwhitt is employed by DS Tyrwhitt & Associates and is a Director of Merlin Diamonds Ltd. Dr Tyrwhitt has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Dr Tyrwhitt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.
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