



27 November 2015

ASX ANNOUNCEMENT

Financing to fund recommencement of Merlin diamond mining operations

Merlin Diamonds Limited (ASX Code: **MED**) (Merlin or the Company) is pleased to announce that the Company proposes to raise up to \$10,000,000 through the issue unlisted debt notes (**Notes**) to wholesale investors. The financing is expected to provide adequate funding for the Company to recommence mining operations at the 100% owned Merlin diamond mine in the Northern Territory of Australia.

The decision to recommission the Merlin diamond mine follows the completion of a Mine Feasibility Study in 2014, and is supported by current and projected robust and stable diamond pricing and lower AU/US exchange rate, and the known probable ore reserve status supporting a 10+ year mining operation. Furthermore, ore reserve increases via open pit and underground mining; as well as exploration upside exists within the Company's portfolio of tenements to extend the current planned mine life.

Proceeds from the Notes offer will support refurbishment and commissioning of the Merlin processing plant, capital works and installation of the mechanical grab mining process and supporting infrastructure, recruitment of key project personnel and provide general working capital.

Based on the mine development plan, the Company expects to complete refurbishment and recommission the Merlin processing plant in Q3 FY16, with first ore to be processed from the Kaye open-pit following cessation of the wet season (expected to be concluded by March 2016).

Merlin will seek to raise a minimum of \$7,000,000 under the Note Offer from institutional and wholesale investors, with the capacity to accept oversubscriptions up to an additional \$3,000,000. The Notes will carry a 10.0% coupon rate and noteholders will have the right to convert into ordinary shares at \$0.05 within the first 12 months of issuance, and following the first anniversary, noteholders will have the right to convert into ordinary shares at the lesser of \$0.05 or the 10% discount to the 5 day VWAP immediately prior to conversion.

Merlin has received initial subscriptions under the Note Offer to the amount of \$500,000, and the Company and the noteholders have entered into a Secured Note Deed (**Note Deed**) and a General Security Deed (**Security Deed**). The Company expects to complete the minimum raise required under the Note Deed by the end of the current quarter.

Unlisted Secured Note Terms:

The Company will seek to raise a minimum of \$7,000,000 (and up to \$10,000,000) via the issue of Unlisted Secured Notes (the Notes) to wholesale investors. The Notes issued pursuant to the Note

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

Deed are governed by the terms of the Deed and in general the terms include (subject to the conditions of the Note Deed) the following:

- (a) Notes are to be secured by a charge over the assets of the Company;
- (b) Notes will have a face value of \$1.00 per Note;
- (c) Notes will mature in 3 years (if no earlier event of default) with a coupon rate of 10% per annum, payable half yearly in arrears;
- (d) The Noteholder will receive twenty (20) options for each \$1.00 Note issued (which equates to 10 million options). The options have an exercise price of \$0.05 each;
- (e) the Notes will also be convertible into Ordinary Shares at the election of the Noteholder;
- (f) When being converted, the Noteholder may convert all or part of the face value and/or the outstanding interest (as the case may be) at a price per ordinary share determined as follows:
 - (i) conversion within 12 months of the issue date, \$0.05 per ordinary share, and
 - (ii) conversion at any time on or after the expiry of 12 months of the issue date, at the lesser of \$0.05 or the price equal to the 5 day VWAP ending on the ASX trading day immediately preceding the date of the relevant conversion notice;
- (g) Notes must be repaid (together with unpaid interest at the higher rate) if there is an event of default;
- (h) The Company may by written notice at any time prior to the maturity date, but not until after the expiry of the initial period, redeem the outstanding Notes for payment of an amount equal to the aggregate of the principal outstanding plus interest accrued up to the date of redemption (provided the Company is not in breach of the terms of this Note), provided that the noteholder has 14 days from receipt of a redemption notice to elect to convert all or part of the Notes at the applicable conversion price instead of the Company redeeming the Notes for cash;
- (i) The Notes will not be listed or quoted on any recognised stock or securities exchange but on conversion of the Note (or any part thereof) the noteholder is to receive fully paid ordinary shares in the Company freely tradeable on the Australian Securities Exchange.
- (j) The noteholder has the right to transfer the Notes.
- (k) The conversion price and/or conversion number are adjusted in the case of corporate actions such as rights issues, bonus issues, issues of securities under share purchase plans, etc.

Application of funds:

The funds raised under the Note Deed will be used for development activities aimed at recommencing diamond mining operations initially at the Kaye kimberlite pipe via open pit mining, and for operational, exploration and working capital and otherwise as agreed with the Noteholder. Subsequent to Kaye open pit mining, commissioning of the mechanical clamshell grab and crane gantry system ('Mining Barge') is expected to occur at the Ywain kimberlite pipe by June 2016. The key activities to be conducted during the wet season will be:

- Tender of the fixed price contract for the fabrication of the crane gantry that will sit atop the mining barge from which the mechanical clamshell grab will operate. The final design is currently complete and the tender process can commence.
- Award of the contract for the fabrication and installation of the hydraulic power system that will power the grab.
- Award contracts for the hire/purchase of the clamshell grab and also for the installation and operation of the Mining Barge.
- Award other necessary contracts such as village management, catering, fuel supply etc.
- Sourcing key operational staff positions for the mine site.

Post the wet season (expected to be concluded by March 2016) the following activities are scheduled to take place:

- Kaye open pit to be dewatered, dried and prepared for mining by conventional open pit mining.
- Plant upgrade in the final recovery section of the diamond recovery plant. Dual pass x-ray sorters have been purchased for this purpose. The x-ray sorters were purchased through the Ellendale Diamond Mine auction conducted by the administrators of Kimberley Diamonds Ltd. The x-ray sorters are expected to increase efficiencies in diamond recovery and decrease operating costs. Transport and installation of these units will occur post wet season.
- Commissioning of the diamond recovery plant using ore mined from the Kaye open pit in April 2016.
- Commissioning of the Mining Barge at the Ywain kimberlite pipe by June 2016.

For further information on the Mine Plan and Ore Reserve please refer to the announcement 'Mechanical Clamshell Grab Mining Feasibility Study, Probable Ore Reserve Estimate and Mineral Resource Estimate Update – 30/09/2014' which can be found [here](#) on Merlin Diamonds website.

For further information please contact:

JOSEPH GUTNICK
 Executive Chairman
 Tel: +61 3 8532 2858