ANNUAL REPORT
Year 16
EXPLORATION LEASE EL10189
“TINTAGEL PROJECT”

Annual Report For The Period
23rd July 2017 to 22nd July 2018

Title Holder:  Merlin Operations Pty Ltd
Operator:  Merlin Diamonds Limited
Sheet Reference:  Bauhinia Downs 1:250,000 (SE53-03), Wallhallow 1:250,000 (SE53-07)

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TITLE PAGE FOR REPORT

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OPERATOR: Merlin Diamonds Limited
TENEMENT MANAGER: Axis Consultants Pty Ltd
TENEMENT: EL10189
PROJECT NAME: Tintagel Project

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1 ABSTRACT

This annual report outlines exploration activities undertaken by Merlin Diamonds Limited on Exploration Licence 10189 between the 23rd July 2017 and the 22nd July 2018. This period represents Year Sixteen of the Licence.

Exploration Licence 10189 is situated on the Bauhinia Downs (SE53-03) and Wallhallow (SE53-07) 1:250,000 map-sheets, and the Glyde and Lancewood 1:100,000 topographic map-sheets in the Batten Region of the Northern Territory. It is located around 100 kilometres south of Borroloola and is accessed via existing unsealed tracks leading south from the Merlin Mine or north from Kiana Station.

No field related exploration work was conducted during the reporting period on the Licence. This is due to the redirection of Company's technical and financial resources to modernise ore processing plant at the Merlin Mining Lease MLN1154. Merlin Mining Lease MLN1154 is located 13km north of the EL10189. It is anticipated that with the completion of current phase of development work on the mine, exploration work on the title will resume as planned.

A total of $5224.50 was expended against a covenant of $35,000 and a Variations of Conditions application was submitted to the Mineral Titles Division.
2 INTRODUCTION

This annual report outlines exploration activities undertaken by Merlin Diamonds Limited (MDL) on Exploration Licence 10189 between the 23rd July 2017 and the 22nd July 2018. This period represents Year Sixteen of the Licence. The target commodity for exploration within this lease is diamond.

Table 1 summarises the exploration work conducted on the Licence during the reporting period and Map 1 (Exploration Index Map) shows the tenement current status.

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3 LICENCE DETAILS

The EL10189 was granted on 23rd July 2002 to Ashton Mining Limited (a subsidiary of Rio Tinto Ltd) for a period of six years, and originally comprised 231 blocks. During 2003-2004, the tenement was transferred to Bulgurri Diamonds, a wholly owned subsidiary of the Striker Resources NL. On 22nd August 2005, Striker Resources NL changed its name to North Australian Diamonds Ltd. In 2013, North Australian Diamonds Ltd became Merlin Diamonds Limited.

The tenement has undergone three reductions since its grant: the first in 2012 when the area was reduced to 64 blocks, and then in 2014 when the area was further reduced to 45 blocks. More recent reduction in area occurred in July 2015 when additional 17 blocks were relinquished in conjunction with the latest renewal of the Licence. Map 1 shows the tenement area at 22nd July 2014 (64 blocks), the area relinquished on 23rd July 2014 (19 blocks), and the area relinquishment on 23rd July 2015 (further 17 blocks).

The Licence has been renewed for six times. Renewal in 2008, 2010 and 2012 was for a period of two years and in 2014 licence was renewed for a single year. A further renewal for two-year was sought in July 2015. On 21 July 2017 Merlin has submitted new renewal application seeking extension in title’s term for another two years. This application has been approved and the Licence now expires on 22 July 2019.
Current licence details for EL10189 are outlined in Table 2 below.

<table>
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<th>Project Name</th>
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<th>Grant Date</th>
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**TABLE 2: Licence Details for EL10189**

Map 1: Exploration Index Map

### 4 LOCATION AND ACCESS

Exploration Licence 10189 is situated on the Bauhinia Downs (SE53-03) and Wallhallow (SE53-07) 1:250,000 map-sheets. It is located around 100 kilometres south of Borroloola, a nearest population centre. The tenement may be accessed via existing unsealed tracks leading south from the Merlin Mine or north from Kiana Station (Map 2). However, much of the area comprises heavily-incised Bukalara Sandstone outcrop and is only accessible by helicopter.

The Merlin Mine can be accessed via a 64km formed gravel access road from the Carpentaria Highway. The turn-off to Merlin is approximately six kilometres south-west of the McArthur River Mine turn-off, and 43 kilometres north-east from Cape Crawford.
Map 2 shows the tenement location.

Map 2 Project Location
5 GEOLOGY

The Licence is located within the geomorphic region referred to as the Bukalara Ranges that consists of highly dissected rocky plateau and ridges of resistant sediments. The southern portion of the area comprises a sand-covered plateau Map 3.

EL10189 is located within the north-east margin of the Neoproterozoic Georgina Basin overlying the south east portion of the Mesoproterozoic McArthur Basin. It lies to the north-east of the Cretaceous Dunmarra Basin. Neoproterozoic Bukalara Sandstone of the Georgina Basin outcrops over most of the EL. A narrow horst block of Mesoproterozoic Tawallah Group and Roper Group traverses the north-east margin of the EL. Cenozoic sands cover the Neoproterozoic sediments in the south. The Merlin kimberlite field is located just north of the licence.

5.1 REGIONAL GEOLOGY

The NNW-SSE trending Emu Fault Zone is a broad, major fault zone that passes though the west of the EL10189. Georgina Basin sediments, preserved from erosion, extend northwards as a broad belt around the fault zone. Numerous faults that are parallel to sub parallel of the Emu Fault Zone traverse the central and eastern portions of the EL. These faults define the margins of a horst block along the north-east margin of the licence. The NW-SE trending Calvert Fault, which intersects the Emu Fault Zone proximal to the Merlin kimberlite field, passes just to the north. A number of major and minor faults paralleling to the Calvert Fault pass through EL, one of which can be interpreted to extend out towards the Abner Range kimberlitic sandstone breccia pipes.

At the regional scale, the geology of EL10189 is essentially the same as the area to the north that hosts the Merlin kimberlite field. Structures that traverse the Merlin kimberlite field traverse EL10189. Within the licence, there is excellent potential for repetitions of the regional and local structural configurations that control the location of the Merlin kimberlites.
Map 3 shows the geological setting of the tenement.

5.2 GEOPHYSICAL FEATURES
Regional gravity data shows that the Merlin kimberlite field and the Abner Range kimberlitic breccia pipes are located along opposite margins (gradient) of a regional north-south trending gravity ridge. The Merlin field is also located over a major NE-SW trending gravity lineament (gradient) that intersects the north-south trending gravity ridge. The regional gravity patterns associated with the Merlin kimberlite field are applicable to EL10189 as well, given the scale of the data. The gravity data is mainly mapping deep-seated Proterozoic basement domains and structure, however the geological processes that influenced the gravity patterns, also influenced the surface geology and geomorphology. It is noticeable that prominent NW-SE trending gravity lineaments broadly parallel the major fault-controlled drainage patterns in the region.

Regional magnetics data shows the Merlin kimberlite field to be located along the eastern margin of the vast deep-seated magnetic high. The eastern margin of the magnetic high is terminated along the NNW-SSE trending Emu Fault Zone. A magnetic lineament associated with the Calvert Fault, which intersects the Emu Fault Zone near the Merlin kimberlite field, is also evident in the regional data. Traversing EL10189 is a number of NNW-SSE trending magnetic lineaments that parallel the Emu Fault Zone. The patterns suggest potential for
repetitions of the regional structural configuration evident for the Merlin kimberlite field.

Kimberlitic intrusions and diatremes in the McArthur Basin region are commonly located proximal to major geophysical domain contacts, probably mapping major, deep-seated structures. EL10189 contains much the same regional gravity and magnetic patterns and lineament trends that potentially represent favourable tectono-structural settings that control the locations of kimberlitic intrusions and diatreme breccia pipes in the McArthur Basin.

5.3 **KIMBERLITE PIPES**

Fourteen kimberlite pipes and two sandstone breccia pipes comprise the Merlin kimberlite field that is regionally located on the eastern shoulder of the Batten trough, some 6km east of the Emu Fault and on the projected trace of the northwest trending Calvert Fault. The twelve kimberlites discovered by the ADEJV, named Excalibur, Palomides, Sacramore, Launfal, Launfal North, Kay, Ywain, Gawain, Tristram, Gareth, Ector, Bedevere, and the two breccia pipes are preserved on a poorly-drained remnant Tertiary-aged land surface comprising sand and iron pisolites.

All of the pipes, including the two Emu pipes, have intruded the Neoproterozoic/lower Cambrian Bukalara sandstone, which is flat lying and unconformably overlies Proterozoic sediments in this area. Structurally the pipes are located on interpreted tension fractures spatially associated with the regional northwest trending Calvert Fault. Four discrete clusters of pipes are present in the field, which extends over an area of 10km by 5km. Within each cluster, the distances between the pipes varies from 100 to 400m, but in one instance, is 1,500m. The distance between the clusters is around three kilometres.

The Merlin Pipes, which are geochemically similar to the Aries kimberlite in the Kimberley region of Western Australia, represent the upper diatreme facies of the kimberlite system. The intrusions are dated at 360 Ma (Devonian), which coincides with the peak of the Alice Springs Orogeny, which affected most of central Australia.

Kimberlite is a class of volatile-rich (dominantly CO₂), potassic ultramafic igneous rocks, commonly exhibiting a distinctive inequigranular texture resulting from the presence of macrocrysts set in a fine-grained matrix. The macrocryst assemblage is dominated by rounded anhedral crystals of olivine (or its alteration products). Other common crystals are magnesium ilmenite, Cr-poor titanium pyrope, Cr-poor clinopyroxene, phlogopite, enstatite, and Ti-poor chromite. The matrix minerals include: second generation euhedral primary olivine and phlogopite, together with perovskite, Cr-spinel, diopside, monticellite, apatite, calcite, and primary to late stage serpentine.
The kimberlites encountered in the Merlin pipes comprise olivine-rich kimberlite and kimberlite breccia, and are a hybrid mixture of the parental magma, mantle xenoliths and xenocrysts (such as olivine and also diamond). They also incorporate country rock xenoliths, such Bukalara sandstone and Proterozoic sediments. The kimberlite is highly-weathered to approximately 100m below surface.

A characteristic feature of the Merlin kimberlites, with the exception of the two Emu pipes, is that the pipe structures are corked by fossiliferous, Cretaceous-aged, mudstone/sandstone sedimentary in-fill sequences that can be up to 42 metres thick. Due to the planar nature of the Merlin plateau and the widespread distribution of iron pisolites and sand, the sedimentary rocks infilling the pipes are not distinguishable at the surface. Where they have been exposed in sample pits, commonly they are not easily distinguished from the surrounding sandstone country rocks.

6 PREVIOUS EXPLORATION

The Licence has been subjected to mineral exploration since the 1960's when the Carpentaria Exploration Company explored for base metals. Historic diamond exploration, including airborne geophysics and ground exploration, was undertaken by CRA during the 1980’s and Ashton Mining during the 1990’s.

EL10189 was granted on 23rd July 2002 to Ashton Mining which commenced the recent stage of exploration on the tenement. Striker Resources acquired 100% interest in the licence in September 2003 and transferred the interest to its wholly owned subsidiary company Bulgurri Diamonds. Striker Resources has changed its name to North Australian Diamonds Ltd (NAD). Subsequently NAD was renamed to Merlin Diamonds Limited. Licence, therefore, has been explored under various companies name.

6.1 EXPLORATION PRIOR TO 2002

- In 2000, Ashton Mining collected a 50 ton bulk gravel sample that recovered 75 macrodiamonds and 142 chromites.
- In 2000, Ashton Mining completed an airborne magnetic/radiometric survey at 100m line spacing.
- In December 2000, Rio Tinto taken-over of Ashton Mining.
- In 2001, RTE collected six 500kg gravel samples to follow up the 75 macrodiamonds sample. No diamonds were recovered. 20 chromites at 75 macrodiamonds sample and low numbers recovered elsewhere.
• RTE completed a Hummingbird electromagnetic survey, totalling 6,200 line kilometres at 100m line spacing and also reviewed year 2000 Ashton airborne magnetic data. Numerous anomalies including high priority target HUM07 were identified and followed up with loam and soil geochemical samples, and ground geophysics.

6.2 Year One – 2002 to 2003
• Licence granted to Ashton Mining on 23rd July 2002.
• Rio Tinto decide to close Merlin Diamond Mine and commencement negotiations to divest surrounding exploration Licences.
• No field work completed by RTE due to divestment of Licence.

6.3 Year Two – 2003 to 2004
• Signing of ‘Letter of Intent’ with Rio Tinto Limited subsidiary Ashton Mining.
• Licence transferred to Merlin Diamonds Limited subsidiary Bulgurri Diamonds.
• Heritage clearance undertaken and Mine Management Plan approved.

6.4 Year Three – 2004 to 2005
• Four RC drill holes (TND-001 to TND-004) and two diamond drill holes (TND-005 and TND-006) were completed for a total of 628 metres to test geophysical anomaly HUM07. No kimberlite was intersected and the anomaly was interpreted to be a sinkhole infilled with Cretaceous sediments.
• Seven drill spoil samples (04-038-001 to 04-038-007) were collected for mineralogical analysis and seven samples (04-038-008 to 04-038-014) were collected for geochemical analysis.
• A morphological assessment of the alluvial diamonds recovered by Ashton Mining in 2000 was undertaken to determine whether the diamonds may be shedding from a primary or secondary source. The report concluded that 62% of the alluvial diamonds are considered to be from a primary source of which 43% have not undergone significant travel.
• Nineteen indicator samples were collected that returned 4 chromites (05-018-002), 4 microdiamonds (05-018-016), 1 microdiamond (05-018-020), and 1 microdiamond (05-018-024).
• The four microdiamond sample (05-018-016) was collected over an airborne magnetic anomaly MAG03T (also referred to as GTINHEM06) that RTE had previously recovered 1 chromite in a loam sample.
• Eighty-four soil geochemical samples were collected and analysed that returned no high priority anomalies.
6.5 **YEAR FOUR – 2005 TO 2006**

- Four sampling programs were undertaken.
- Four stream samples (05-040-001 to 05-040-004) collected that returned one chromite (05-040-003) and a Nb-rutile (05-040-001).
- Three additional stream samples (05-050-001 to 05-050-003) collected that returned a total of five chromites.
- Seven loam samples (05-051-001 to 05-051-007) that returned three microdiamonds (05-051-001) from a check sample at historic sample 05-018-016 that returned four microdiamonds.
- Fifteen stream gravel samples (06-002-001 to 096-002-015) were collected in tributaries draining a plateau that recovered one chromite (06-002-008) and one microdiamond (06-002-014).

6.6 **YEAR FIVE – 2006 TO 2007**

- Mineral chemistry was obtained from recovered chromites that drain the plateau that is host to MAG03T.
- The figure below shows the mineral chemistry of one chromite collected in the Rio Tinto loam sample (6160780) taken over magnetic anomaly MAG03T, and of four chromites recovered in adjacent drainage samples (05050-002 and 05050-003). Two loam samples collected over this anomaly have also recovered a total of seven microdiamonds.
- The mineral chemistry plot of these chromites shows a mantle trend that could be indicative of a primary kimberlite source.

6.7 **YEAR SIX – 2007 TO 2008**

- Soil geochemical traverse comprising eleven samples (07-005-001 to 07-005-011) and one fracture sample (07-005-012) was completed over anomaly MAG03T that identified anomalous geochemical response.
- Ground magnetic survey completed over MAG03T that identified magnetic anomaly.
• Ground electro-magnetic (EM34) survey completed over MAG03T that identified a small conductive anomaly associated with surficial sand cover.
• Three loam samples (07-009-001 to 07-009-003) collected at MAG03T. Samples were processed and did not recover chromites or diamonds.
• Potential for uranium mineralization was assessed by internal staff and external consultants.
• On 18th September 2007 NADL granted Top End Uranium Limited (TEUL) the right of access to the land covered by the Licence for the purpose of exploring for, mining and processing minerals other than diamonds.
• Desktop study completed by Jigsaw Geoscience in April 2008 identified four priority targets for potential uranium mineralization. These targets occur within outcropping McArthur Basin sediments and are suitable for initial surface exploration methods.
• The four targets identified by Jigsaw Geoscience as prospective for potential uranium mineralisation were field inspected by TEUL consulting geologist. The field activities were helicopter supported from Merlin Diamond Mine.
• An Application for Exploration Licence Renewal was submitted to DPIFM on 30th April 2008. The Licence renewal for a two year period was subsequently granted to Merlin Diamonds Pty Ltd on 31st July 2008.

6.8 Year Seven – 2008 to 2009

• An inspection was conducted in June to assess the anomalous zones evidenced in the McArthur South/Puzzle Creek project area with particular regard to the uranium potential, as well as for base and precious metals of McArthur lead-zinc-silver Sedex deposit (HYC) type.
• The inspection found that the potential for base metals type of mineralisation was encouraging with further work planned for the target.
• With regards to uranium, the potential for the area, particularly for Westmoreland type, required more detailed field work aimed at delineating the structural continuation of the Seigal Volcanics and Westmoreland Conglomerate (U host formation), which unconformably overlie the Clifdale Volcanics and the Murphy Metamorphics, into TEU’s tenement holdings.
• The Report for the Jigsaw Target was released outlining these findings.

6.9 Year Eight – 2009 to 2010

• Field work during the reporting period included the collection of various stream zircon, loam, stream, a mini-bulk sample and geochemical samples.
• Six stream samples were collected and sent to CSIRO for analysis. Ten zircon grains were analysed from each sample. Results indicated the presence of two young zircons in one sample (ages 42 and 49 Ma) and one young zircon (30 Ma) in another. The remaining sample had only older ages in the 350-1250 Ma range.
• A small indicator mineral sampling program was conducted to identify further targets for a diamond exploration program. Targets were based on positive Ashton samples.
• Stream sediment samples on the NAD tenement, plus recent positive results from sampling on the adjoining Legend tenement to the west, lead to nine loam and five stream samples being collected on the tenement and sent to the company's wholly-owned processing laboratory in Wangara.

• One mini bulk sample consisting of stream gravels was collected from the Tintagel area.

• An Application for Exploration Licence Renewal was submitted to DME on 23rd April 2010. The Licence renewal for a two year period was subsequently granted to Merlin Diamonds Pty Ltd on 24th March 2011.

6.10 Year Nine – 2010 to 2011

• Field work undertaken during the reporting period involved the collection of one loam sample.

• The sample was submitted to the company laboratory in Wangara for heavy mineral analysis. The results were negative.

6.11 Year Ten – 2011 to 2012

• During the 2011-2012 reporting period two sampling programs were undertaken with nine stream gravel samples collected. The samples were collected to follow up the macrodiamonds recovered in historic samples.

• Each sample site comprised 25 bags of -2mm material, which equates to approximately 500kg per sample.

• After processing at the company's laboratory in Wangara, all 9 samples returned positive results, with a total of 76 chromite grains being observed in the samples. Although chromites were recovered the results were not able to isolate a discrete source e.g. kimberlite intrusive. The source of the macrodiamonds remains unknown and it may be that they are from a distal source off-tenement.

• An Application for Exploration Licence Renewal was submitted to DME on 22nd June 2012. The Licence renewal for a two year period was subsequently granted to Merlin Diamonds Pty Ltd on 11th February 2013.

6.12 Year Eleven – 2012 to 2013

• In July 2012, the Licence underwent a significant area reduction from 231 blocks to 64 blocks, with 167 blocks being relinquished.

• No field work was undertaken during this reporting period as the Company’s finances and resources were re-directed to operations at the Merlin Mining Lease ML1154.

6.13 Year Twelve – 2013 to 2014

• Field work and reporting for submission and acceptance of the EL10189 MMP Closure Report.
• Preparation of fourth renewal application that was submitted July 2014 – a one-year extension of the Licence was granted 4th December 2014.

• Selection and field inspection of proposed bulk sample sites, however, the planned bulk sampling program was not undertaken due to Company resources being redirected to the Merlin Mine operations.

• The Licence underwent a significant area reduction in July 2014, with 19 blocks being relinquished. The tenement now comprises 45 blocks covering an area of 141km².

6.14 Year Thirteen – 2014 to 2015

• Compilation of current and the historical diamond indicator mineral data and critical assessment of Licence’s prospectivity to host a kimberlite pipe or alluvial diamond resource.

• This study suggested that the source of trail of macro-diamonds and kimberlitic chromites may lie in the southern portion of the Licence which is less incised and has areas covered with Cainozoic sediments. The southern portion of the Licence also hosts two discrete fractures identified from Google Earth map in 2012. The significance of these fractures with regard to the distribution of indicator minerals in the Licence area is unknown. These fractures will be field investigated to determine any occurrence of kimberlitic pipe within them.

• Further reduction in Licence area was conducted in July 2015, when 17 blocks were submitted for relinquishment. All relinquished blocks were located in the northern portion of the Licence which is considered less prospective for hosting kimberlite pipe. The tenement now comprises 28 blocks covering an area of ~92km².

• Preparation of renewal application that was submitted in July 2015 – approval of extension in title’s term was granted on 4th February 2016.

6.15 Year Fourteen – 2015 to 2016

• No field related exploration activity was conducted during the reporting period on the Licence. This is due to the redirection of Company’s technical and financial resources to recommence commercial-scale mining operation at the Merlin Mining Lease MLN1154. It is anticipated that with the completion of development work on the mine and resumption of production, exploration work on the title will commence as planned.
Map 4 Summary of indicator mineral sample results from Tintagel Project
6.16 YEAR FIFTEEN – 2016 TO 2017

- During 2016-2017, Company continued its development work at the Merlin Mine. The processing plant at the mine was rapidly refurbished leading to the recommencement of production. During this time all of the Company's technical and financial resources were directed towards achieving this goal. Therefore, no field based exploration activity was conducted on the Licence.

7 EXPLORATION COMPLETED DURING 2017-2018

Current phase of development work on the Merlin Mine that aimed to make ore processing operation efficient and can also deliver higher value large size diamonds continued during 2017-2018. Merlin Operations has installed TOMRA XRT diamond recovery system that has replaced the conventional concentration and recovery process of DMS plant and Flowsort X-Ray unit. As a result, Company's technical and financial resources were directed towards Merlin Project. The proposed exploration programme on the title was delayed. Company, however, completed annual review of the project by examining all available exploration data to reassess the area's potential to host a kimberlite pipe or alluvial diamond resource.

During the next year, Merlin Operations anticipates it will in a position to advance the project and implement previously planned exploration program.

8 EXPENDITURE STATEMENT

Exploration expenditure for the 2017-2018 reporting period was $5224.50 which was less than the covenant of $35,000. Variations of Conditions application was submitted to the Mineral Titles Division.

9 PROPOSED EXPENDITURE AND WORK PROGRAM

During next year (2018-2019) previously proposed three-pronged approach designed to identify likely primary source of diamonds and chromites that are distributed within the tenement will be implemented.

Proposed exploration activities for Year Seventeen include:

- Indicator mineral sampling
- On-ground mapping to investigate potential for Cretaceous gravel outcrops within the
catchment as likely source of recovered diamonds and chromites.

- A geomorphologic desktop study to determine if the diamonds can be attributed to dispersion from Merlin, or whether the drainage has consistently been from south to north. Field mapping will assist with this study.

The proposed budget for the 2018-2019 reporting period is summarised below:

- Geologist support (sampling and field mapping) $15,000
- Indicator Mineral processing $10,000
- Geomorphology Study $5,000
- Administration and reporting $5,000

**TOTAL** $35,000
10 REFERENCES


- Pietsch, BA; Rawlings DJ; Creaser, PM; Kruse, PD; Ahmad, M; Ferenczi, PA;


