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Merlin Diamonds Limited

ACN 009 153 119

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Merlin Diamonds Limited
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Merlin Diamonds Limited
Chairman's Report

Dear Shareholder

The Company's key project is our Merlin Diamond Mine Project located in the Northern Territory of Australia.

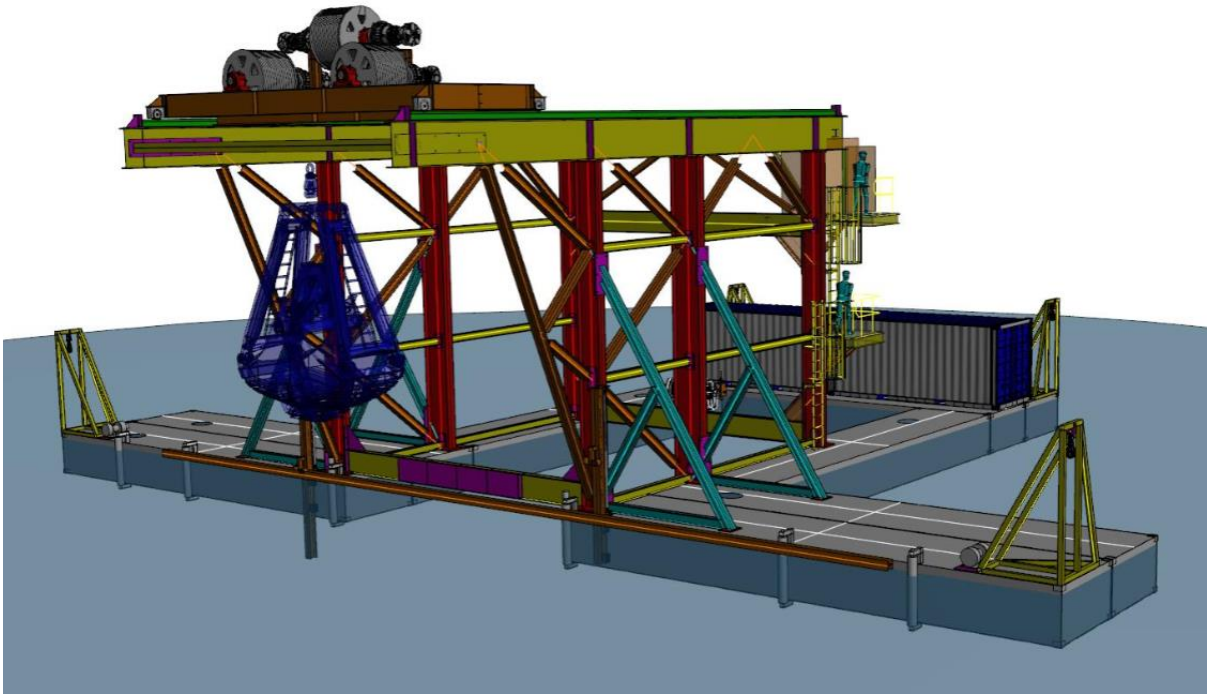
Merlin Diamond Mine Project

Background

The Merlin diamond mine project is located some 100km south of the settlement of Borroloola in the Northern Territory and comprises 13 kimberlite pipes. Since 1998, nine of the Merlin pipes have been subject to open-pit mining over a 5 year period. These previous mining operations produced 507,000 carats of high quality diamonds. This included Australia's largest diamond at 104.73cts. In 2004, North Australian Diamonds Ltd acquired the project from the Rio Tinto parties and current management took control in 2008.

Merlin Diamond Mine - Mechanical Clamshell Grab Mining

The final structural design of the crane gantry frame for the Mining Barge has been completed and tenders for construction of the Mining Barge are currently being reviewed.



The Mining Barge Design

Mineral Resources and Ore Reserves

Merlin's Mineral Resource and Ore Reserve estimates were last updated 30 September 2014. For a full description of these estimates, including material changes since the last estimates and Table 1 of the 2012 JORC Code please see Merlin;'s announcement of 30 September 2014 on Merlins website titled "*Mechanical Clamshell Grab Mining Feasibility Study, Probable Ore Reserve Estimate and Mineral Resource Estimate Update*". Please click here for the link.

The combined Mineral Resource and Ore Reserve estimates for all of the diamond pipes at the Merlin Mine is 27.8 million tonnes at 16 carats per hundred tonnes representing a total contained 4.35 million carats.

Probable Ore Reserve Estimate

The combined Probable Ore Reserve for all diamond pipes at the Merlin diamond mine is 4.04 million tonnes for an average grade of 15 carats per hundred tonnes (cpht) representing a total contained 0.61 million carats. The Probable Ore Reserve has been estimated on mechanical clamshell mining methods and is the result of a completed feasibility study discussed below.

PROBABLE ORE RESERVE SUMMARY @ +5DTC lower cutoff					
PIPE	VOLUME (Mbcm)	DENSITY (t/m³)	PROBABLE ORE RESERVE (Mt)	GRADE (cpht)	RESERVE (Mcts)
Ywain	0.03	2.1	0.06	58	0.03
Gawain	0.13	2.1	0.27	32	0.08
Excalibur	0.12	2.0	0.25	31	0.08
Palomides	0.17	2.3	0.39	17	0.07
Launfal	0.05	2.4	0.13	14	0.02
Gareth	0.04	2.1	0.08	19	0.02
Kaye	0.58	1.8	1.04	12	0.13
Ector	0.90	2.0	1.83	10	0.19
TOTAL	**2.02**	**2.0**	**4.04**	**15**	**0.61**

Mbcm = million bank cubic metres, t/m^3 = tonnes per cubic metre, Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.

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.

These Ore Reserves are stated as at 30 September 2014 and are defined as ore delivered to the processing plant.

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.

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Inferred and Indicated Mineral Resource Estimates

The combined Indicated and Inferred Mineral Resource for all diamond pipes at the Merlin diamond mine is 27.8 million tonnes for an average grade of 16 cpht representing a total contained 4.35 million carats.

MINERAL RESOURCE SUMMARY 2014 @ +5DTC lower cut-off					
PIPE	INDICATED RESOURCE (Mt)	INFERRED RESOURCE (Mt)	TOTAL RESOURCE (Mt)	GRADE (cpht)	RESOURCE (Mcts)
Ywain[2]	0.07	0.07	0.14	60	0.08
Gawain[2]	0.99	0.60	1.59	31	0.49
Excalibur[1]	0.35	0.23	0.58	29	0.17
Launfal/Launfal North[1]	1.46	1.48	2.94	14	0.40
Palomides/Sacramore[1]	7.24	6.42	13.66	17	2.30
Tristram[2,3]	0.00	0.61	0.61	6	0.04
Kaye[2]	1.11	1.74	2.85	10	0.29
Ector[1]	2.04	2.81	4.85	9	0.46
Gareth[1]	0.12	0.06	0.18	18	0.03
Bedevere[1,3]		0.40	0.40	22	0.09
	13.4	14.4	**27.8**	**16**	**4.35**

[1]*Resource grade based on previous mining operation recovery using a +0.95mm slotted bottom screen and reported at +5DTC cut-off*
[2]*Resource grade based on bulk sample testwork using a +0.8mm slotted bottom screen and reported at +5DTC cut-off*
[3]*Insufficient 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.

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 was employed by Axis Consultants Pty 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.

EXPLORATION OVERVIEW

Merlin Mining Lease (ML1154) and near Mine

No exploration work was undertaken this quarter.

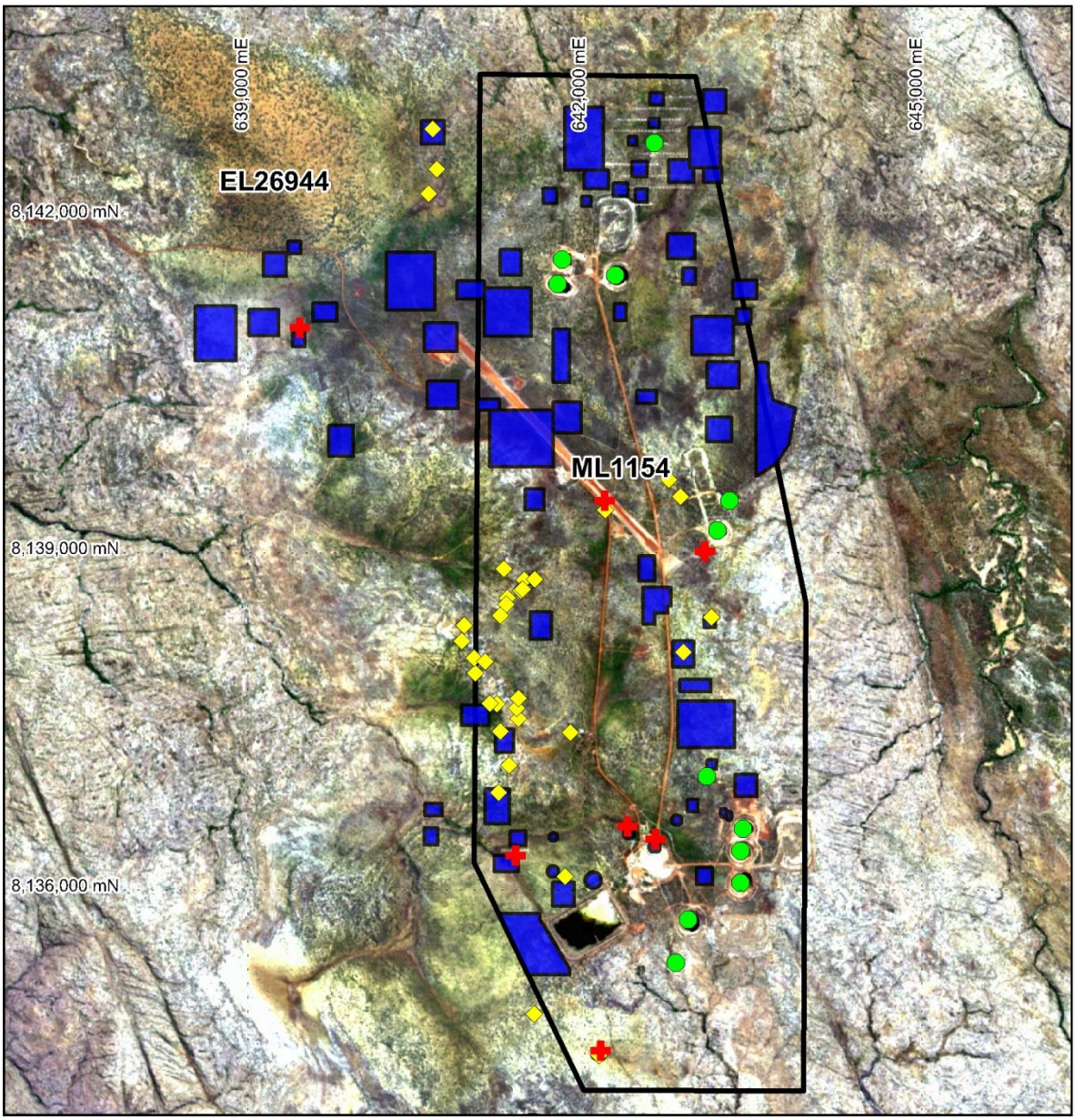
Summary of Previous Work

Review of all available historical data was completed in early 2014 with the identification of seventy-four new target areas that require further investigation. Seven of these targets are ready for immediate drilling (Figure 1). During 2013 the Company's field personnel completed an extensive heavy mineral sampling program on ML1154 and EL26944 targeting areas where sampling density was considered insufficient. Kimberlitic chromites have been recovered from a number of these samples in an area where no known kimberlites occur

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(Figure 1). This area has been poorly explored in the past relative to other parts of the mining lease and these results are highly encouraging. High resolution ground electromagnetic surveying will be undertaken to define drilling targets.

Figure 1 Merlin Mine Lease Exploration



Borroloola Alluvial Diamond Project

The company has decided to focus resources on development of the primary mining project at the Merlin Diamond Mine and high priority exploration targets within and immediately surrounding the Mine Lease and will therefore reduce its current exploration portfolio. The Borroloola Project was reviewed during the quarter

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and was assessed as being a non-core exploration asset and therefore this project, consisting of EL24512 and EL24082, has been relinquished.

Arnhem Land Exploration

The Company's Arnhem Land project consists of 1 granted exploration licence (EL26206). Numerous exploration licences are currently at the application stage and are held by Merlin Diamonds either outright or under joint venture agreements with other parties.

The licences are located on the North Australian Craton (**NAC**), which is a geologically stable block favourable for kimberlite emplacement. The NAC hosts the Merlin kimberlite field, the Abner Range kimberlite and breccia pipes, and the Roper River and Timber Creek kimberlites.

The majority of the licence applications fall on land controlled by the Arnhem Land Aboriginal Land Trust. Merlin has farmed out the non-diamond rights for the majority of the licence applications to Top End Minerals Limited (Top End). Top End is responsible for negotiations with the Northern Land Council and progress of the licences to grant and to obtain early ground access, Top End has submitted Preliminary Exploration Permit applications to the Northern Land Council, which allow activities such as geological mapping, surface sampling and ground geophysics. These activities will enable Top End to make an early assessment of the prospectivity of some applications and whether to prioritise these for negotiations with the Northern Land Council.

WESTERN AUSTRALIAN PROJECTS

Kimberley Diamond Projects

The Company holds three mining licences (M80/492, M80/26 and M80/532) in the Kimberley region of Western Australia. The licences host a number of diamondiferous kimberlite pipes, which the Company has previously evaluated to identify a JORC Compliant Inferred Resource of 869,000 carats. The Company continues to hold the mining licences as they retain commercial potential. The information in the table below was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

	Inferred Infill Resource	Inferred Kimberlite Resource	Total Inferred Resource	Grade (cpht)	Carats (Kcts)
Kimberley Projects	tonnes	tonnes	tonnes		
Ashmore 1	305,000	868,000	1,173,000	3.67	43,000
Ashmore 2	262,000	771,000	1,033,000	6.00	62,000
Ashmore 3	108,000	243,000	351,000	3.42	12,000
Ashmore 4	58,000	100,000	158,000	13.29	21,000
Seppelt 1	214,000	1,101,000	1,315,000	25.9	341,000
Seppelt 2	27,000	146,000	173,000	225	390,000
TOTAL	**975,000**	**3,232,000**	**4,207,000**	**21**	**869,000**

[1]*Resource grade based recovery using a +0.75 mm square mesh bottom screen and a +0.95mm cut-off.*

J. I. Gutnick

Joseph Gutnick
Executive Chairman and Managing Director

The information in this report that relates to exploration results 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 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 2004 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.

The Directors present their report on Merlin Diamonds Limited (the 'Company') for the half year ended 31 December 2015.

Directors

The Directors of the Company at any time during or since the end of the interim period are:

J I Gutnick	Executive Chairman and Managing Director
H Herzog	Non-Executive Director
D S Tyrwhitt	Non-Executive Director

Review and Results of Operations

During the six month period ending 31 December 2015, the Company progressed the recommencement of operations at the Merlin diamond mine which was the priority during the period.

The results of operations for the six months ended 31 December 2015 was a loss of $2,053,312 (2014: $3,928,431). Employee benefits expense for the half year was $435,747 (2014: $883,884) as a result of cost saving activities put in place during the period until mining operations at Merlin recommence; consultancy fees of $852,181 (2014: $133,100) primarily related to the diamond operations; lease rental expenses $115,178 (2014: $157,514) reduced as a result of the reduction of office space, professional fees decreased to $94,441 (2014: $125,759), depreciation was $11,088 (2014: $47,061), travel costs increased to $21,620 (2014: $11,429), impairment of other receivable was $nil (2014:$1,824,839), an increase in other expenses to $273,437 (2014:$523,882), a loss was incurred on the disposal of trading securities of $370,800 (2014: $nil) and exploration expensed amounted to $256,362 (2014: $417,836). Revenue for the six months ended 31 December 2015 was $403,952 (2014: $289,358) from interest generated on loans to other entities.

At 31 December 2015, the Company had cash at bank of $14,911 (2014: $115,940).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 15th day of March 2016

J. I. Gutnick

JI Gutnick
Executive Chairman and Managing Director

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DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF MERLIN DIAMONDS LIMITED

As lead auditor for the review of Merlin Diamonds Limited for the half-year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Merlin Diamonds Limited and the entities it controlled during the period.



David Garvey
Partner

BDO East Coast Partnership

Melbourne, 15 March 2016

BDO East Coast Partnership ABN 83 236 985 726 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO East Coast Partnership and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation, other than for the acts or omissions of financial services licensees.

Merlin Diamonds Limited
Statement of Profit or Loss and Other Comprehensive Income
for the half year ended 31 December 2015

	Note	Consolidated 31 December 2015 $	Consolidated 31 December 2014 $
Revenue	2	403,952	289,358
Other income	3	7,055	4,235
Employee benefits expense		(435,747)	(883,884)
Consultancy fees		(852,181)	(133,100)
Insurance expenses		(25,197)	(18,884)
Lease rental expenses		(115,178)	(157,514)
Professional fees		(94,441)	(125,759)
Travel expenses		(21,620)	(11,429)
Depreciation expenses		(11,088)	(47,061)
Exploration expensed		(256,362)	(417,836)
Net loss on disposal of plant and equipment		-	(669)
Impairment of other receivable		-	(1,824,839)
Loss on disposal of trading securities		(370,800)	-
Impairment of investment in associate		-	(37,652)
Other expenses		(273,437)	(523,882)
Finance expense	4	(8,268)	(33,543)
Loss from continuing operations		**(2,053,312)**	**(3,922,459)**
Share of (loss) gain of equity accounted investee (net of income tax)		**-**	**(5,972)**
Loss before income tax		**(2,053,312)**	**(3,928,431)**
Income tax expense		**-**	**-**
Loss for the period		**(2,053,312)**	**(3,928,431)**
Other comprehensive income for the period, net of income tax		**-**	**-**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1,856)**	**(85,532)**
Total comprehensive loss for the period		**(2,055,168)**	**(4,010,963)**
Loss attributable to members of Merlin Diamonds Limited		**(2,053,312)**	**(3,928,431)**
Total comprehensive loss attributable to members of Merlin Diamonds Limited		**(2,055,168)**	**(4,010,963)**
Basic loss per share (cents per share)		**(0.47)**	**(1.44)**
Diluted loss per share (cents per share)		**(0.47)**	**(1.44)**

The accompanying notes form part of these half year financial statements.

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Merlin Diamonds Limited
Statement of Financial Position
as at 31 December 2015

	Note	Consolidated 31 December 2015 $	Consolidated 30 June 2015 $
Assets			
Current assets			
Cash and cash equivalents		14,911	115,940
Trade and other receivables		1,189,789	66,318
Inventories		16,225	3,997
Total current assets		**1,220,925**	**186,255**
Non-current assets			
Other receivables		789,771	793,821
Plant and equipment		3,963,898	4,281,887
Trading securities		-	654,353
Development expenditure	5	9,277,475	8,436,680
Total non-current assets		**14,031,144**	**14,166,741**
Total assets		**15,252,069**	**14,352,996**
Liabilities			
Current liabilities			
Trade and other payables		4,011,580	2,615,355
Borrowings	6	1,044,209	90,500
Provisions		54,224	67,138
Total current liabilities		**5,110,013**	**2,772,993**
Non-current liabilities			
Provisions		1,211,136	1,241,551
Total non-current liabilities		**1,211,136**	**1,241,551**
Total liabilities		**6,321,149**	**4,014,544**
Net assets		**8,930,920**	**10,338,452**
Equity			
Issued capital	7	143,585,841	142,991,154
Reserves		816,509	763,560
Accumulated losses		(135,471,430)	(133,416,262)
Total equity		**8,930,920**	**10,338,452**

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The accompanying notes form part of these half year financial statements.

Merlin Diamonds Limited
Statement of Changes in Equity
for the half year ended 31 December 2015

Consolidated	Issued capital $	Options reserve $	Equity settled incentive options reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2014	**132,034,367**	**-**	**538,453**	**(124,451,103)**	**8,121,717**
Loss for the period	-	-	-	(3,928,431)	(3,928,431)
Other comprehensive loss for the period, net of tax	-	-	-	(82,532)	(82,532)
Total comprehensive loss for the period, net of tax	-	-	-	(4,010,963)	(4,010,963)
Transactions with owners, recorded directly in equity					
Employee incentive option scheme	-	-	212,182	-	212,182
Issue of shares	7,953,000	-	-	-	7,953,000
Transaction costs arising on share issues	(85,987)	-	-	-	(85,987)
Total transactions with owners	7,867,013	-	212,182	-	8,079,195
Balance at 31 December 2014	**139,901,380**	**-**	**750,635**	**(128,462,066)**	**12,189,949**
Balance at 1 July 2015	**142,991,154**	**-**	**763,560**	**(133,416,262)**	**10,338,452**
Loss for the period	-	-	-	(2,053,312)	(2,053,312)
Other comprehensive loss for the period, net of tax	-	-	-	(1,856)	(1,856)
Total comprehensive loss for the period, net of tax	-	-	-	(2,055,168)	(2,055,168)
Transactions with owners, recorded directly in equity					
Issue of options	-	52,949	-	-	52,949
Employee incentive option scheme	-	-	-	-	-
Issue of shares	600,000	-	-	-	600,000
Transaction costs arising on share issues	(5,313)	-	-	-	(5,313)
Total transactions with owners	594,687	52,949	-	-	647,636
Balance at 31 December 2015	**143,585,841**	**52,949**	**763,560**	**(135,471,430)**	**8,930,920**

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The accompanying notes form part of these half year financial statements.

Merlin Diamonds Limited
Statement of Cash Flows
for the half year ended 31 December 2015

	Consolidated	
	31 December 2015 $	**31 December 2014 $**
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	-	8,813
Payments to suppliers and employees (inclusive of GST)	(561,309)	(1,920,873)
Payments for exploration expenditure	(77,168)	(62,718)
Interest received	111	9,487
Net cash used in operating activities	**(638,366)**	**(1,965,291)**
Cash flows from investing activities		
Receipt for disposal of trading securities	283,554	-
Receipt for disposal of plant and equipment	-	179,361
Payments for development expenditure	(706,635)	(2,183,450)
Receipt of security deposits	-	277,587
Payment to other entity	(152,722)	(2,655,698)
Repayment by other entity	54,026	779,249
Net cash used in investing activities	**(521,777)**	**(3,602,951)**
Cash flows from financing activities		
Payment of finance lease liabilities	-	(33,613)
Loan	-	750,000
Loan from other entities	54,927	2,624,871
Loan from Director	-	74,000
Proceeds from issue of equity securities	600,000	4,954,216
Proceeds from issue of convertible note	500,000	-
Repayment of loan to other entity	-	(2,584,216)
Repayment of loan to Director	(90,500)	(74,000)
Equity securities issue transaction costs	(5,313)	(85,987)
Net cash provided by financing activities	**1,059,114**	**5,625,271**
Net decrease in cash and cash equivalents	(101,029)	57,029
Cash and cash equivalents at 1 July	115,940	209,897
Cash and cash equivalents at 31 December	**14,911**	**266,926**

The accompanying notes form part of these half year financial statements.

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1. Basis of preparation

Merlin Diamonds Limited (the 'Company'), is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the half year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the 'Group'). These interim financial statements were approved by the directors on 15 March 2016.

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards (AASBs) including AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

Except as described below, these interim financial statements have been prepared by a for profit entity on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2015 annual financial statements contained within the Annual Report of the Group.

The half year financial report does not include notes of the type normally included in the annual financial report and shall be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

Going Concern

The Company has incurred a loss of $2,053,312 in the half- year to 31 December 2015, had net cash operating outflow of $638,366 for the half-year ended 31 December 2015 and has negative working capital of $3,889,088 at 31 December 2015. In order to continue as a going concern, the Company will be required to raise further capital or obtain loan funding to meet its commitments and ongoing management support to be provided by AXIS Consultants Pty Ltd. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. In considering whether the Company is a going concern, the Directors note that an equity raising to raise funds for its operational needs is planned; since balance date, $616,000 has been repaid by an other entity and the feasibility study prepared for the planned recommencement of mining operations at the Merlin diamond mine has a net present value of $102,200,000 (using an 8% discount factor) and free cash of $132,900,000 over the life of the mine with a maximum working capital cash requirement of $4,230,000 to recommence operations. The Directors are confident of raising the required capital or obtaining the necessary loan funding, and receiving ongoing management support from AXIS Consultants Pty Ltd,. The Directors believe the going concern basis to be appropriate for the reasons referred to previously. Based on the forecaste cashflows of the Company, the Directors are satisfied that adequate plans are in place and that the Company will be able to raise sufficient cash for a minimum of 12 months from the date of signature of the financial report. Should the Company be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Company be unable to continue as a going concern.

Historical cost convention:

The half-year financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

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Critical accounting judgements and key sources of estimation uncertainty:

Management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The Group makes certain estimates and assumptions concerning the future. Estimates and assumptions have been utilised for the impairment testing of exploration assets. Actual results may differ from estimates. By their nature, these estimates incorporate inherent risks as they are based on future events which could have a material impact on the value of assets and liabilities in this financial year.

(a) Change in accounting policy

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The Group has reviewed the impact of these Standards and Interpretations and are continuing to assess where they will have a significant effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments

2. Revenue

	Consolidated	
	31 December 2015	**31 December 2014**
	$	**$**
Provision of laboratory services	-	4,578
Interest income	256	4,550
Interest income – other entity	403,696	280,230
Total revenue	**403,952**	**289,358**

3. Other income

	Consolidated	
	31 December 2015	**31 December 2014**
	$	**$**
Fuel tax credits	7,055	2,635
Asset usage	-	1,600
	7,055	**4,235**

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4. Finance expense

	Consolidated	
	31 December 2015	**31 December 2014**
	$	**$**
Bank charges	(647)	(1,124)
Borrowing costs	(7,621)	(32,419)
Total finance expense	**(8,268)**	**(33,543)**

5. Development expenditure

	Consolidated	
	31 December 2015	**30 June 2015**
	$	**$**
Balance at beginning of period	8,436,680	11,124,957
Expenditure incurred during the period	840,795	1,837,737
Research & development claim recovery	-	(4,526,014)
Carrying amount at end of period	**9,277,475**	**8,436,680**

6. Loans and borrowings

	Consolidated	
	31 December 2015	**30 June 2015**
	$	**$**
Convertible notes payable	450,056	-
Loans due to other entity	594,153	-
Loans due to director	-	90,500
Total borrowings	**1,044,209**	**90,500**

Convertible Notes

On 10 December 2015 the Consolidated Entity issued 500,000 10% convertible notes, with a face value of $1.00 each with an expiration date of 36 months from the date of issue; and 10,000,000 options for total proceeds of $500,000. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The amount classified as equity is $52,949 and accrued interest at 31 December 2015 is $3,005. The notes are convertible into fully paid ordinary shares of the parent entity at conversion price of 5 cents within 12 months of issue date and for conversions on or after the 12 months the price equal to the 5 day VWAP ending on the ASX trading day immediately preceding the date of the relevant conversion notice. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. Each Option is exercisable at any time after the date on which the options issues (vesting date) until and including their expiry date, namely 4 years from the vesting date (expiry date). Any options not exercised by the expiry date will automatically lapse on the expiry date. The convertible notes are unsecured.

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7. Capital and reserves

Ordinary share capital

	31 December 2015 No. Shares	30 June 2015 No. Shares	31 December 2015 $	30 June 2015 $
Balance at beginning of period	431,334,750	261,480,396	142,991,154	132,034,367
Share Placement 13 July 2015 @ 6.5 cents per share	1,538,461	-	100,000	-
Share Placement 24 September 2015 @ 6.5 cents per share	7,692,304	-	500,000	-
Share Placement 27 November 2014 @ 6.5 cents per share	-	43,769,230	-	2,845,000
Share Placement 24 December 2014 @ 6.5 cents per share	-	78,584,615	-	5,108,000
Incentive share issue 15 January 2015 @ 6.89 cents per share (i)	-	18,000,000	-	1,240,200
Share Placement 27 February 2015 @ 6.5 cents per share	-	7,128,715	-	463,366
Share Placement 29 April 2015 @ 6.5 cents per share	-	11,538,461	-	750,000
Share Placement 2 June 2015 @ 6.5 cents per share	-	1,500,000	-	97,500
Share Placement 12 June 2015 @ 6.5 cents per share	-	6,000,000	-	390,000
Share Placement 30 June 2015 @ 6.5 cents per share	-	3,333,333	-	216,667
Transaction costs arising on share issues	-	-	(5,313)	(153,946)
Balance at end of period	**440,565,515**	**431,334,750**	**143,585,841**	**142,991,154**

8. Employee Share Options

On 17 September, 2013, the Company offered 7,925,000 options under the Merlin Diamonds Limited 2013 Incentive Option Scheme and 6,975,000 were taken up. The options have a life of 5 years, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date. The Company has established the Incentive Option Scheme whereby, at the discretion of Directors, options may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Company. The options rights were are issued at fair value and in accordance with guidelines established by the Board of Directors.

The options were valued by Remuneration Strategies Group using an amended Black Scholes Merton methodology with a 250 step binomial variation. The key inputs were a 5 day VWAP of $0.1324,

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exercise price of $0.15, volatility of 140.9033%, vesting of 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date, risk-free rate of 3.09% and an exercise multiple of 2.0. This gave rise to a value of $0.0743 for the options vesting 12 months from issue date, $0.0806 for the options vesting 24 months from issue date and $0.0856 for the options vesting 36 months from issue date.

On 4 December 2014, the Company offered 22,000,000 options under the Merlin Diamonds Limited 2013 Incentive Option Scheme and 22,000,000 were taken up. The options have a life of 5 years, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date. The options were valued by Remuneration Strategies Group using an amended Black Scholes Merton methodology with a 250 step binomial variation. The key inputs were a 5 day VWAP of $0.08, exercise price of $0.15, volatility of 67.044%, vesting of 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date, risk-free rate of 2.52% and an exercise multiple of 2.0.

This gave rise to a value of $0.0251 for the options vesting 12 months from issue date, $0.0266 for the options vesting 24 months from issue date and $0.0291 for the options vesting 36 months from issue date.

a. Movement in share options on issue and period expense

	For the half year ended December 31, 2015	
	Number of options	**Weighted average exercise price $**
Balance at beginning of period	27,300,000	0.15
Granted during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
Balance at end of period	27,300,000	0.15
Exercisable at end of period	-	-

During the half year period ended 31 December 2015 the Company recognised a net expense of $nil (2014: $212,182) within the profit and loss component of the statement of comprehensive income.

b. Options outstanding at the end of the half year ended December 31, 2015

The share options outstanding at December 31, 2015 had a weighted average exercise price of $0.15 and a weighted average remaining contractual life of 3.91 years.

c. Options issued during the period

During the half year ended 31 December 2015 no options were issued by the Company. It is a requirement that the employee receiving the options be still be employed by the Company at the end of each vesting period in order to exercise the options.

d. Options forfeited during the period

During the half year ended 31 December 2015, no options (2014: 625,000 options) were forfeited by employees.

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9. Segment reporting

The principal business of the group is the exploration and development of diamond projects in Australia and Asia.

Management has determined the operating segment based upon reports reviewed by the Board and executive management that are used to make strategic decisions. Management and the Board consider the business only from a diamond exploration and development perspective and therefore only review reports based upon its current diamond exploration and development operations as disclosed within these financial statements. Whilst the Company has invested limited capital into its overseas operations, both the Board and management consider these currently insignificant for separate segment reporting purposes. There are no sales or material non-current assets other than those listed in Australia.

10. Contingent liabilities

There is no change to contingent liabilities that the Company has become aware of since 30 June 2015.

11. Subsequent events

Other than the matters outlined elsewhere in these financial statements, no matters or circumstance have arisen since 31 December 2015 that have a significant effect on the Company.

In the opinion of the Directors of Merlin Diamonds Limited (the 'Company'):

1. the financial statements and notes, set out on pages 9 to 18, are in accordance with the Corporations Act 2001, including:

   (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance, for the half year ended on that date; and

   (b) complying with the Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001 and other mandatory professional reporting requirements;

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 15th day of March 2016.

J. I. Gutnick

Joseph Gutnick
Executive Chairman and Managing Director

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Merlin Diamonds Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Merlin Diamonds Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Merlin Diamonds Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Merlin Diamonds Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Merlin Diamonds Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity and subsequent exploitation of the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO East Coast Partnership



David Garvey
Partner

Melbourne, 15 March 2016