Merlin Diamonds Limited

ABN 86 009 153 119

28 October 2016

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

By E-Lodgement

REPORT FOR THE QUARTER ENDED 30 JUNE 2016

Merlin Diamonds Limited
ABN 86 009 153 119

Level 1A
42 Moray Street
Southbank, VIC, 3006

Telephone:
+61 3 8532 2858

www.merlindiamonds.com.au

Directors

Mr Mordechai Gutnick
Chairman & Managing Director

Mr Henry Herzog
Non-Executive Director

Dr David S Tyrwhitt
Non-Executive Director

Senior Management

Mr Peter Lee
CFO & Company Secretary

HIGHLIGHTS

Merlin Mine –Operations

- Approval of the Mining Management Plan
- Commissioning of the 60 tph process plant underway
- First treatment of ore and recovery of diamonds in October 2016

Merlin Mine Exploration

- No exploration conducted during the quarter
- Previous work identified seven drill ready targets and seventy four new exploration target areas which remain to be investigated

For personal use only

For personal use only

MERLIN DIAMOND MINE PROJECT

Merlin Diamond Mine Operations

During July and August 2016, project planning was undertaken to recommence operations in 2016 as soon as possible after approval of the Mining Management Plan (MMP) by the Department of Minerals and Energy (DME).

Following a detailed review of the existing 60 tph plant it was decided to simplify the plant flowsheet as well as introduce contract crushing and screening ahead of the existing DMS plant. The impact of this includes:

Significant reduction of the capital requirement and timeline to get the operation into production

Allowing existing oversize stockpiles to be treated for several months

Allowing for treating +40mm ore from the open pits, which previously would have been added to the oversize stockpiles

Reducing the risk of crushing large diamonds, which have been proven to exist at the Merlin diamond mine

Positioning the Merlin diamond mine to scale up production of the process plant

A modular final recovery unit incorporating X ray Flowsort recovery units purchased from Ellendale was transported to the Merlin diamond mine for installation and commissioning in October 2016. This together with the planned installation of a grease table for treating the Flowsort tailings will be a significant improvement over the previous DMS concentrate hand-sorting methodology.

The MMP, which incorporates the environmental management plan and commitments for the project, was approved by the DME on 9 September 2016. Work immediately commenced to recommission the plant and prepare for conventional mining in the Kaye pit.

The mobile plant for the contract crushing and screening was mobilised, commissioned and began processing stockpiled material on 1 October 2016. The water from the Kaye open pit was transferred into the Gareth pit in preparation for mining of Kaye.

It is planned to predominantly treat stockpiled oversize ore in the first phase of operations, with mining in Kaye taking place before the wet season to stockpile additional ore.

Following a review of the mining methodology and mine planning, initial mining in 2016/17 year will be by conventional open pit mining from Kaye and Ector. The opportunity to mine ore from the other kimberlite pipes, in particular the small but high grade Ywain and Gwain pipes, by dry clamshell mining will be evaluated over the wet season.

Post review period activities

On 6 October 2016 it was announced that operations had recommenced at the Merlin diamond mine. Crushing and screening of stockpiled oversize material commenced on 1 October 2016. The Dense Media Separation plant was successfully recommissioned and the first diamonds concentrate was produced on 4 October 2016.

For personal use only

EXPLORATION OVERVIEW

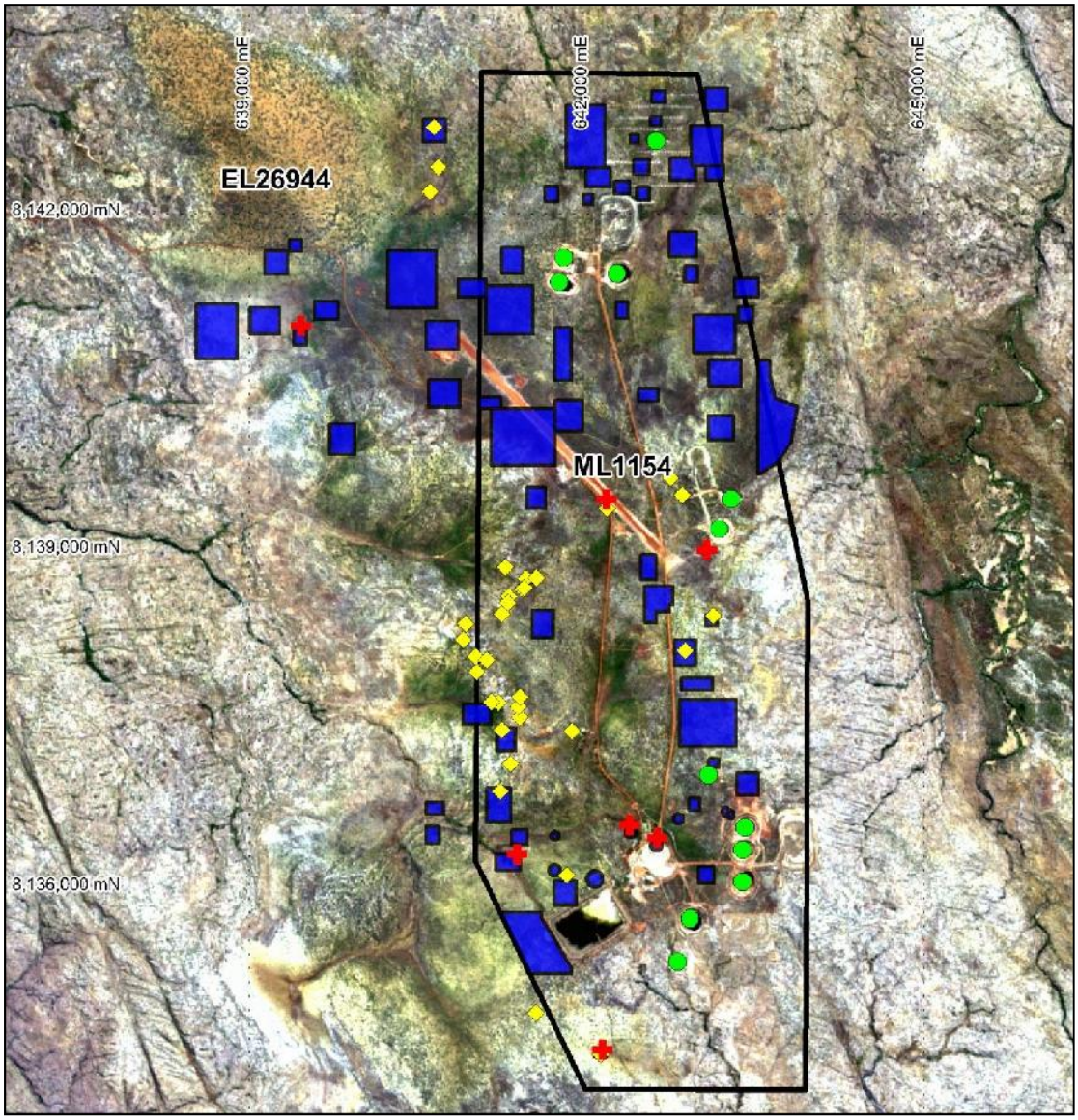
Merlin Mining Lease (ML1154) and near Mine

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 (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**



Chromite recovered in 2013

New exploration target area

Kimberlite pipe

Drilling target

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

For personal use only

For personal use only

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 (Mcts)
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.

Merlin Diamonds Limited

ABN 86 009 153 119

For personal use only

Table 1 Merlin Diamonds Limited Tenement Interests

Tenement	Project	State	Holder	Status	% Interest (Start of Quarter)	% Interest (End of Quarter)
EL26944	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100%	100%
EL28914	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28915	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28916	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28917	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28918	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28919	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28920	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28921	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28922	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28923	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28924	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28925	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28926	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28927	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28928	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28929	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28930	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28931	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
EL28932	Merlin	NT	Merlin Diamonds Limited	Application	100%	100%
M80/526	Seppelt	WA	Merlin Diamonds Limited	Granted	100%	100%
M80/532	Seppelt	WA	Merlin Diamonds Limited	Granted	100%	100%
M80/492	Ashmore	WA	Striker Diamonds P/L	Granted	100%	100%
MLN1154	Merlin	NT	Merlin Operations Pty Ltd	Granted	100%	100%
EL10189	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100% Diamond rights only	100% Diamond rights only
EL10230	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL26206	Arnhem Land	NT	Merlin Diamonds Limited	Granted	100% Diamond rights only	100% Diamond rights only
EL28066	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28067	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28068	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28069	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL28070	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only

Merlin Diamonds Limited

ABN 86 009 153 119

Tenement	Project	State	Holder	Status	% Interest (Start of Quarter)	% Interest (End of Quarter)
EL28071	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29398	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29399	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29400	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29401	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29402	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29403	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29407	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29408	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29409	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29410	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29411	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29412	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29413	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29414	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL29567	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only	100% Diamond rights only
EL6532	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only
EL8681	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only

For personal use only

Merlin Diamonds Limited

ABN 86 009 153 119

Tenement	Project	State	Holder	Status	% Interest (Start of Quarter)	% Interest (End of Quarter)
EL8682	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only	100% Diamond rights only

For personal use only

+Rule 5.5

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

MERLIN DIAMONDS LIMITED

ABN	**Quarter ended ("current quarter")**
86 009 153 119	30 September 2016

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	-	-
1.2	Payments for		
	(a) exploration & evaluation	(59)	(59)
	(b) development	(957)	(957)
	(c) production	-	-
	(d) staff costs	(8)	(8)
	(e) administration and corporate costs	(512)	(512)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	-
1.5	Interest and other costs of finance paid	(9)	(9)
1.6	Income taxes paid	-	-
1.7	Research and development refunds	-	-
1.8	Other (GST Refund, Fuel Rebate Refund)	95	95
1.9	**Net cash from / (used in) operating activities**	**(1,450)**	**(1,450)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(46)	(46)
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-

For personal use only

For personal use only

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	(542)	(542)
2.4	Dividends received (see note 3)	-	-
2.5	Other (Environmental Bond)	(319)	(319)
2.6	**Net cash from / (used in) investing activities**	**(907)**	**(907)**

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	1,525	1,525
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	35	35
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	**Net cash from / (used in) financing activities**	**1,560**	**1,560**

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,907	1,907
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,450)	(1,450)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(907)	(907)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,560	1,560
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**1,110**	**1,110**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	1,110	1,907
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**1,110**	**1,907**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	8
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
7.1	Aggregate amount of payments to these parties included in item 1.2	602
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	(542)

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

For services rendered

For personal use only

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities	-	-
8.2	Credit standby arrangements	-	-
8.3	Other (please specify)	-	-

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	50
9.2	Development	1,800
9.3	Production	-
9.4	Staff costs	10
9.5	Administration and corporate costs	400
9.6	Other (provide details if material)	
9.7	**Total estimated cash outflows**	**2,260**

Shareholders approved the issue of convertible notes and options at a meeting held on 6 September 2016 and this financing activity is underway.

10.	**Changes in tenements (items 2.1(b) and 2.2(b) above)**	**Tenement reference and location**	**Nature of interest**	**Interest at beginning of quarter**	**Interest at end of quarter**
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	-	-	-	-
10.2	Interests in mining tenements and petroleum tenements acquired or increased	-	-	-	-

For personal use only

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.



Sign here: ..... Date: 28 October 2016
(Company Secretary)

Print name: Peter Lee

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

For personal use only