

**Merlin Diamonds Limited**

ACN 009 153 119

**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
31 DECEMBER 2014**

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## **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.

#### **Updated Mineral Resources and Ore Reserves**

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

The combined Mineral Resource and Ore Reserve estimates for all of the diamond pipes at the Merlin Mine is now 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 recently completed feasibility study discussed below.

PROBABLE ORE RESERVE SUMMARY @ +5DTC lower cutoff					
PIPE	VOLUME (Mbcm)	DENSITY (t/m <sup>3</sup> )	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
<b>TOTAL</b>	<b>2.02</b>	<b>2.0</b>	<b>4.04</b>	<b>15</b>	<b>0.61</b>

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

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*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.*

**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 <sup>2</sup>	0.07	0.07	0.14	60	0.08
Gawain <sup>2</sup>	0.99	0.60	1.59	31	0.49
Excalibur <sup>1</sup>	0.35	0.23	0.58	29	0.17
Launfal/Launfal North <sup>1</sup>	1.46	1.48	2.94	14	0.40
Palomides/Sacramore <sup>1</sup>	7.24	6.42	13.66	17	2.30
Tristram <sup>2,3</sup>	0.00	0.61	0.61	6	0.04
Kaye <sup>2</sup>	1.11	1.74	2.85	10	0.29
Ector <sup>1</sup>	2.04	2.81	4.85	9	0.46
Gareth <sup>1</sup>	0.12	0.06	0.18	18	0.03
Bedevere <sup>1,3</sup>		0.40	0.40	22	0.09
	13.4	14.4	27.8	16	4.35

<sup>1</sup>Resource grade based on previous mining operation recovery using a +0.95mm slotted bottom screen and reported at +5DTC cut-off

<sup>2</sup>Resource grade based on bulk sample testwork using a +0.8mm slotted bottom screen and reported at +5DTC cut-off

<sup>3</sup>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.*

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**Merlin Diamond Mine - Mechanical Clamshell Grab Mining Feasibility Study**

A feasibility study and associated Ore Reserve estimate was completed in the September quarter for the mechanical clamshell grab mining operation. The key results of this feasibility study can be found in Merlins announcement of 30 September 2014 on Merlins website titled *"Mechanical Clamshell Grab Mining Feasibility Study, Probable Ore Reserve Estimate and Mineral Resource Estimate Update"*. The results are summarised below:

METRIC	RESULT <sup>1</sup>
Net Present Value at 8% discount rate	\$102.2 million
Internal Rate of Return	52.7%
Life of Mine Total Net Cash (undiscounted)	\$132.9 million
Payback Period	4 months
Maximum Negative Cash Position	\$4.23 million
Probable Ore Reserve	4Mt @ 15cpht for 0.6Mcts
Life of Mine	11 years
<sup>2</sup> Indicated Mineral Resource	13.4Mt @ 17cpht for 2.3Mcts
Inferred Mineral Resource	14.4Mt @ 14cpht for 2.0Mcts

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

2. The Indicated Mineral Resource estimate is inclusive of the Probable Ore Reserve estimate. The Probable Ore Reserve is not additional material to the Mineral Resources.

Merlin Diamonds is aiming to recommence operations at the Merlin Diamond Mine in 2015.

During the December quarter preliminary design work for the barge arrangement commenced. The barge or floating pontoons which currently exist within the flooded Ywain pit are to be arranged into a configuration to allow the mechanical clamshell grab and associated crane gantry system to operate at an optimal production rate.

**EXPLORATION OVERVIEW**

**Merlin Mining Lease (ML1154) and near Mine**

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).

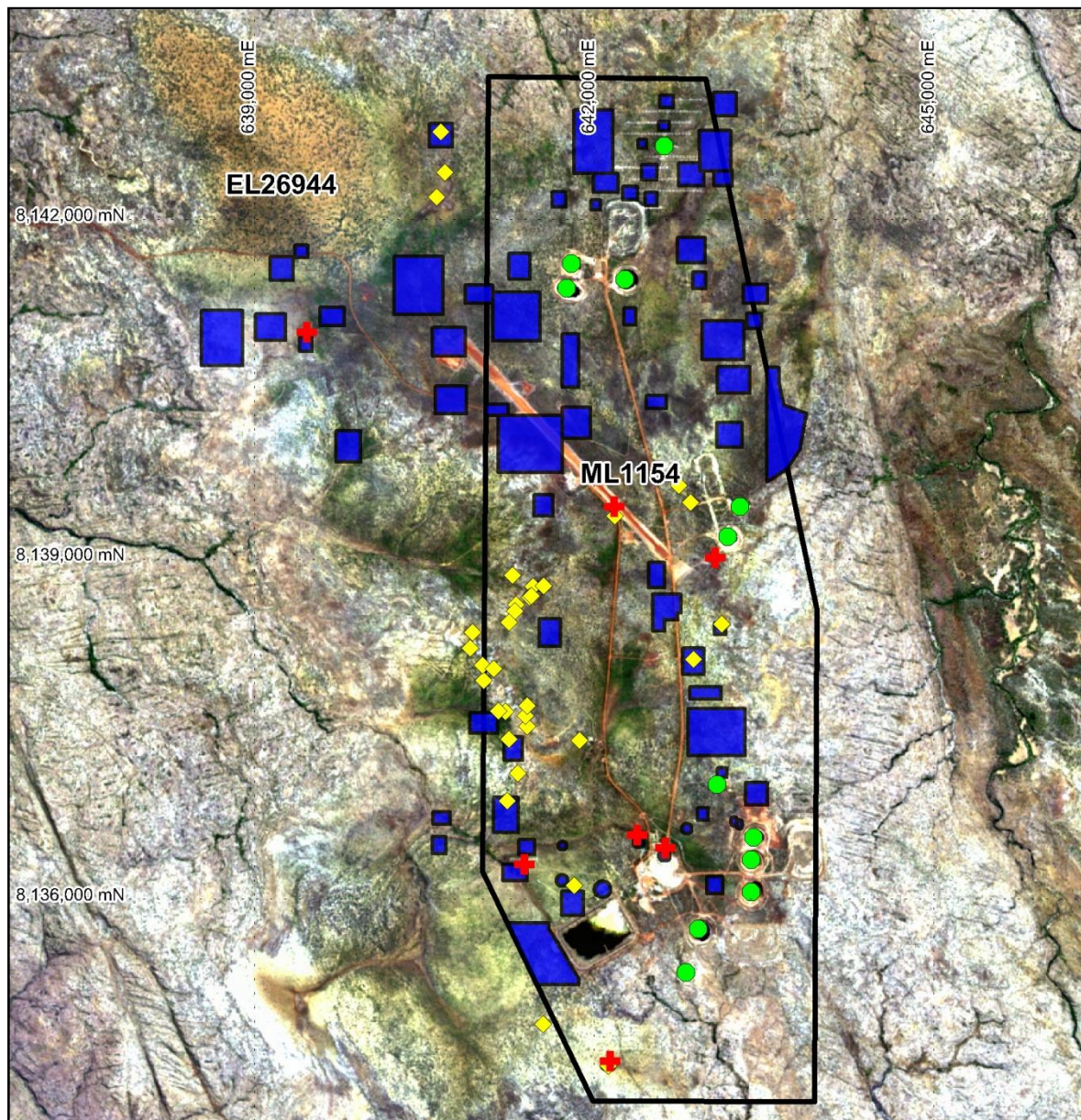
Exploration activity during the previous June quarter included EM34 surveying of several of the seventy-four targets. Interpretation of the survey results was ongoing in the December quarter.

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 new results are highly encouraging. High resolution ground electromagnetic surveying will be undertaken to define drilling targets.

Approximately one hundred samples remain to be processed and it is anticipated that further positive results will be forthcoming.



Figure 1 Merlin Mine Lease Exploration



- |   |                            |   |                             |
|---|----------------------------|---|-----------------------------|
|  | Chromite recovered in 2013 |  | New exploration target area |
|  | Kimberlite pipe            |  | Drilling target             |

#### Borroloola Alluvial Diamond Project

The Borroloola Project comprises exploration licences EL24512 and EL24082. Alluvial gravels are exposed at surface on EL24512 in an area covering 5km<sup>2</sup>. However, the total area which could potentially host alluvial gravel deposits on the Company's tenements is yet to be explored and is in the order of 300km<sup>2</sup>. This significantly increases the opportunity to identify a large volume, high value alluvial diamond deposit.

During 2011 the Company completed a bulk sampling program on an area of outcropping gravel. Material from three costeans, 3,000 tonnes in total, was processed at the Merlin diamond mine, yielding 22 stones with a total weight of 1.09 carats. Thirteen of the recovered diamonds were white in colour including the largest

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two at 0.19 and 0.25 carats. All costeanes were rehabilitated to the satisfaction of the Department of Mines and Energy.

The Borroloola Alluvial Diamond Project represents a significant and unique opportunity to explore for a large volume, high value, alluvial diamond deposit. No work was completed at the Borroloola project during the quarter.

**Arnhem Land Exploration**

The Company's Arnhem Land project consists of 1 granted exploration licence (EL26206). A further 47 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.

Merlin will endeavour to collect diamond exploration samples on any licences available for exploration under a Preliminary Exploration Permit.

**WESTERN AUSTRALIAN PROJECTS**

**Kimberley Diamond Projects**

The Company holds three mining licences (M80/492, M80/526 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.

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

<sup>1</sup>Resource grade based recovery using a +0.75 mm square mesh bottom screen and a +0.95mm cut-off.



Joseph Gutnick  
Executive Chairman and Managing Director

Dated at Melbourne this 16 day of March 2015.

*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. Attached is a copy of the Company's Mining Exploration Entity Quarterly Report in accordance with Listing Rule 5.3.*



## **Directors' Report**

The Directors present their report on Merlin Diamonds Limited (the 'Company') for the half year ended 31 December 2014.

### **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 2014, 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 2014 was a loss of \$3,928,431 (2013: \$4,394,916). Employee benefits expense for the half year was \$883,884 (2013: \$2,204,564) as a result of cost saving activities put in place during the period until mining operations at Merlin recommence; consultancy fees of \$133,100 (2013: \$352,966) primarily related to the diamond operations; lease rental expenses \$157,514 (2013: \$201,398) reduced as a result of the reduction of office space, professional fees increased to \$125,759 (2013: \$58,162) due to the costs associated with the takeover offer from Blumont Group Ltd, depreciation was \$47,061 (2013: \$69,703), travel costs decreased to \$11,429 (2013: \$167,378) as a result of the cost savings applicable to employee costs and no mining operations, impairment of other receivable was \$1,824,839 (2013: \$nil), a decrease in other expenses to \$523,882 (2013: \$817,406) and exploration expensed amounted to \$417,836 (2013: \$762,700). Revenue for the six months ended 31 December 2014 was \$289,358 (2013: \$510,227) from interest generated on loans to other entities.

At 31 December 2014, the Company had cash at bank of \$266,926 (2013: \$55,057).

### **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:



J I Gutnick  
Executive Chairman and Managing Director

Dated at Melbourne this 16th day of March 2015



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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 2014, 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, 16 March 2015

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**  
**for the half year ended 31 December 2014**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2014</b>	<b>31 December 2013</b>
		<b>\$</b>	<b>\$</b>
Revenue	2	289,358	510,227
Other income	3	4,235	42,704
Employee benefits expense		(883,884)	(2,204,564)
Consultancy fees		(133,100)	(352,966)
Insurance expenses		(18,884)	(38,556)
Lease rental expenses		(157,514)	(201,398)
Professional fees		(125,759)	(58,162)
Travel expenses		(11,429)	(167,378)
Depreciation expenses		(47,061)	(69,703)
Exploration expensed		(417,836)	(762,720)
Net loss on disposal of plant and equipment		(669)	(25,730)
Impairment of receivable		(1,824,839)	-
Impairment of investment in associate		(37,652)	(223,252)
Other expenses		(523,882)	(817,406)
Finance expense	4	(33,543)	(31,146)
<b>Loss from continuing operations</b>		<b>(3,922,459)</b>	<b>(4,400,050)</b>
Share of (loss) gain of equity accounted investee (net of income tax)		(5,972)	5,134
<b>Loss before income tax</b>		<b>(3,928,431)</b>	<b>(4,394,916)</b>
Income tax expense		-	-
<b>Loss for the period</b>		<b>(3,928,431)</b>	<b>(4,394,916)</b>
<b>Other comprehensive income for the period, net of income tax</b>		-	-
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange differences on translation of foreign operations		(82,532)	(4,617)
<b>Total comprehensive loss for the period</b>		<b>(4,010,963)</b>	<b>(4,399,533)</b>
<b>Loss attributable to members of Merlin Diamonds Limited</b>		<b>(3,928,431)</b>	<b>(4,394,916)</b>
<b>Total comprehensive loss attributable to members of Merlin Diamonds Limited</b>		<b>(4,010,963)</b>	<b>(4,399,533)</b>
<b>Basic loss per share (cents per share)</b>		<b>(1.44)</b>	<b>(2.07)</b>
<b>Diluted loss per share (cents per share)</b>		<b>(1.44)</b>	<b>(2.07)</b>

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

**Consolidated Statement of Financial Position**  
**as at 31 December 2014**

		<b>Consolidated</b>	
	<i>Note</i>	<b>31 December 2014</b>	<b>30 June 2014</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		266,926	209,897
Trade and other receivables		264,802	654,617
Inventories		20,835	6,321
<b>Total current assets</b>		<b>552,563</b>	<b>870,835</b>
<b>Non-current assets</b>			
Other receivables		921,380	1,176,730
Plant and equipment		4,751,368	4,974,392
Investment in equity accounted investee		152,682	196,306
Development expenditure	5	12,107,550	11,124,957
<b>Total non-current assets</b>		<b>17,932,980</b>	<b>17,472,385</b>
<b>Total assets</b>		<b>18,485,543</b>	<b>18,343,220</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		4,001,227	5,905,693
Borrowings	6	996,488	3,076,453
Finance leases		-	6,502
Provisions		18,093	22,826
<b>Total current liabilities</b>		<b>5,015,808</b>	<b>9,011,474</b>
<b>Non-current liabilities</b>			
Provisions		1,279,786	1,184,806
Finance leases		-	25,223
<b>Total non-current liabilities</b>		<b>1,279,786</b>	<b>1,210,029</b>
<b>Total liabilities</b>		<b>6,295,594</b>	<b>10,221,503</b>
<b>Net assets</b>		<b>12,189,949</b>	<b>8,121,717</b>
<b>Equity</b>			
Issued capital	7	139,901,380	132,034,367
Reserves		750,635	538,453
Accumulated losses		(128,462,066)	(124,451,103)
<b>Total equity</b>		<b>12,189,949</b>	<b>8,121,717</b>

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

**Consolidated Statement of Changes in Equity  
for the half year ended 31 December 2014**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Equity settled incentive options reserve \$</b>	<b>Accumulated losses \$</b>	<b>Total equity \$</b>
<b>Balance at 1 July 2013</b>	<b>127,888,703</b>	<b>-</b>	<b>(112,494,685)</b>	<b>15,394,018</b>
Loss for the period	-	-	(4,394,916)	(4,394,916)
Other comprehensive loss for the period, net of tax	-	-	(4,617)	(4,617)
Total comprehensive loss for the period, net of tax	-	-	(4,399,533)	(4,399,533)
Transactions with owners, recorded directly in equity				
Employee incentive option scheme	-	538,453	-	538,453
Issue of shares	473,044	-	-	473,044
Transaction costs arising on share issues	(13,485)	-	-	(13,485)
Total transactions with owners	459,559	538,453	-	998,012
<b>Balance at 31 December 2013</b>	<b>128,348,262</b>	<b>538,453</b>	<b>(116,894,218)</b>	<b>11,992,497</b>
<b>Balance at 1 July 2014</b>	<b>132,034,367</b>	<b>538,453</b>	<b>(124,451,103)</b>	<b>8,121,717</b>
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
<b>Balance at 31 December 2014</b>	<b>139,901,380</b>	<b>750,635</b>	<b>(128,462,066)</b>	<b>12,189,949</b>

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

**Consolidated Statement of Cash Flows**  
**for the half year ended 31 December 2014**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)	8,813	239
Receipt from diamond sales	-	238,851
Payments to suppliers and employees (inclusive of GST)	(1,920,873)	(2,361,306)
Payments for exploration expenditure	(62,718)	(630,945)
Interest received	9,487	10,012
<b>Net cash used in operating activities</b>	<b>(1,965,291)</b>	<b>(2,743,149)</b>
<b>Cash flows from investing activities</b>		
Payments for acquisition of plant and equipment	-	(165,218)
Receipt for disposal of plant and equipment	179,361	152,035
Payments for development expenditure	(2,183,450)	(3,563,443)
Receipt of security deposits	277,587	18,899
Payment to other entity	(2,655,698)	-
Repayment by other entity	779,249	2,533,109
<b>Net cash used in investing activities</b>	<b>(3,602,951)</b>	<b>(1,024,618)</b>
<b>Cash flows from financing activities</b>		
Payment of finance lease liabilities	(33,613)	-
Loan	750,000	1,897,144
Loan from other entities	2,624,871	-
Loan from Director	74,000	-
Proceeds from issue of equity securities	4,954,216	-
Repayment of loan to other entity	(2,584,216)	-
Repayment of loan to Director	(74,000)	-
Equity securities issue transaction costs	(85,987)	-
<b>Net cash provided by financing activities</b>	<b>5,625,271</b>	<b>1,897,144</b>
Net decrease in cash and cash equivalents	57,029	(1,870,623)
Cash and cash equivalents at 1 July	209,897	1,925,680
<b>Cash and cash equivalents at 31 December</b>	<b>266,926</b>	<b>55,057</b>

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



**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 2014 comprise the Company and its subsidiaries (together referred to as the 'Group'). These interim financial statements were approved by the directors on 16 March 2015.

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 2014 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 2014 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 \$3,928,431 in the half- year to 31 December 2014, had net cash operating outflow of \$1,887,791 for the half-year ended 31 December 2014 and has negative working capital of \$4,463,245 at 31 December 2014. 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 an uncertainty that may cast 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 funding is imminent from a research and development expenditure refund from the Australian Taxation Office is due, an equity raising to raise funds for its operational needs is planned; a lender to the Company has indicated its verbal approval to convert loans into shares in the Company, since balance date, \$463,366 has been raised through a private placement 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, due to the success the Company has previously had. The Directors believe the going concern basis to be appropriate for the reasons referred to previously. Based on the forecasted 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 their assets and extinguish their 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.

*Critical accounting judgements and key sources of estimation uncertainty:*

**Merlin Diamonds Limited and its controlled entities**  
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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.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

**2. Revenue**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$</b>	<b>\$</b>
Provision of laboratory services	4,578	238
Interest income	4,550	11,020
Interest income - Axis	280,230	260,118
Revenue from diamond sales	-	238,851
<b>Total revenue</b>	<b>289,358</b>	<b>510,227</b>

**3. Other income**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$</b>	<b>\$</b>
Fuel tax credits	2,635	42,704
Asset usage	1,600	-
	<b>4,235</b>	<b>42,704</b>

**4. Finance expense**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$</b>	<b>\$</b>
Bank charges	(1,124)	(1,485)
Borrowing costs	(32,419)	(29,661)

**Merlin Diamonds Limited and its controlled entities**  
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<b>Total finance expense</b>	<b>(33,543)</b>	<b>(31,146)</b>
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**5. Development expenditure**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of period	11,124,957	1,169,363
Expenditure incurred during the period	982,593	8,770,329
Transfers from work in progress	-	1,185,265
<b>Carrying amount at end of period</b>	<b>12,107,550</b>	<b>11,124,957</b>

**6. Loans and borrowings**

	<b>Consolidated</b>	
	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$</b>	<b>\$</b>
Loans - other	750,000	1,300,000
Loans due to other persons	40,655	670,784
Loans due to director	205,833	1,105,669
<b>Total borrowings</b>	<b>996,488</b>	<b>3,076,453</b>

**7. Capital and reserves**

**Ordinary share capital**

	<b>31 December 2014</b>	<b>30 June 2014</b>	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>No. Shares</b>	<b>No. Shares</b>	<b>\$</b>	<b>\$</b>
Balance at beginning of period	261,480,396	175,783,427	132,034,367	127,888,703
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	4,307,692	-	280,000	-
Conversion of debt to equity 24 December 2014 @ 6.5 cents per share	74,276,924	-	4,828,000	-
Convertible note converted 17 September 2013 @ 22 cents per share	-	36,363,636	-	473,044
Share placement 27 February 2014 @ 7.5 cents per share	-	13,333,333	-	1,000,000

**Merlin Diamonds Limited and its controlled entities**  
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	<b>31 December 2014 No. Shares</b>	<b>30 June 2014 No. Shares</b>	<b>31 December 2014 \$</b>	<b>30 June 2014 \$</b>
Share placement 10 April 2014 @ 7.5 cents per share	-	36,000,000	-	2,700,000
Transaction costs arising on share issues	-	-	(85,987)	(27,380)
<b>Balance at end of period</b>	<b>383,834,242</b>	<b>261,480,396</b>	<b>139,901,380</b>	<b>132,034,367</b>

**8. Employee Share Options**

On 25 November, 2014, the Company issued 22,000,000 options under the Merlin Diamonds Limited Incentive Option Scheme. The options have a life of 5 years, an exercise price of 15 cents and vest 1/3 immediately, 1/3 after continuous service at 25 November 2015 and 1/3 after continuous service at 25 November 2016. 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 issued at fair value and in accordance with guidelines established by the Board of Directors.

**a. Movement in share options on issue and period expense**

	<b>For the half year ended December 31, 2014</b>	
	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Balance at beginning of period	6,975,000	0.15
Granted during the period	22,000,000	0.15
Expired during the period	-	-
Forfeited during the period	(625,000)	0.15
<b>Balance at end of period</b>	<b>28,350,000</b>	<b>0.15</b>
Exercisable at end of period	-	-

During the half year period ended 31 December 2014 the Company recognised a net expense of \$212,182 (2013: \$538,453) 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, 2014**

The share options outstanding at December 31, 2014 had a weighted average exercise price of \$0.15 and a weighted average remaining contractual life of 4.91 years.

**c. Options issued during the period**

During the half year ended 31 December 2014 the Company issued 22,000,000 options. 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 2014, 625,000 (2013: 975,000 options) were forfeited by employees.

**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 reviews 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 2014.

**11. Subsequent events**

On 15 January 2015 the Company issued 18,000,000 shares to Joseph Gutnick under the 2014 Merlin Diamonds Limited Incentive Share Plan. The issue of the shares was approved by shareholders at the annual general meeting held on 27 November 2014. The shares have a fair value of \$1,240,200.

On the 27 February 2014 the Company announced it has reached an agreement with Blumont Group Ltd. ("Blumont") under which Blumont agrees to make a scrip-for-scrip off-market takeover bid to acquire all of the shares in Merlin Diamonds (the Transaction). On 16 January 2015, Blumont advised ASX that it was withdrawing its offer.

On the 2 March 2015 the Company announced the placement of 7,128,715 fully paid ordinary shares in the Company to international investors at a price of 6.5 cents per share for a total consideration of \$463,366.

On 16 March 2015, the Company received advice from the Australian Taxation Office that the refund resulting from a research and development expenditure claim had been approved. The amount of the refund is approximately \$4,500,000.

**Directors' Declaration**

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

1. the financial statements and notes, set out on pages 10 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 2014 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.



Joseph Gutnick  
Executive Chairman and Managing Director

Dated at Melbourne this 16<sup>th</sup> day of March 2015.





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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 2014, 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 2014 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.



## 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 2014 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 successful raising of necessary funding through equity or obtaining loan funding to meet its commitments, and ongoing management support provided by AXIS Consultants Pty Ltd. 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 consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## BDO East Coast Partnership

A handwritten signature in blue ink, appearing to read 'David Garvey', is written over a faint, larger blue ink signature that is partially obscured. Above the signature, the letters 'BDO' are handwritten in blue ink.

**David Garvey**  
Partner

Melbourne, 16 March 2015