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Merlin Diamonds Limited

ABN 86 009 153 119

ANNUAL REPORT 2016

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Merlin Diamonds Limited
Directors' Report

The Directors of Merlin Diamonds Limited present their report for the year ended 30 June 2016.

1. Directors

The Directors of the Company in office since 1 July 2015 and up to the date of this Report are:

Current Directors

Mr Mordechai Gutnick
Chairman

Mr Gutnick is a businessman and long-term investor in the mining industry. He has served as a project advisor to the mining industry for over 10 years. He was appointed a Director in July 2016. He is a director of Top End Minerals Limited, Consolidated Gems Inc and Golden River Resources Corporation and was formerly a Director of Quantum Resources Limited. Age 38.

Henry Herzog
Non-Executive Director

Mr Herzog has more than 40 years of corporate and management experience. He has been a Director of the Company since December 2009. Mr. Herzog has served in various positions as President, Vice President or Director of a number of publicly listed companies in Australia and the United States, predominantly in the mining sector. Mr. Herzog was responsible for the restructuring and reorganization of several publicly listed companies including Golden River Resources Corporation, where he served as its President and Chief Executive Officer from 1986-1988 and as a Vice President from 1988-1989. For at least the past five years, Mr. Herzog has also been managing a number of private investment entities. He is also a member of the Board of Trustees of a non-profit college of higher education. Age 74

David Tyrwhitt
Non-Executive Director

Dr Tyrwhitt has been a Director of the Company since 2011. He is a geologist and has more than 50 years' experience in the mining industry. He is currently a Director of Top End Minerals Ltd, Northern Capital Resources Corp and Hawthorn Resources Limited. He worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive Officer of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991 and a Director of Astro Diamond Mines N.L. from November 1996 to May 2008. He established his own consultancy in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia. Age 77.

Former Director

Joseph Gutnick –Director – resigned 8 July 2016

2. Principal Activities and Review and Results of Activities

The principal activity of the Consolidated Entity during the financial year was diamond exploration and development in the Northern Territory. During the year the Company commenced development activities at its Merlin diamond mine. Other than this, there has been no significant change in the nature of these activities during the financial year.

Objectives

The Company's objective is to increase shareholder wealth through successful exploration, development and mining activities whilst providing a safe workplace and ensuring best practice in relation to its environmental obligations.

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The key opportunity for the Company during the year has been the advancement of the Merlin diamond mine project and its exploration projects.

During the year, the company continued the development activities through planning with the ultimate goal being the re-commencement of mining activities.

On 12 September 2016, we announced the planned re-commencement of operations at the Merlin diamond mine, located 900 kilometres south east of Darwin in the Northern Territory of Australia. The Department of Mines and Energy in the Northern Territory approved the Mining Management Plan on 9 September 2016 thus allowing operations to re-commence. The Company is being assisted by Foundation Resources Pty Ltd. The mining industry professionals of Foundation Resources have extensive experience in the mining of and exploration for diamonds including at Ellendale and Smoke Creek in Australia; and in South Africa, Botswana, Zimbabwe, Namibia, Lesotho, Angola, DRC and Indonesia. To-date, the Company has initiated procurement of the necessary items to re-commence the operations and have started pumping out water from the Kaye pit in preparation for mining. Foundation Resources have focused on the technical plans for the mining operations and the re-commissioning of the diamond processing plant. A significant amount of the infrastructure is still in place at Merlin and needs little work to be useable thus the capital cost is relatively low. It is expected that operations will recommence in October 2016.

Statement of Profit or Loss and Other Comprehensive Income

The Consolidated Entity does not have an ongoing source of revenue. Its revenue stream is normally from ad-hoc tenement disposals, sale of fixed assets, laboratory services, government grants and rebates and interest received on cash in bank.

In the current year, revenue was primarily from interest income generated from loans to other entities of $791,684 (2015: $626,469) and third party usage of the diamond processing laboratory of $nil (2015: $10,408). The Company generated $10,679 (2015: $12,524) in other income from fuel rebates and other interest income and a gain on derivate liability – convertible note of $162,000 (2015: $nil). Employee benefits expense decreased from $3,140,268 to $435,120 as a result of the focus on development planning rather than mining operations at the Merlin operations; consultancy fees increased from $759,708 to $919,217 due to increased costs in relation to promotion of the Company and financing activities; insurance expenses increased from $49,502 to $75,802; lease rental expenses decreased from $517,416 to $239,018 largely due to reduction of premises in Singapore; professional fees decreased from $207,828 to $139,041 primarily due to the taxation consulting work in relation to the research and development grant refund in 2015; travel expenses decreased from $127,188 in 2015 to $73,400 in 2016; depreciation expense was $17,826 (2015: $105,153); impairment of plant and equipment of $2,111,038 (2015:$nil); impairment of other receivable of $54,345 (2015: $3,560,854); exploration expenses written off decreased from $900,302 to $447,867 as the focus during the current year was development activities at Merlin; the Company recorded a loss on trading security of $370,800 (2015: gain $479,859); other expenses were $354,506 (2014: $602,512); and finance expense was $37,869 (2015: $20,030) being interest on borrowings.

The loss for the year was $4,311,522 (2015: $8,839,534), or 0.98 cents per share (2015: 2.60 cents per share).

Statement of Financial Position

At 30 June 2016, the Company had cash at bank of $1,906,830 compared to $115,940 at 30 June 2015. During the year, the Company's receivables and other current assets increased from $66,318 to $148,885; other receivables decreased from $793,821 to $789,771; plant and equipment decreased from $4,281,887 to $1,533,378 as the Company impaired plant and equipment that will not be required in 2016 for the planned mining operations at Merlin; and development expenditure has increased from $8,436,680 in 2015 to $12,122,129 in 2016.

At 30 June 2016, the Company had total current liabilities of $3,686,136 compared to $2,772,993 at 30 June 2015. As a result, the Company had at 30 June 2016 negative working capital of $1,624,401 (2015: $2,586,738) and net assets of $8,919,078 (2015: $10,338,452).

Cash Flow

During the year, the Company paid net cash of $959,904 (2015: $4,192,355) for operating activities; paid net cash of $648,585 (2015: $2,049,605) for investing activities with the key components being payments for development expenditure of $1,198,413 (2015: $3,546,999), research and development refund of $nil (2015 $4,526,013), proceeds from disposal of investment of $283,554 (2015: $nil), payments for new plant and equipment of $119,340 (2015: $471,890), payment to other entity of $736,602 (2015: $3,126,144), security deposits refunded by government departments of $4,050 (2015: $nil); and repayment by other entity of $1,118,166 (2015: $191,900); and received $3,399,379 (2015: $6,148,003) from financing activities with the key components being proceeds from capital raising activities $600,000 (2015: $4,562,500); proceeds from convertible note $500,000 (2015:$nil),loans from other entities and associates of $511,000 (2015: $3,034,371); other loans of $2,397,537 (2015: $nil), repayment of a loan from a director of $90,500 (2015: $319,226), repayment of a loan from other entities of $511,000 (2015: $1,205,155), and incurred transaction costs of $7,658 (2015: $124,987) on the capital raising activities.

3. Significant Change in State of Affairs

The Directors are of the opinion that other than that disclosed in the Principal Activities section of the Directors' Report, there have not been any significant changes in the state of affairs of the Company during the year under review.

4. Dividends

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this Annual Report.

5. Events After The End Of The Financial Year

Other than as disclosed in note 30 to the financial statements, there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature which in the opinion of the Directors of the Company, has significantly affected or may significantly affect:

- the operations of the Company
- the results of those operations, or
- the state of affairs of the Company

in financial years subsequent to this financial year.

6. Future Developments and Results

There are no likely developments of which the Directors are aware which could be expected to significantly affect the results of the Company's operations in subsequent financial years not otherwise disclosed in this Annual Report.

7. Options

On 17 September, 2013, the Company offered 7,925,000 options under the Merlin Diamonds Limited Incentive Option Scheme and 6,975,000 options 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. During the year and up to the date of this Report, 1,100,000 options have lapsed.

Included within the total remaining 4,200,000 options are options issued to the following executives.

Name	Position	Quantity
Peter Lee	Chief Financial Officer and Company Secretary	1,500,000

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The options have a life span 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. The option holders have no rights to participate in share issues until the options are exercised into shares.

On 4 December 2014, the Company offered 22,000,000 options under the Merlin Diamonds Limited Incentive Option Scheme and 22,000,000 options 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. During the year and up to the date of this Report, 3,000,000 options have lapsed.

Included within the total remaining 19,000,000 options are options issued to the following executives.

Name	Position	Quantity
Joseph Gutnick (i) (ii)	Former director	18,000,000
Henry Herzog (i) (ii)	Independent non-executive director	500,000
David Tyrwhitt (i) (ii)	Independent non-executive director	500,000

(i) As approved by shareholders at the 2014 annual general meeting
(ii) The options have a life span 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.

The option holders have no rights to participate in share issues until the options are exercised into shares.

Directors' Interests in Shares and Options

The relevant interest of each Director in the number of fully paid ordinary shares and options over fully paid ordinary shares of the Company disclosed by that Director to the Australian Securities Exchange as at the date of this Report is:

Director	Relevant Interest	
	Ordinary Shares	Options
M Z Gutnick	-	1,500,000
H Herzog	-	500,000
D S Tyrwhitt	-	500,000

8. Meetings of Directors

The number of meetings of Directors held including meetings of Committees of the Board during the financial year including their attendance was as follows:

	BOARD	
	ELIGIBLE TO ATTEND	ATTENDED
J I Gutnick	2	2
H Herzog	2	-
D Tyrwhitt	2	2

The Company also uses resolutions in writing to approve certain matters. During the year, 9 resolutions in writing were approved by all Directors.

Effective from November 2008 and September 2008 as a result of changes to the Board, the Remuneration Committee and Audit Committee respectively ceased and all matters that would usually fall to a Remuneration and Audit Committee are to be handled by the full Board, due to the size and composition of the Board.

9. Company Secretary

Mr Peter Lee is the Company Secretary of the Company. Mr Lee is a Member of the Institute of Chartered Accountants in Australia, a Fellow of Chartered Secretaries Australia Ltd., a Member of the Australian Institute of Company Directors and holds a Bachelor of Business (Accounting) from Royal Melbourne Institute of

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Technology. He has over 30 years commercial experience and is currently Chief Financial Officer and Company Secretary of several listed public companies in Australia and a Director, Chief Financial Officer and Secretary of a US Corporation listed on the over the counter market in the USA, Chief Financial Officer and Secretary of a further several US Corporations listed on the over the counter market in the USA and a Director of a company listed on the Toronto Venture Exchange. Age 59.

10. Indemnification of Directors, Officers and Auditors

The Company has entered into an Indemnity Deed with each of the Directors and certain former Directors which will indemnify them against a liability incurred to a third party (not being the Company or any related company) where the liability does not arise out of conduct including a breach of good faith. The Indemnity Deed will continue to apply for a period of 10 years after a Director ceases to hold office and a Director's Access and Insurance Deed with each of the Directors pursuant to which a Director can request access to copies of documents provided to the Director whilst serving the Company for a period of 10 years after the Director ceases to hold office. There will be certain restrictions on the Directors' entitlement to access under the deed. During the financial year, the Company paid a premium in respect of a contract to insure the Directors and Executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contact of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not, during or since the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred as an auditor.

11. Environment

The exploration and development activities of the Company are conducted in accordance with and controlled principally by Australian state and territory government legislation. The Company has exploration land holdings in Western Australia and Northern Territory. The Company employs a system for reporting environmental incidents, establishing and communicating accountability, and rating environmental performance. During the year data on environmental performance was reported as part of the monthly exploration reporting regime. In addition, as required under various state and territory legislation, procedures are in place to ensure that the relevant authorities are notified prior to the commencement of ground disturbing exploration activities.

The Company is committed to minimising the impact of its activities on the surrounding environment at the same time aiming to maximise the social, environmental and economic returns for the local community. To this end, the environment is a key consideration in our exploration activities and during the rehabilitation of disturbed areas. Generally rehabilitation occurs immediately following the completion of a particular phase of exploration. In addition, the Company continues to develop and maintain mutually beneficial relationships with the local communities affected by its activities.

12. Non- Audit Services

During the year, BDO, the Company's auditor, has performed certain other services in addition to their statutory duties. The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act is attached to the Directors' Report.

Details of the amounts paid to the auditor of the Company, BDO, and its related practices for audit and non-audit services provided during the year are set out below.

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		2016 $	2015 $
Statutory audit			
Auditors of the Company			
- audit and review of financial reports	- BDO[1]	59,460	51,703
- for taxation services	- BDO[1]	17,933	89,640

[1]BDO East Coast Partnership

The auditors performed no other services.

13. Remuneration Report – Audited

(i) Overview of Remuneration Policies

The Company employs certain staff in its own right and is managed by AXIS Consultants Pty Ltd ("AXIS") pursuant to a Service Deed dated 31 August 2009. In accordance with the arrangement with AXIS, it provides company secretarial, finance, geology, exploration, IT and other services to the Company.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company.

Remuneration levels for Directors of the Company are competitively set to attract and retain appropriately qualified and experienced Directors.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the Directors;
- the Directors' ability to control the Company's performance;
- the Company's performance including:
  - the Company's earnings
  - the growth in share price and returns on shareholder wealth

The Company's performance during the current year and over the past four years has been as follows:

	2016 $000s	2015 $000s	2014 $000s	2013 $000s	2012 $000s
Revenue	791	679	734	264	251
Net profit /(loss)	(4,312)	(8,840)	(11,959)	(7,358)	(4,906)
Basic loss per share (cents)	(0.98)	(2.60)	(5.52)	(4.19)	(4.13)
Diluted loss per share (cents)	(0.98)	(2.60)	(5.52)	(4.19)	(4.13)
Net assets	6,808	10,338	8,122	15,394	6,221

The Directors do not believe the financial or share price performance of the Company is an accurate measure when considering remuneration structures as the Company is in the mineral exploration industry. Companies in this industry do not have an ongoing source of revenue, as revenue is normally from ad-hoc transactions.

The more appropriate measure is the identification of exploration targets, identification and/or increase of mineral resources and reserves and the ultimate conversion of the Company from explorer status to mining status.

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(ii) Details of Directors, Executives and Remuneration

As noted in section (i), the Company employs certain persons in its own right and management services are provided to the Company by AXIS. AXIS pays the Executive Chairman and Managing Director's remuneration. AXIS invoices the Company for remuneration paid to the Company's Executives (not being Directors) based on the time the Executive spends in servicing the requirements of the Company. AXIS has provided the following information in regard to the amounts invoiced to the Company for the Directors and Executives in respect of all remuneration (as that term is defined in the Corporations Act 2001) received by the Directors and/or Executives in connection with the management of the affairs of the Company.

The names of the key management personnel in office during the year are as follows:

- J I Gutnick — Executive Chairman, Managing Director and Chief Executive Officer – Employed by AXIS
- D Tyrwhitt — Non-Executive Director – Employed by the Company
- H Herzog — Non-Executive Director– Employed by the Company
- P J Lee — Chief Financial Officer and Company Secretary - Employed by AXIS
- C A Michael — Executive General Manager - resigned 22 June 2016 – Employed by AXIS

In accordance with AASB 124, remuneration information for those key management personnel employed by AXIS are set out under the related party disclosures.

(iii) Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted upon by shareholders, is not to exceed $400,000 per annum. Non-Executive Directors' base fees are presently up to $36,000 per annum per Director. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of board committees. Non-Executive Directors do not receive any benefits on retirement.

(iv) Performance-Linked Remuneration

Performance linked remuneration focuses on long-term incentives and was designed to reward key management personnel for service and meeting or exceeding their objectives. Options granted to executives during financials period are not limited to any specific performance criteria. Options are and have been granted to retain key management personnel.

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(v) Remuneration

Details of the nature and amount of each major element of remuneration of each Director of the Company and each Executive of the Company are:

		Primary			Post-employment	Equity compensation	Termination Benefits		s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees $	Bonus $	Non-monetary benefits $	Super-annuation benefits $	Value of shares/options $		Total $		
Directors										
J Gutnick	2016	-	-	-	-	202,655	-	202,655	100%	100%
	2015	-	-	-	-	1,405,031	-	1,405,031	100%	100%
H Herzog	2016	-	-	-	36,000	5,629	-	41,629	13.5%	13.5%
	2015	-	-	-	*36,000*	*4,579*	-	*40,579*	*11.3%*	*11.3%*
D Tyrwhitt	2016	36,000	-	-	2,775	5,629	-	44,404	12.7%	12.7%
	2015	*36,000*	-	-	*2,775*	*4,579*	-	*43,354*	*10.6%*	*10.6%*
Total all Directors	2016	36,000	-	-	38,775	213,913	-	288,688		
	2015	*36,000*	-	-	*38,775*	*1,414,189*	-	*1,488,964*		
Executives										
P Lee	2016	-	-	-	-	11,781	-	11,781	100%	100%
	2015	-	-	-	-	26,859	-	26,859	100%	100%
C Michael	2016	-	-	-	-	(2,442)	-	(2,443)	100%	100%
	2015	-	-	-	-	27,472	-	27,472	100%	100%
Total all Executives	2016	-	-	-	-	9,339	-	9,339		
	2015	-	-	-	-	*54,331*	-	*54,331*		
Total all Directors & Executives	2016	36,000	-	-	38,775	223,252	-	262,027		
	2015	*36,000*	-	-	*38,775*	*1,468,520*	-	*1,543,295*		

The comparative balances for 30 June 2015 have been restated. The balances included at 30 June 2015 recognised amounts relating to equity compensation in full rather than over the relevant vesting period.

There were no STI cash bonuses, post-employment prescribed benefits, termination benefits or insurance premiums paid during 2016 or 2015 other than as disclosed.

AXIS Consultants Pty Ltd ("AXIS") provided key management personnel services to the Company. Included in the management fees paid to AXIS are fees for provision of key management personnel services of $232,235 (2015: $583,403). All charges were on commercial terms. These amounts are included within total management services of $1,508,324 (2015: $3,871,528).

(vi) Equity instrument disclosures relating to Directors and key management personnel

Options over equity instruments

	Held at beginning of year	Granted as remuneration	Value $	Forfeited	Value $	Held at end of year	Vested at end of year	Vested and exercisable at end of year	Vested and unexercisable at end of year
30 June 2016									
JI Gutnick (a)	18,000,000	-		-		18,000,000	6,000,000	6,000,000	12,000,000
H Herzog (a)	500,000	-		-		500,000	133,333	133,333	366,667
DS Tyrwhitt (a)	500,000	-		-		500,000	133,333	133,333	366,667
P J Lee (b)	1,500,000	-		-		1,500,000	1,000,000	1,000,000	500,000
C A Michael (a)(c)	3,000,000	-		3,000,000	80,800	-	-	-	
	23,500,000	-	-	3,000,000	80,800	20,500,000	7,266,666	7,266,666	13,233,334

	Held at beginning of year	Granted as remuneration	Value $	Forfeited	Value $	Held at end of year	Vested at end of year	Vested and exercisable at end of year	Vested and unexercisable at end of year
30 June 2015									
JI Gutnick	-	18,000,000	484,400	-		18,000,000	-	-	18,000,000
H Herzog	-	500,000	13,467	-		500,000	-	-	500,000
DS Tyrwhitt	-	500,000	13,467	-		500,000	-	-	500,000
C A Michael	-	3,000,000	80,800	-		3,000,000	-	-	3,000,000
P J Lee	1,500,000	-		-		1,500,000	500,000	500,000	1,000,000
M Kammermann (c)	500,000	-		500,000	13,466	-	-	-	-
C Fawcett (c)	500,000	-		500,000	13,466	-	-	-	-
	2,500,000	-	592,134	1,000,000	26,932	23,500,000	500,000	500,000	22,500,000

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(a) The options have a life of 5 years, were granted on 4 December 2014 and expire on 4 December 2019, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. The fair value of the options on grant date were $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 grant date. The Company has estimated a probability factor that the options will vest on a person by person basis.

(b) The options have a life of 5 years, were granted on 17 September 2013 and expire on 16 September 2018, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. The fair value of the options on grant date were $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 grant date. The Company has estimated a probability factor that the options will vest on a person by person basis.

(c) Options disclosed as forfeited were forfeited on termination.

Equity holdings and transactions

	Held at beginning of year	Purchases	Received as remuneration	Received on exercise of options	Other changes	Held at end of year
30 June 2016						
JI Gutnick	64,923,077	-	-	-	-	64,923,077
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
C A Michael	-	-	-	-	-	-
M Kammermann	-	-	-	-	-	-
C Fawcett	-	-	-	-	-	-
	64,923,077	-	-	-	-	64,923,077
30 June 2015						
JI Gutnick	-	-	18,000,000	-	46,923,077	64,923,077
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
C A Michael	-	-	-	-	-	-
M Kammermann	-	-	-	-	-	-
C Fawcett	-	-	-	-	-	-
E Magee	-	-	-	-	-	-
	-	-	18,000,000	-	46,923,077	64,923,077

(vii) Other transactions

Transactions with Directors

Transactions between the Company, related parties and other entities of which Mr JI Gutnick is a director during the year ended 30 June 2016 consisted of unsecured interest free advances to and repaid to the Company. There was no formal loan agreements.

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	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2016	2015	2016	2015
	$	$	$	$
Current payables to				
Advance from Perfectus Management Limited	-	6,403	-	-
Perfectus debt converted to equity	-	(950,000)	-	-
Repayment to Perfectus	-	(40,391)	-	-
Advance from Lenomi Holdings Limited	-	8,908	-	-
Repayment to Lenomi Holdings Limited	-	(89,519)	-	-
Advance from Brocho Investments Pty Ltd and Hoydu Nominees Pty Ltd ("Brocho")	511,000	-	-	-
Expenses incurred by Brocho on behalf on Merlin	326,000	-	-	-
Repayment to Brocho	(837,000)	-	-	-
Advance from JI Gutnick	-	194,806	-	90,500
Repayment to JI Gutnick	(90,500)	(145,875)	-	-
	(90,500)	**1,015,668**	**-**	**90,500**

Transactions with other entities

AXIS Consultants Pty Ltd ('AXIS'), a company of which Mr. J I Gutnick and Dr D S Tyrwhitt were directors during the year, provided management services to the Company for the year.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2016	2015	2016	2015
	$	$	$	$
Receivable/(payable) from/(to) other entity				
Advance to other entity	107,729	585,037	8,523,114	8,468,769
Repayment by other entity	(898,913)	(1,211,506)	-	-
Interest payable by other entity	791,184	626,469	-	-
Management services paid	1,508,324	3,871,528	-	-
Management services rendered	(1,508,324)	(3,871,528)	-	-
Impairment of receivable	(54,345)	(3,560,854)	(8,523,114)	(8,468,869)
	(54,345)	**(3,560,854)**	-	-

Unsecured advances have been made to AXIS with no fixed terms for the repayment of loans between the parties and they are unsecured. There are no formal loan agreements. The interest rate on monies advanced during the year ranged from 8.80% to 9.05% (2015: 8.84% to 9.34%). The nature of the consideration to be provided in settlement is through services provided or repayment in cash.

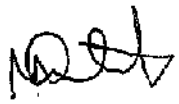
Loans to key management personnel

There were no loans made to Directors of the Company or other key management personnel of the Group during the year.

End of Remuneration Report which has been audited.

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Signed in accordance with a resolution of the Board of Directors at Melbourne this 30th day of September 2016.



MZ Gutnick
Director

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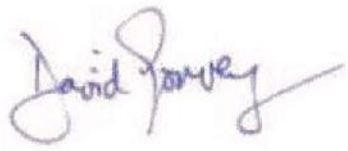
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DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF MERLIN DIAMONDS LIMITED

As lead auditor of Merlin Diamonds Limited for the year ended 30 June 2016, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



David Garvey
Partner

BDO East Coast Partnership

Melbourne, 30 September 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 year ended 30 June 2016

	Note	Consolidated 2016 $	Consolidated 2015 $
Revenue	3	791,648	679,153
Other income	4	10,679	12,524
Gain on derivative liability - convertible note	5	162,000	-
Employee benefits expense		(435,120)	(3,140,268)
Consultancy fees		(919,217)	(759,708)
Insurance expenses		(75,802)	(49,502)
Lease rental expenses		(239,018)	(517,416)
Professional fees		(139,041)	(207,828)
Travel expenses		(73,400)	(127,188)
Depreciation expenses	6	(17,826)	(105,153)
Impairment of other receivable	10	(54,345)	(3,560,854)
Exploration expensed	13	(447,867)	(900,302)
Net gain on disposal of plant and equipment		-	1,503
Net (loss)/gain on disposal of trading securities		(370,800)	479,859
Impairment of plant and equipment	12	(2,111,038)	-
Impairment of investment in associate		-	(27,457)
Other expenses		(354,506)	(602,512)
Finance expense	7	(37,869)	(20,030)
Share of profit of equity accounted investee (net of income tax)		-	5,645
Loss before income tax		**(4,311,522)**	(8,839,534)
Income tax expense	8	-	-
Loss for the year		**(4,311,522)**	**(8,839,534)**
Other comprehensive income for the year, net of income tax		(46,460)	(125,625)
Total comprehensive loss for the year		**(4,357,982)**	**(8,965,159)**
Loss attributable to members of Merlin Diamonds Limited		**(4,357,982)**	**(8,839,534)**
Total comprehensive loss attributable to members of Merlin Diamonds Limited		**(4,357,982)**	**(8,965,159)**
Basic loss per share (cents per share)	9	**(0.98)**	**(2.60)**
Diluted loss per share (cents per share)	9	**(0.98)**	**(2.60)**

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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Merlin Diamonds Limited
Statement of Financial Position
as at 30 June 2016

	Note	Consolidated 2016 $	Consolidated 2015 $
Assets			
Current Assets			
Cash and cash equivalents	22	1,906,830	115,940
Trade and other receivables	10	148,885	66,318
Inventories	11	6,020	3,997
Total current assets		**2,061,735**	**186,255**
Non-current Assets			
Other receivables	10	789,771	793,821
Other financial assets		-	654,353
Plant and equipment	12	1,533,378	4,281,887
Development expenditure	14	10,011,091	8,436,680
Total non-current assets		**12,334,240**	**14,166,741**
Total assets		**14,395,974**	**14,352,996**
Liabilities			
Current Liabilities			
Trade and other payables	15	3,541,821	2,615,355
Borrowings	18	-	90,500
Derivative liability at fair value	17	91,000	-
Provisions	19	53,315	67,138
Total current liabilities		**3,686,136**	**2,772,993**
Non-current Liabilities			
Borrowings	18	2,397,537	-
Convertible notes	16	274,866	-
Provisions	19	1,229,396	1,241,551
Total non-current liabilities		**3,901,799**	**1,241,551**
Total liabilities		**7,587,935**	**4,014,544**
Net assets		**6,808,040**	**10,338,452**
Equity			
Issued capital	20	143,818,724	142,991,154
Reserves	21	622,160	763,560
Accumulated losses		(137,632,844)	(133,416,262)
Total equity		**6,808,040**	**10,338,452**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Merlin Diamonds Limited
Statement of Changes In Equity
for the year ended 30 June 2016

	Consolidated			
	Issued capital $	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 year	-	-	(8,839,534)	(8,839,534)
Other comprehensive loss for the year, net of income tax	-	-	(125,625)	(125,625)
Total comprehensive loss for the year, net of tax	-	-	(8,965,159)	(8,965,159)
Transactions with owners, recorded directly in equity				
Employee incentive option scheme	-	225,107	-	225,107
Issue of shares	11,110,733	-	-	11,110,733
Transaction costs arising on share issues	(153,946)	-	-	(153,946)
Total transactions with owners	10,956,787	225,107	-	11,181,894
Balance at 30 June 2015	**142,991,154**	**763,560**	**(133,416,262)**	**10,338,452**
Balance at 1 July 2015	**142,991,154**	**763,560**	**(133,416,262)**	**10,338,452**
Loss for the year	-	-	(4,311,522)	(4,311,522)
Other comprehensive loss for the year, net of income tax	-	-	(46,460)	(46,460)
Total comprehensive loss for the year, net of tax	-	-	(4,357,982)	(4,357,982)
Employee options forfeited transferred to accumulated losses	-	(141,400)	141,400	-
Issue of shares	835,228	-	-	835,228
Transaction costs arising on share issues	(7,658)	-	-	(7,658)
Total transactions with owners	827,570	(141,400)	141,400	827,570
Balance at 30 June 2016	**143,818,724**	**622,160**	**(137,632,844)**	**6,808,040**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

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Merlin Diamonds Limited
Statement of Cash Flows
for the year ended 30 June 2016

	Note	Consolidated 2016 $	2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		-	11,390
Payments to suppliers and employees (inclusive of GST)		(780,271)	(3,801,005)
Payments for exploration expenditure		(180,148)	(445,319)
Interest received		515	42,579
Net cash used in operating activities	22	**(959,904)**	**(4,192,355)**
Cash flows from investing activities			
Research and development tax incentive		-	4,526,013
Payments for development expenditure		(1,198,413)	(3,546,999)
Proceeds from disposal of investment		283,554	-
Proceeds from disposal of plant and equipment		-	71,163
Payments for acquisition of plant and equipment		(119,340)	(471,890)
Payments for security deposits		-	306,352
Receipt of security deposits		4,050	-
Payment to other entity		(736,602)	(3,126,144)
Repayment by other entity		1,118,166	191,900
Net cash used in investing activities		**(648,585)**	**(2,049,605)**
Cash flows from financing activities			
Payment of finance lease liabilities		-	(38,779)
Proceeds from issue of equity securities		600,000	4,562,500
Proceeds from issue of convertible notes		500,000	-
Loan from Director		-	239,279
Repayment of loan from Director		(90,500)	(319,226)
Loan from others		2,397,537	-
Loans from other entities		511,000	3,034,371
Repayment of loan from other entities		(511,000)	(1,205,155)
Equity securities issue transaction costs		(7,658)	(124,987)
Net cash from financing activities		**3,399,379**	**6,148,003**
Net decrease in cash and cash equivalents		1,790,890	(93,957)
Cash and cash equivalents at 1 July		115,940	209,897
Cash and cash equivalents at 30 June	22	**1,906,830**	**115,940**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

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1. Summary of significant accounting policies

Merlin Diamonds Limited (the 'Company') is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates.

The consolidated financial statements were authorised for issue by the Board of Directors on 29 September 2016.

(a) 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.

Any significant impact on the accounting policies of the Company from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit orientated entities. The financial statements also comply with International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board ('IASB').

Historical Cost Convention

The consolidated financial statements have been prepared on the historical cost basis, 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.

Going concern

The financial report has been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Company has incurred a loss of $4,311,522 in the year to 30 June 2016, had net cash operating outflow of $959,904 for the year ended 30 June 2016 and has negative working capital of $1,624,401 at 30 June 2016. In order to continue as a going concern, the Company will be required to raise further capital to meet its commitments, ongoing financial support from AXIS Consultants Pty Ltd and the continued support of creditors. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Directors believe the going concern basis to be appropriate for the reasons set out below. In considering whether the Company is a going concern, the Directors note that shareholders in general meeting on 6 September 2016 approved the issue of up to 4,392,054 of convertible notes to raise $4,392,054. Subsequent to balance date, the Company has raised $2,631,180 through the issue of convertible notes (refer note 15 for details). On 12 September 2016, the Company announced the planned re-commencement of mining operations at the merlin diamond mine which is expected to occur in October 2016. The capital cost of the operations is relatively low given a significant amount of the infrastructure is still in place at the mine site. The Directors are confident of meeting its capital

raising plans due to the success the Company has previously had raising capital. The directors have continued to manage creditors and are confident in the ability of AXIS Consultants to provide support if required. 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.

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Group's functional currency.

Foreign currency translation

The financial report is presented in Australian dollars, which is Merlin Diamonds Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Critical accounting estimates

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

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Development expenditure

Note 1(l) contains information about the assumptions and risk factors relating to exploration, evaluation and development expenditure impairment.

Fair Value of Financial Instruments

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 17).

Share based payment transactions

Share-based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all subsidiaries for the year then ended.

The effect of all transactions between entities in the group and the inter-entity balances are eliminated in full in preparing the consolidated financial statements.

Subsidiaries are all those entities over which the consolidate entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

(c) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Diamond revenue

Diamond sales revenue is recognised when it is received.

Interest revenue

Interest is brought to account as income over the term of each financial instrument on an effective interest basis.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

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(d) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Tax consolidation legislation

Merlin Diamonds Limited and its wholly-owned Australian controlled entities have not implemented the tax consolidation legislation.

(e) Goods and services tax and similar taxes (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment

whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash generating units.

(g) Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade and other receivables are generally due for settlement within 30 days.

Collectability of trade and other receivables is reviewed on an ongoing basis. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

(i) Financial instruments

Recognition, Initial Measurement and Derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and Subsequent Measurement of Financial Assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Loans and receivables ; or
- financial assets at Fair Value Through Profit or Loss ('FVTPL')

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, except for impairment of trade receivables which is presented within other expenses.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

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Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for derivatives and financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Loans and receivables are included in current assets except those which are expected to mature within 12 months after the reporting period.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(j) Plant and equipment

Plant and equipment is stated at historical cost, less accumulated depreciation and impairment. Historical cost includes all expenditure that is directly attributable to acquisitions of the items.

Depreciation is calculated on a straight line basis to write off the net cost of each item of, plant and equipment over their expected useful lives.

The residual values useful lives (being 2 to 5 years) and depreciation methods are reviewed and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its recoverable amount (see note 1(f)).

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or estimated useful life of assets, whichever is shorter.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. The assets' residual values and useful lives (being 3 to 5 years) are reviewed and adjusted as appropriate at each balance date. An asset carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its recoverable amount (see note 1(f)).

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

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Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(k) Exploration, evaluation and development assets

Exploration and evaluation expenditure is charged against earnings as incurred and included as part of cash flows from operating activities.

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest' to determine whether expenditure is expensed as incurred or capitalised as an asset. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Pre-production costs are deferred as development costs until such time as the asset is capable of being operated in a manner intended by management. Capitalised expenses then becomes active asset and is depreciated. Post-production costs are recognised as a cost of production.

Capitalisation of development expenditure ceases once the mining property is capable of commercial production, at which point it is transferred into a separate mining asset.

Any development expenditure incurred once a mine property is in production is immediately expensed to the Statement of Profit or Loss and Other Comprehensive Income except where it is probable that future economic benefits will flow to the entity, in which case it is capitalised as property, plant and equipment.

Information used in the review process is rigorously tested to externally available information as appropriate.

(l) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing operating loss attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(m) Inventories

Raw materials, diamond stock and stores are stated at the lower of cost and net realisable value.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are recognised initially at fair value plus directly

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attributable transaction costs and subsequently at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method.

(p) Convertible notes at fair value through profit or loss

Convertible Notes can be settled, at the option of the note holder, by making a cash payment to the note holder or by the issue of shares. The embedded derivative component of the convertible note is initially measured at fair value and is subsequently measured at fair value through profit or loss at the end of each reporting period.

(q) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings and interest on finance leases.

(r) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be wholly settled within 12 months of the reporting date are recognised in current liabilities – provisions in respect of employees' services up to the reporting date and are measured as the amount expected to be paid when the liabilities are settled.

Long service leave

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in the non-current liabilities – provisions, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payment to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-Based payments

Share-based compensation benefits are provided to participants via the Merlin Diamonds Limited 2013 Incentive Share Option Plan. The fair value of performance rights and options granted under the Plan is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at grant date and is determined using an appropriate valuation methodology.

(s) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(t) Transfer from reserves

The balance of the share option reserve is transferred to accumulated losses once the options have expired.

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(u) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2016. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (applicable to accounting annual reporting periods beginning on or after 1 January 2016). This standard makes amendments to AASB 101 Presentation to Financial Statements arising from the IASB's Disclosure Initiative Project. The amendments are designed to encourage companies to apply professional judgement in determining what information to disclose in the financial statements. The amendments also clarify that companies should use professional judgement in determining where and in what order information is to be presented in the financial disclosures. There will be no significant impact on the Company's results on the adoption of this standard. The Company is currently reviewing financial report structures and disclosures.

AASB 9 Financial Instruments (December 2014) and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018). This new principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The Company does not expect that this standard will have a significant impact on its financial statements.

IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (applicable to annual reporting periods beginning on or after 1 January 2018). This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The Company is yet to access the impact of the amendment on the financial position or financial performance of the Company

2. Segment Reporting

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

3. Revenue

		Consolidated 2016 $	2015 $
Provision of laboratory services		-	10,408
Interest income		464	42,276
Interest income – other entities	24	791,184	626,469
Total revenue		**791,648**	**679,153**

4. Other income

	Consolidated 2016 $	2015 $

Fuel tax credits	10,679	10,326
Asset usage	-	1,600
Other	-	598
	10,679	**12,524**

5. Gain on derivative liability

	Consolidated	
	2016	**2015**
	$	**$**
Convertible notes (Note 17)	**162,000**	-

6. Depreciation expenses

	Consolidated	
	2016	**2015**
	$	**$**
Depreciation of plant and equipment	664,364	750,722
Less transfer to exploration/development	(646,538)	(645,569)
Depreciation expense	**17,826**	**105,153**

7. Finance expense

	Consolidated	
	2016	**2015**
	$	**$**
Bank charges	(1,118)	(2,639)
Borrowing costs	(36,751)	(17,391)
Total finance expense	**(37,869)**	**(20,030)**

8. Income tax

	Consolidated	
	2016	**2015**
	$	**$**
Total tax expense comprises		
Current tax expense	-	-
Deferred tax expense	-	-
	-	-

Reconciliation between tax expense and pre-tax accounting profit

	Consolidated	
	2016	**2015**
	$	**$**
Loss before tax	(4,311,522)	(8,839,860)
Income tax benefit on loss at Australian tax rate of 30% (2015: 30%)	660,145	2,651,958
Reversal of prior period impairment of investment	-	(6,544)

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	Consolidated 2016 $	2015 $
in associate		
Impairment of plant and equipment	(633,311)	-
Non-assessable income	-	143,958
Non-deductible expenses	(114,007)	(41,377)
Gain on derivative liability – convertible note	48,600	-
Capital raising	64,037	64,126
Provision for loan receivable	(16,304)	(1,068,256)
Capitalised development expenditure	(119,900)	(249,594)
Movement in other temporary differences	1,011,784	706,828
	1,534,355	2,201,099
(Under)/over provided in prior years	(71)	346,010
Current year benefits/(losses) for which no deferred tax asset was recognised	(1,534,284)	(2,547,109)
Change in previously unrecognised temporary differences, including losses	-	-
Income tax expense	-	-

Deferred tax assets and liabilities

Consolidated	Assets 2016 $	Assets 2015 $	Liabilities 2016 $	Liabilities 2015 $
Accrued income	-	-	(2,556,934)	(2,540,874)
Capitalised exploration and evaluation expenditure	-	-	-	-
Capitalise development expenditure	-	-	(3,636,729)	(2,531,004)
Employee benefits	13,765	21,886	-	-
Other accruals and provisions	643,245	609,412	-	-
Capital raising costs	111,091	172,360	-	-
Tax losses	31,247,332	29,713,048	-	-
Deferred tax assets/(liabilities)	**32,015,433**	**30,516,706**	**(6,193,663)**	**(5,071,878)**
Set off of deferred tax liabilities	(6,193,663)	(5,071,878)	6,193,663	5,071,878
Net deferred tax assets/(liabilities)	**25,821,770**	**25,444,828**	-	-
Net deferred tax assets not recognised	(25,821,770)	(25,444,828)	-	-
Net deferred tax assets/(liabilities)	-	-	-	-

	Consolidated 2016 $	2015 $
Unused tax losses for which no deferred tax asset has been recognised	**104,157,774**	**99,043,492**
Potential tax benefit @ 30%	**31,247,332**	**29,713,048**

All unused tax losses were incurred by Australian entities. Merlin Diamonds Limited and its wholly-owned Australian-controlled entities have not implemented tax consolidation legislation. The

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availability of tax losses are however subject to applicable tax legislation which could result in the potential benefit not being realised.

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

9. Loss per share

	2016	2015
Basic loss per share (cents)	(0.98)	(2.60)
Diluted loss per share (cents)	(0.98)	(2.60)

The loss used for the purposes of calculating basic and diluted loss per share are as follows:

	2016 $	2015 $
Loss attributable to ordinary shareholders (basic)	(4,311,522)	(8,839,534)
Loss attributable to ordinary shareholders (diluted)	(4,311,522)	(8,839,534)

The weighted average number of shares used for the purposes of calculating diluted loss per share reconciles to the number used to calculate basic loss per share as follows:

	2016 Shares	2015 Shares
Weighted average number of shares		
Basic loss per ordinary share denominator	440,164,074	335,510,869
Effect of share options on issue	-	-
Diluted loss per ordinary share denominator	440,164,074	335,510,869

For the years ended 30 June 2015 and 30 June 2016, options were not considered to be dilutive as the conversion would result in a reduced loss per share. The options were therefore excluded from the weighted average number of shares in the calculation of loss per share.

10. Trade and other receivables

	Consolidated 2016 $	2015 $
Current		
Receivables due from other entity (note 27)	8,523,114	8,468,769
Impairment provision	(8,523,114)	(8,468,769)
Other receivables	48,030	31,357
Prepayments	100,855	34,961
Total current receivables	**148,885**	**66,318**
Non-current		
Security deposits	789,771	793,821
Total non-current receivables	**789,771**	**793,821**

The Group's exposure to credit risk related to trade and other receivables are disclosed in note 26.

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11. Inventory

	Consolidated 2016 $	2015 $
Fuel stores – at cost	6,020	3,997
	6,020	**3,997**

12. Plant and equipment

	Field and plant equipment $	Office equipment $	Vehicles $	Leased Vehicles $	Work in progress $	Total $
Cost						
Balance at 1 July 2014	9,451,700	408,830	427,846	256,847	170,095	10,715,318
Additions	81,520	35,667	-	-	189,468	306,655
Disposals	(219,628)	(369,608)	(29,570)	(80,851)	-	(699,657)
Transfers and other movements	189,468	24,767	180,215	(175,996)	(189,468)	28,986
Balance at 30 June 2015	**9,503,060**	**99,656**	**578,491**	**-**	**170,095**	**10,351,302**
Balance at 1 July 2015	9,503,060	99,656	578,491	-	170,095	10,351,302
Additions	117,090	-	-	-	-	117,090
Disposals	(3,075)	(3,111)	-	-	(90,095)	(96,281)
Impairment of plant and equipment	(2,510,920)	-	-	-	-	(2,510,920)
Transfers and other movements	(3,577)	1,091	(234,806)	-	-	(237,292)
Balance at 30 June 2016	**7,102,578**	**97,636**	**343,685**	**-**	**80,000**	**7,623,899**
Accumulated depreciation						
Balance at 1 July 2014	5,068,864	155,625	368,343	148,094	-	5,740,926
Depreciation for the year	628,305	103,661	14,572	4,184	-	750,722
Disposals	(219,103)	(204,449)	(891)	(11,499)	-	(435,942)
Transfers and other movements	-	13,376	141,112	(140,779)	-	13,709
Balance at 30 June 2015	**5,478,066**	**68,213**	**523,136**	**-**	**-**	**6,069,415**
Balance at 1 July 2015	5,478,066	68,213	523,136	-	-	6,069,415
Depreciation for the year	629,414	20,841	14,109	-	-	664,364
Disposals	(3,075)	(2,908)	-	-	-	(5,983)
Impairment of plant and equipment	(399,882)	-	-	-	-	(399,882)
Transfers and other movements	(3,577)	990	(234,806)	-	-	(237,393)
Balance at 30 June 2016	**5,700,946**	**87,136**	**302,439**	**-**	**-**	**6,090,521**

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Carrying amounts						
At 1 July 2014	4,382,836	253,205	59,503	108,753	170,095	4,974,392
At 30 June 2015	4,024,994	31,443	55,355	-	170,095	4,281,887
At 1 July 2015	4,024,994	31,443	55,355	-	170,095	4,281,887
At 30 June 2016	**1,401,632**	**10,500**	**41,246**	-	**80,000**	**1,533,378**

13. Exploration expenditure

	Consolidated 2016 $	2015 $
Balance at 1 July	-	-
Expenditure incurred	447,867	900,302
Amount written off	(447,867)	(900,302)
Balance at 30 June	**-**	**-**

14. Development expenditure

	Consolidated 2016 $	2015 $
Balance at beginning of year	8,436,680	11,124,957
Expenditure incurred	1,574,411	1,837,737
Research & development claim recovery	-	(4,526,014)
Carrying amount at end of year	**10,011,091**	**8,436,680**

15. Trade and other payables

	Note	Consolidated 2016 $	2015 $
Trade payables		2,554,299	2,162,929
Accruals		987,522	452,426
Total trade and other payables		**3,541,821**	**2,615,355**

16. Convertible notes

	Consolidated 2016 $	2015 $
Non current		
Convertible notes	274,866	-
	274,866	-

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 ("Tranche 1 Convertible Notes"). Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The accrued interest at 30 June 2016 is $27,866. The notes are convertible into fully paid ordinary shares of the parent entity at conversion

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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 secured.

A term of the Tranche 1 Convertible Notes was that if further convertible notes were issued with terms better than the terms of the Tranche 1 Convertible Notes, then the terms of the Tranche 1 Convertible Notes would be automatically amended to be consistent with the terms of the Tranche 2 Convertible Notes (refer Note 18).

Due to the terms of the secured convertible notes, there is an embedded derivative liability which is measured at fair value as a derivative instrument (refer Note 17).

17. Derivative Liabilities at fair value

	Note	Consolidated 2016 $	2015 $
Non current			
Carrying amount at 1 July		-	-
Recognition of derivative from convertible		253,000	-
Fair value movement		(162,000)	-
		91,000	-

Due to the terms of the convertible notes (refer Note 16) there is an embedded derivative liability. The derivative liability is measured at fair value on date of issue and remeasured at fair value at subsequent reporting periods, with a gain/loss in the statement of profit or loss and other comprehensive income. Refer to Note 1 for further details.

The value of the derivative fluctuates with the Company's underlying share price and the time to expiry. The change in the value of the derivatives between inception and 30 June 2016 is due to the difference in the share price between inception and 30 June 2016.

The derivative liability is measured at fair market value and is a Level 2. The fair value of the Level 2 embedded derivative has been estimated using the forward pricing model. The options were valued using an amended Black Scholes methodology. The key inputs were a share price of $0.02, exercise price of $0.05, volatility of 98 and a risk-free rate of 2.03% which gave rise to a fair value of $0.0091.

A fair value gain was recorded of $162,000 based on a valuation of the notes at 30 June 2016. The carrying value of the convertible notes at 30 June 2016 approximates their fair value at that date.

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18. Borrowings

	Note	Consolidated 2016 $	2015 $
Current			
Loans due to Director		-	90,500
		-	**90,500**
Non current			
Loans - other		2,397,537	-
		2,397,537	-

Loans - other

The loans - other are unsecured notes, interest is to be charged at the rate of 10%, payable on repayment of the notes and there are no fixed terms for repayment of the notes between parties.

On 6 September 2016, shareholders approved the issue of up to 4,392,054 10% convertible notes, with a face value of $1.00 each with an expiration date of 36 months from the date of issue; and 292,805,064 options for total proceeds of $4,392,054. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The notes are convertible into fully paid ordinary shares of the parent entity at conversion price of 1.5 cents or the 5 day VWAP ending on the ASX trading day immediately preceding the date of the relevant conversion notice, whichever is lower. 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. As a result, 1,100,000 of the loans other (notes) have been converted into 1,100,000 convertible notes. Furthermore, $750,000 of the loans – other (notes) have been converted into ordinary shares.

19. Provisions

	Employee Entitlements $	Rehabilitation $	Lease Makegood/ Demobilisation $	Total $
Balance at 1 July 2015	72,953	1,115,069	120,667	1,308,689
Provisions used during the year	(49,937)	-	-	(49,937)
Provisions made during the year/revised	22,867	-	1,092	23,959
Balance at 30 June 2016	**45,883**	**1,115,069**	**121,759**	**1,282,711**
At 30 June 2015				
Current	31,471	-	35,667	67,138
Non-current	41,482	1,115,069	85,000	1,241,551
Total provisions	**72,953**	**1,115,069**	**120,667**	**1,308,689**
At 30 June 2016				
Current	16,556	-	36,759	53,315
Non-current	29,327	1,115,069	85,000	1,229,396
Total provisions	**45,883**	**1,115,069**	**121,759**	**1,282,711**

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20. Capital and reserves

Ordinary share capital

	2016 No. shares	2015 No. shares	2016 $	2015 $
Balance at beginning of year	**431,334,750**	**261,480,396**	**142,991,154**	**132,034,367**
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
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	-
Consulting and promotional fees 11 May 2016 @ 2.2 cents per share	10,692,204	-	235,228	-
Transaction costs arising on share issues	-	-	(7,658)	(153,946)
Balance at end of year	**451,257,719**	**431,334,750**	**143,818,724**	**142,991,154**

Holders of ordinary shares are entitled to one vote per share at shareholder meetings. In the event of winding up of the Company, ordinary shareholders are fully entitled to any proceeds of liquidation subject to prior entitlement.

Option holders are not entitled to participate in any share issue of the Company or any other body corporate and have no voting rights at shareholder meetings.

21. 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 year ended June 30, 2016	
	Number of options	Weighted average exercise price $
Balance at beginning of year	27,300,000	0.15
Granted during the year	-	-
Expired during the year	-	-
Forfeited during the year	(4,100,000)	0.15
Balance at end of year	23,200,000	0.15
Exercisable at end of year	-	-

During the year ended June 30, 2016 the Company recognised a net expense of $nil (2015: $225,107) within the profit and loss component of the Statement of Profit or Loss and Other Comprehensive Income.

(b) **Options outstanding at the end of the year ended June 30, 2016**

The share options outstanding at June 30, 2016 had a weighted average exercise price of $0.15 and a weighted average remaining contractual life of 3.21 years.

(c) **Options forfeited during the period**

During the year ended June 30, 2016 4,100,000 options were forfeited.

22. Cash and cash equivalents

	Consolidated	
	2016 $	2015 $
Cash at bank and on hand	1,906,830	115,940
Cash and cash equivalents	**1,906,830**	**115,940**
Cash and cash equivalents in the Statement of Cash Flows	**1,906,830**	**115,940**

The Group's exposure to interest rate risk is disclosed in note 26.

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Reconciliation of cash flows from operating activities

	Consolidated	
	2016	2015
	$	$
Loss for the year	(4,311,522)	(8,839,534)
Adjustments for		
Depreciation	17,826	270,734
Exploration expensed	447,867	900,302
Loss/(gain) on marketable security	370,800	(479,859)
Gain on derivative liability – convertible	(162,000)	-
Impairment of plant and equipment	2,111,038	-
Impairment of investment in associate	-	27,457
Share of loss in associate	-	(5,645)
Share/option based expenses	235,228	-
Employee incentive share/option based expenses	-	1,465,307
Impairment of receivable other entity	54,345	3,560,854
	(1,236,418)	(3,100,384)
Change in trade and other receivables	(82,568)	588,707
Change in trade and other payables	359,082	(1,680,678)
Net cash used in operating activities	(959,904)	(4,192,355)

23. Contingencies

Contingent liabilities

Merlin Diamond Mine Acquisition

Pursuant to the Sale and Purchase Agreement entered into with Ashton Mining Limited for the Merlin Diamond Mine Lease, the following contingent milestone payments exist: $200,000 on completing the first bulk sample of kimberlite from a new kimberlite pipe of at least 200 tonnes; and $100,000 for each subsequent and discrete bulk sample of kimberlite of at least 200 tonnes from additional kimberlite pipes, where the diamond grade of the kimberlite bulk sample is in excess of 10 carats per 100 tonnes. In March 2010, Legend International Holdings, Inc. acquired from Ashton Mining Limited the right to be paid the milestone payments. The milestone payments are secured by a mortgage over the Merlin Diamond Mine tenement.

24. Commitments

Exploration expenditure

In order to maintain mining tenements, the Group is committed to meet the prescribed conditions under which the tenements were granted. Minimum Mines Department annual expenditure commitments on tenements held are as follows:

	Consolidated	
	2016	2015
	$	$
Due within one year	386,537	631,656
Due later than one year and not later than five years	670,930	1,116,083
Due later than five years	462,031	693,110
	1,519,498	**2,440,849**

Pursuant to the Mineral Rights Deed with Top End Minerals Limited, $nil (2015: $236,088) of the committed expenditure is payable by Top End Minerals Limited. The Group's net annual expenditure commitments on tenements held are as follows:

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	Consolidated 2016 $	2015 $
Due within one year	-	631,656
Due later than one year and not later than five years	-	1,116,083
Due later than five years	-	693,110
	-	2,440,849

25. Group entities

Parent company

The parent company of the Group is Merlin Diamonds Limited.

	Ownership interest 2016 %	2015 %
Parent entity		
Merlin Diamonds Limited		
Subsidiaries		
Striker Diamonds Pty Ltd	100	100
Merlin Operations Pty Ltd	100	100
Merlin Diamonds Pte Ltd	100	100
Merlin Diamonds (North Australia) Ltd	100	100

All shares owned in Group entities are ordinary shares. All companies are incorporated in Western Australia other than Merlin Diamonds Pte Ltd (dormant) which is incorporated in Singapore and Merlin Diamonds (North Australia) Ltd which is incorporated in Israel.

26. Financial instruments

The Group's activities expose it to a variety of financial risks, market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of the financial performance of the Group.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange risk, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group does not operate internationally and therefore its exposure to foreign exchange risk arising from currency exposures is limited. The Group has limited exposure to equity security price risk that arises from investments held by the Group. No sensitivity analysis has been performed as any effect will be minimal at this stage of the Group's life.

Interest rate risk

Interest rate risk arises from investment of cash at variable rates. Any excess funds are kept in a cash on deposit account and transferred to the operating account as required. The Group's income and operating cash flows are not materially exposed to changes in market interest rates.

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At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	Consolidated Carrying amount 2016 $	2015 $
Variable rate instruments		
Cash and cash equivalents	1,906,830	115,940
Security deposits	22,741	26,791
Receivables due from other entity	-	-
	1,929,571	**142,731**

An increase of 100 basis points (decrease of 100 basis points) in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015. The following table summarises the sensitivity of the Group's financial assets (cash) to interest rate risk:

		Profit or loss		Equity	
Consolidated	Carrying amount $	100 bp increase $	100 bp decrease $	100 bp increase $	100 bp decrease $
30 June 2016					
Variable rate instruments					
Cash and cash equivalents	1,906,830	19,068	(19,068)	19,068	(19,068)
Receivables due from other entity	-	-	-	-	-
	1,906,830	**19,068**	**(19,068)**	**19,068**	**(19,068)**
30 June 2015					
Variable rate instruments					
Cash and cash equivalents	115,940	1,159	(1,159)	1,159	(1,159)
Receivables due from other entity	-	-	-	-	-
	115,940	**1,159**	**(1,159)**	**1,159**	**(1,159)**

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed on a group basis. The Group has no significant concentration of credit risk other than receivables due from other entity which the Company has fully provided for. Credit risk arises from cash and cash equivalents held with the bank and financial institutions, receivables due from associates and other entities, and receivables for the provision of laboratory services. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group has policies in place to ensure that sale of products and services are made to customers with appropriate credit history.

The maximum exposure to credit risk is the carrying amount of the financial asset. The maximum exposure to credit risk at the reporting date was:

	Consolidated 2016 $	2015 $

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Cash and cash equivalents	1,906,830	115,940
Receivables	48,030	31,357
Security deposits	789,771	793,821
	2,744,631	**941,118**

Impairment loss

The aging of the Group's loans and receivables at the reporting date was:

	At 30 June 2016		At 30 June 2015	
	Gross $	Impairment $	Gross $	Impairment $
Current	-	-	-	-
31 – 60 days	48,030	-	31,357	-
61 – 90 days	-	-	-	-
91 days and over	8,523,114	(8,523,114)	8,468,769	(8,468,769)
	8,571,114	**(8,523,114)**	**8,500,126**	(8,468,769)

Movement in the provision for impairment of the Group's loans and receivables that are assessed for impairment are as follows:

	Consolidated	
	2016 $	2015 $
At July	(8,468,769)	(4,907,915)
Provision for impairment recognised during the year	(54,345)	(3,560,854)
At June	**(8,523,114)**	**(8,468,769)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's liquidity risk arises from operational commitments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Management aims at maintaining flexibility in funding by regularly reviewing cash requirements and monitoring forecast cash flows.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount $	Total contractual cash flows $	6 months or less $	7 to 12 months $	1 to 5 years $
30 June 2016					
Financial liabilities					
Trade and other payables	3,541,821	3,541,821	3,541,821	-	
Borrowings	2,397,537	3,116,799	-	-	3,116,799
Convertible note	274,866	357,324	-	-	357,324
	6,214,224	**7,015,944**	**3,541,821**		**3,474,123**

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30 June 2015				
Financial liabilities				
Trade and other payables	2,615,355	2,615,355	2,615,355	-
Borrowings	90,500	90,500	90,500	-
	2,705,855	**2,705,855**	**2,705,855**	-

Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair value. Fair value approximates carrying value due to the short term nature of these instruments.

Capital management

The Group's policy in relation to capital management is for management to regularly and consistently monitor future cash flows against expected expenditures for a rolling period of up to 12 months in advance. The Board determines the Group's need for additional funding by way of either share placements or loan funds depending on market conditions at the time. Management defines working capital in such circumstances as its excess liquid funds over liabilities, and defines capital as being the ordinary share capital of the Group.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Related party transactions

Group

The Group consists of Merlin Diamonds Limited and its wholly-owned controlled entities (Striker Diamonds Pty Ltd, Merlin Operations Pty Ltd, Merlin Diamonds Pte Ltd and Merlin Diamonds (North Australia) Ltd).

The percentage ownership of ordinary shares in subsidiaries are disclosed in note 25 to the financial statements.

The Company employs certain staff in its own right and is managed by AXIS Consultants Pty Ltd ("AXIS Consultants") pursuant to a Service Deed dated 31 August 2009. In accordance with the arrangement with AXIS Consultants, it provides company secretarial, finance, geology, exploration, IT and other services to the Company

Key management personnel employed by the Company

Disclosures relating to key management personnel are set out in the remuneration report in the directors' report

	2016 $	2015 $
Short-term employee benefits	36,000	36,000
Post-employment benefits	38,775	38,775
Employee share options	223,252	1,468,520
	262,027	**1,543,295**

Key management personnel employed by AXIS

In accordance with AASB 124, remuneration information for those key management personnel employed by AXIS are set out below:

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Transactions with related parties

Transactions between the Company, related parties and other entities during the year ended 30 June 2015 and 2016 consisted of services provided to Top End Minerals Limited (formerly equity accounted) pursuant to the Administration and Technical Services Agreement between the Company and Top End Minerals Limited which had a value of $114,138 (2015:$110.000). The amount payable by Top End Minerals Limited at 30 June 2016 was $nil (2015: $nil).

Transactions with Directors

Transactions between the Company, related parties and other entities of which Mr JI Gutnick was a director during the year ended 30 June 2016 consisted of unsecured interest free advances to and repaid to the Company. There was no formal loan agreements.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2016 $	2015 $	2016 $	2015 $
Current payables to				
Advance from Perfectus Management Limited	-	6,402	-	-
Perfectus debt converted to equity	-	(950,000)	-	-
Repayment to Perfectus	-	(40,391)	-	-
Advance from Lenomi Holdings Limited	-	8,910	-	-
Repayment to Lenomi Holdings Limited	-	(89,521)	-	-
Advance from Brocho Investments Pty Ltd and Hoydu Nominees Pty Ltd("Brocho")	511,000	-	-	-
Expenses incurred by Brocho on behalf on Merlin	326,000	-	-	-
Repayment to Brocho	(837,000)	-	-	-
Advance from JI Gutnick	-	234,585	-	90,500
Repayment to JI Gutnick	(90,500)	(185,154)	-	-
	(90,500)	**(1,015,169)**	**-**	**90,500**

Transactions with other entities

AXIS Consultants Pty Ltd ('AXIS'), a company of which Mr. J I Gutnick and Dr D S Tyrwhitt were directors during the year, provided management services to the Company for the year.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2016 $	2015 $	2016 $	2015 $
Receivable/(payable) from/(to) other entity				
Advance to other entity	107,729	585,037	8,523,114	8,468,869
Repayment by other entity	(898,913)	(1,211,506)	-	-
Interest payable by other entity	791,184	626,469	-	-
Management services paid	1,508,324	3,871,528	-	-
Management services rendered	(1,508,324)	(3,871,528)	-	-

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2016	2015	2016	2015
	$	$	$	$
Impairment of receivable	(54,345)	(3,560,854)	(8,523,114)	(8,468,869)
	(54,345)	(3,560,854)	-	-

Unsecured advances have been made to AXIS with no fixed terms for the repayment of loans between the parties and they are unsecured. There are no formal loan agreements. The interest rate on monies advanced during the year ranged from 8.80% to 9.05% (2015: 8.84% to 9.34%). The nature of the consideration to be provided in settlement is through services provided or repayment in cash.

28. Auditors remuneration

	Consolidated	
	2016	2015
	$	$
Audit services		
BDO[1]		
Audit and review of financial reports	59,460	51,703
Other services		
BDO[1]		
Taxation services	17,933	89,640
	77,393	141,343

[1]BDO East Coast Partnership.

29. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2016, the parent company of the Group was Merlin Diamonds Limited.

	Company	
	2016	2015
	$	$
Result of the parent entity		
Loss for the year	(1,990,319)	(10,218,770)
Other comprehensive income	-	-
Total comprehensive loss for the year	(1,990,319)	(10,218,770)
Financial position of the parent entity at year end		
Current assets	2,168,003	978,314
Total assets	15,724,677	13,155,639
Current liabilities	3,252,036	2,005,256
Total liabilities	6,159,766	2,342,738

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Total equity of the parent entity comprising of:		
Issued capital	143,818,724	142,991,153
Reserves	622,160	763,560
Accumulated losses	(134,875,973)	(132,941,812)
Total equity	**9,564,911**	**10,812,901**

Parent entity contingencies

Financial Support – controlled entities

The parent entity has given unsecured undertakings to its controlled entities that it intends to provide the necessary financial support to enable them to meet their obligations as and when they fall due.

No material losses are anticipated in respect of the above contingent liabilities.

Parent entity commitments

Exploration expenditure

In order to maintain mining tenements, the Company is committed to meet the prescribed conditions under which the tenements were granted. Minimum Mines Department annual expenditure commitments on tenements held are as follows:

	Company	
	2016	**2015**
	$	**$**
Due within one year	133,070	335,089
Due later than one year and not later than five years	410,374	540,283
Due later than five years	428,326	544,326
	971,770	**1,419,698**

30. Subsequent events

Subsequent to balance date, the Company has issued 1,481,180 convertible notes for $1,481,180, on the same terms and conditions set out in note 16 and 18. Other than this matter and the matters disclosed elsewhere in the financial statements or outlined below, no matters or circumstance have arisen since 30 June 2016 that have a significant effect on the Company.

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Directors' Declaration

The Directors of Merlin Diamonds Limited (the 'Company') declare that:

(a) In the Directors' opinion the financial statements and notes set out on pages 14 to 43 and the Remuneration Report in the Directors Report set out on pages 6 to 11 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards adopted by the International Accounting Standards Board (IASB) as disclosed in note 1; and

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

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2015.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 30th day of September 2016

M Z Gutnick
Director

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INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Diamonds Limited

Report on the Financial Report

We have audited the accompanying financial report of Merlin Diamonds Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 report.

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.

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Opinion

In our opinion:

(a) the financial report of Merlin Diamonds Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(a) in the 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, continued financial support from AXIS Consultants Pty Ltd and subsequent successful re-commencement of mining operations at the consolidated entity's tenements. These conditions, along with other matters as set out in Note 1(a), 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Merlin Diamonds Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

David Garvey
Partner

Melbourne, 30 September 2016

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Merlin Diamonds Limited
Australian Securities Exchange Information

As at 28 September 2016, the following information applied:

1. Substantial Shareholders

Substantial shareholders disclosed in substantial shareholder notices to the Company:

Name	Number of Fully Paid Ordinary Shares held
Regal Fund LP	75,162,755
Mazil Pty Ltd, Great Central Gold Limited and Joseph Gutnick	64,923,077
S H Rayburn Nominees Pty Ltd	32,761,229
ISR Investments Ltd	39,763,636
Blumont Group Ltd	27,538,461
Dr Vigneswaran T Subramaniam	26,666,667
Newton Centre Development Limited	24,000,000
Lim Kuan Yew	21,600,000

2. Fully Paid Ordinary Shares

The number of holders of fully paid ordinary shares in the Company is 5,602. On a show of hands every holder of fully paid ordinary shares present or by proxy, shall have one vote. Upon a poll, each share shall have one vote. The distribution of holders of fully paid ordinary shares is as follows:

Category		Number of Shareholders
Holding between	1-1,000 Shares	3,292
Holding between	1,001 - 5,000 Shares	1,321
Holding between	5,001 – 10,000 Shares	388
Holding between	10,001-100,000 Shares	489
Holding more than	100,001 Shares	112

The number of holders with less than a marketable parcel of fully paid ordinary shares is 5,256. The Company's fully paid ordinary shares are quoted on the Australian Securities Exchange using the code MED.

The top 20 shareholders are as follows:

Name	Number of Fully Paid Ordinary Shares held	Percentage interest
Citicorp Nominees Pty Ltd	88,986,902	16.30%
Regals Fund LP	50,000,000	9.16%
BNP Paribas Noms Pty Ltd	40,060,933	7.34%
ABN Amro Clearing Sydney Nominees Pty Ltd	35,662,899	6.53%
SH Rayburn Nominees Pty Ltd	32,761,229	6.00%
Mazil Pty Ltd	32,307,692	5.92%
Mr Emmanuel Max Green and Mrs Sharon Green	26,346,941	4.83%
Newton Centre Development Limited	24,000,000	4.40%
Lim Kuan Yew	21,600,000	3.96%
Trinity Management Pty Ltd	18,000,000	3.30%
Holdex Nominees Pty Ltd	16,000,000	2.93%
Great Central Gold Limited	14,615,385	2.68%
Ledger Holdings Pty Ltd	12,100,000	2.22%
Blumont Group Ltd	11,538,461	2.11%
Edwin Sugiarto	9,000,000	1.65%
ValueAdmin. Com Pty Ltd	7,692,204	1.41%
Aethia Capital Pte Ltd	6,666,666	1.22%

Merlin Diamonds Limited
Australian Securities Exchange Information

Name	Number of Fully Paid Ordinary Shares held	Percentage interest
MJGD Nominees Pty Ltd	4,317,090	0.79%
Mr Ari Kantor	4,307,692	0.79%
Martin Suman	4,000,000	0.73%

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Merlin Diamonds Limited
Tenement List

Tenement	Project	State	Holder	Status	% Interest (End of Quarter)
EL26944	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100%
EL28914	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28915	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28916	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28917	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28918	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28919	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28920	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28921	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28922	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28923	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28924	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28925	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28926	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28927	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28928	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28929	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28930	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28931	Merlin	NT	Merlin Diamonds Limited	Application	100%
EL28932	Merlin	NT	Merlin Diamonds Limited	Application	100%
M80/526	Seppelt	WA	Merlin Diamonds Limited	Granted	100%
M80/532	Seppelt	WA	Merlin Diamonds Limited	Granted	100%
M80/492	Ashmore	WA	Striker Diamonds P/L	Granted	100%
MLN1154	Merlin	NT	Merlin Operations Pty Ltd	Granted	100%
EL10189	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100% Diamond rights only
EL10230	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24701	Arnhem Land	NT	Merlin Diamonds Limited	Application	0%
EL25970	Arnhem Land	NT	Merlin Diamonds Limited	Application	0%
EL25973	Arnhem Land	NT	Merlin Diamonds Limited	Application	0%
EL25974	Arnhem Land	NT	Merlin Diamonds Limited	Application	0%
EL25975	Arnhem Land	NT	Merlin Diamonds Limited	Application	0%
EL26206	Arnhem Land	NT	Merlin Diamonds Limited	Granted	100% Diamond rights only
EL28066	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28067	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28068	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28069	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28070	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only

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Merlin Diamonds Limited
Tenement List

Tenement	Project	State	Holder	Status	% Interest (End of Quarter)
EL28071	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29398	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29399	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29400	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29401	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29402	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29403	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29407	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29408	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29409	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29410	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29411	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29412	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29413	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29414	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL29567	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL6532	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only
EL8681	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only
EL8682	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only

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Merlin Diamonds Limited
Corporate Information

Directors
Mordechai Gutnick
Henry Herzog
David Tyrwhitt

Company Secretary
Peter Lee

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Legal Form
A public company limited by shares

Country of Incorporation
Australia

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Link Market Services Limited
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Australia

Telephone:	1300 554 474 or + 61 3 9615 9999
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Australian Securities Exchange Listing Code
MED