
Merlin Diamonds Limited

ABN 86 009 153 119

ANNUAL REPORT 2015

Merlin Diamonds Limited
Review of Activities

Dear Shareholder

During the year a feasibility study (“FS”), as defined by the 2012 JORC Code, was conducted to assess the technical and economic feasibility of using mechanical clamshell grab mining (via a floating ‘Mining Barge’) and the existing diamond recovery plant at the Merlin Diamond Mine to recover diamonds contained within Merlin’s Indicated Mineral Resource.

The FS assessed the background site details, existing infrastructure, geological and geotechnical parameters, mechanical clamshell grab mining methodology, the proposed processing plant upgrade, a diamond valuation model, appropriate modifying factors, mine planning, a recoverable Mineral Resource and financial evaluation which culminated in a Probable Ore Reserve estimate.

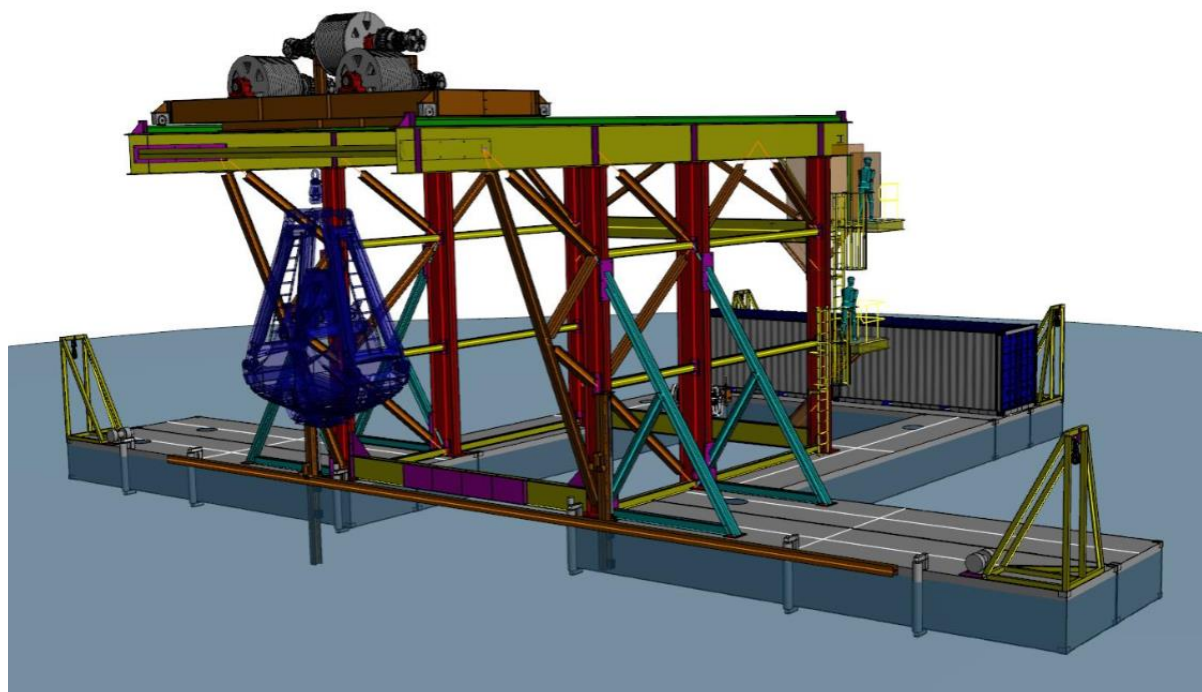
Table 1 below summarises the results of the FS and the current Mineral Resource and Ore Reserve estimates:

Table 1: Summary results of the Feasibility Study, Ore Reserve and Mineral Resource estimates

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

1. Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.
2. The Indicated Mineral Resource estimate is inclusive of the Probable Ore Reserve estimate. The Probable Ore Reserve is not additional material to the Mineral Resources.

In June 2015 preliminary design work for the Mining Barge was completed. This included two work packages involving the initial structural design of the crane gantry frame and the initial design of the associated hydraulic power system.



Merlin Diamonds Limited
Review of Activities

The Mining Barge Design

Background

Merlin Diamonds Ltd wholly owns the Merlin Diamond Mine located near Borroloola, Northern Territory, Australia. There are 13 known diamond-bearing kimberlite pipe vents on the Merlin mine lease (MLN 1154). Ten of the kimberlite pipe vents have been previously mined by Ashton Mining Ltd (“Ashton”) and Rio Tinto Ltd (“Rio”) via nine open pits.

Ashton commenced trial mining operations in 1998. Rio completed a takeover of Ashton in 2000 and continued the trial mining until 2003. In 2004, North Australian Diamonds Ltd acquired the project from the Rio Tinto parties and current management took control in 2008. During the 5 years of trial mining operations over 2.2 million tonnes were processed with 507,000 carats of diamonds recovered. Rio’s mining records and diamond sales data from this period has enabled Merlin to compile detailed and reliable grade and value models for the kimberlite pipes assessed in the FS.

The area is highly prospective for diamond-bearing kimberlite pipes and Merlin continues to undertake exploration on the Merlin mine lease and adjacent tenements. Merlin has over 80 targets identified through geophysical survey and diamond indicator mineral anomalies in the Merlin mine area.

Mineral Resources and Ore Reserves

Merlin’s Mineral Resource and Ore Reserve estimates were last updated 30 September 2014 and there have been no material changes in the underlying assumptions and technical parameters underpinning these estimates. . For a full description of these estimates, including material changes since the last estimates and Table 1 of the 2012 JORC Code please see the Company’s announcement of 30 September 2014 on our website titled “*Mechanical Clamshell Grab Mining Feasibility Study, Probable Ore Reserve Estimate and Mineral Resource Estimate Update*”. The Company is not aware of any new information or data that materially affects the information included in this announcement. These estimates have been reviewed and are considered to remain valid as at 30 June 2015.

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

Probable Ore Reserve Estimate

The combined Probable Ore Reserve for all diamond pipes at the Merlin diamond mine is 4.04 million tonnes for an average grade of 15 carats per hundred tonnes (cpht) representing a total contained 0.61 million carats. The Probable Ore Reserve has been estimated on mechanical clamshell mining methods and is the result of the feasibility study completed in September 2014.

PROBABLE ORE RESERVE SUMMARY @ +5DTC lower cutoff					
PIPE	VOLUME (Mbcm)	DENSITY (t/m ³)	PROBABLE ORE RESERVE (Mt)	GRADE (cpht)	RESERVE (Mcts)
Ywain	0.03	2.1	0.06	58	0.03
Gawain	0.13	2.1	0.27	32	0.08
Excalibur	0.12	2.0	0.25	31	0.08
Palomides	0.17	2.3	0.39	17	0.07
Launfal	0.05	2.4	0.13	14	0.02
Gareth	0.04	2.1	0.08	19	0.02
Kaye	0.58	1.8	1.04	12	0.13
Ector	0.90	2.0	1.83	10	0.19
TOTAL	2.02	2.0	4.04	15	0.61

Merlin Diamonds Limited
Review of Activities

Mbcm = million bank cubic metres, t/m³ = tonnes per cubic metre, Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.

Inferred and Indicated Mineral Resource Estimates

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

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

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

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

³Insufficient data available to determine cut-off grade for Tristram and Bedevere pipes.

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

The information in this report that relates to Ore Reserves is based on information compiled by Dr David Tyrwhitt, a Competent Person who is a Fellow of The Australasian Institute of Mining and Metallurgy. Dr Tyrwhitt is employed by DS Tyrwhitt & Associates and is a Director of Merlin Diamonds Ltd. Dr Tyrwhitt has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Tyrwhitt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

This Probable Ore Reserve is not additional material to the Mineral Resource estimates reported below but is included within the Indicated category of the Mineral Resource estimate.

Rounding of tonnage and carats may result in computational discrepancies.

EXPLORATION OVERVIEW

Merlin Mining Lease (ML1154) and near Mine

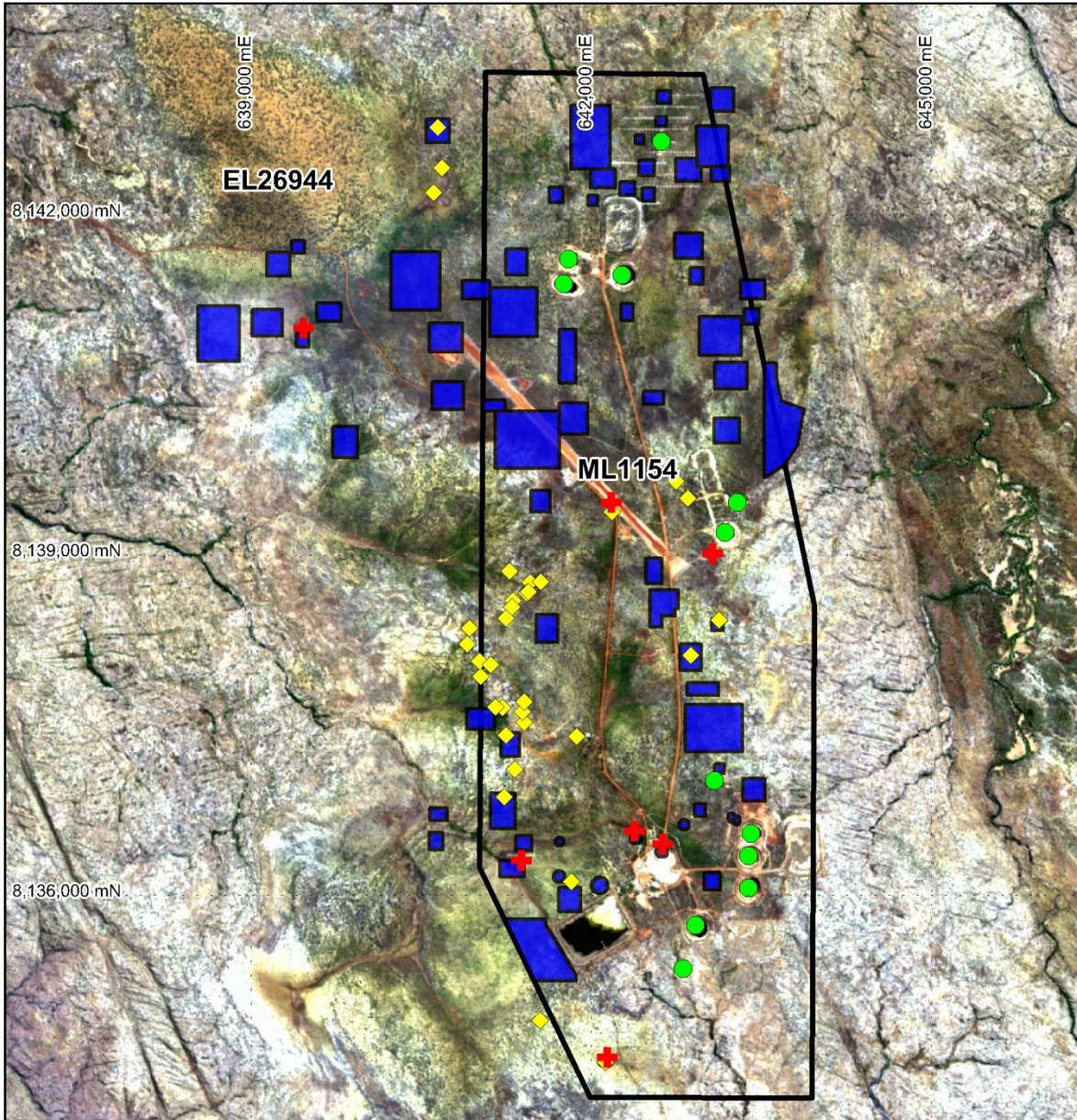
Summary of Previous Work





Review of all available historical data was completed in 2014 with the identification of 80 new target areas that require further investigation. Seven of these targets are ready for immediate drilling (Figure 1).

Merlin Diamonds Limited
Review of Activities

Exploration activity earlier in the year included EM34 surveying of several of the targets. Interpretation of the survey results was ongoing during the year.

During 2013 the Company's field personnel completed an extensive heavy mineral sampling program on ML1154 and EL26944 targeting areas where sampling density was considered insufficient. Kimberlitic chromites have been recovered from a number of these samples in an area where no known kimberlites occur (Figure 1). This area has been poorly explored in the past relative to other parts of the mining lease and these new results are highly encouraging. High resolution ground electromagnetic surveying will be undertaken to define drilling targets.



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

Borroloola Alluvial Diamond Project

The Borroloola Project comprises exploration licences EL24512 and EL24082 (Figure 2). Alluvial gravels are exposed at surface on EL24512 in an area covering 5km². However, the total area which could potentially host alluvial gravel

Merlin Diamonds Limited
Review of Activities

deposits on the Company's tenements is yet to be explored and is in the order of 300km². This significantly increases the opportunity to identify a large volume alluvial diamond deposit.

During 2011 the Company completed a bulk sampling program on an area of outcropping gravel. Material from three costeans, 3,000 tonnes in total, was processed at the Merlin diamond mine, yielding 22 stones with a total weight of 1.09 carats. Thirteen of the recovered diamonds were white in colour including the largest two at 0.19 and 0.25 carats. All costeans were rehabilitated to the satisfaction of the Department of Mines and Energy.

The Borroloola Alluvial Diamond Project represents a significant and unique opportunity to explore for a large volume, alluvial diamond deposit.

Arnhem Land Exploration

The Company's Arnhem Land project consists of 1 granted exploration licence (EL26206). A further 47 exploration licences are currently at the application stage and are held by the Company either outright or under joint venture agreements with other parties (Figure 3).

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

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

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

WESTERN AUSTRALIAN PROJECTS

Kimberley Diamond Projects

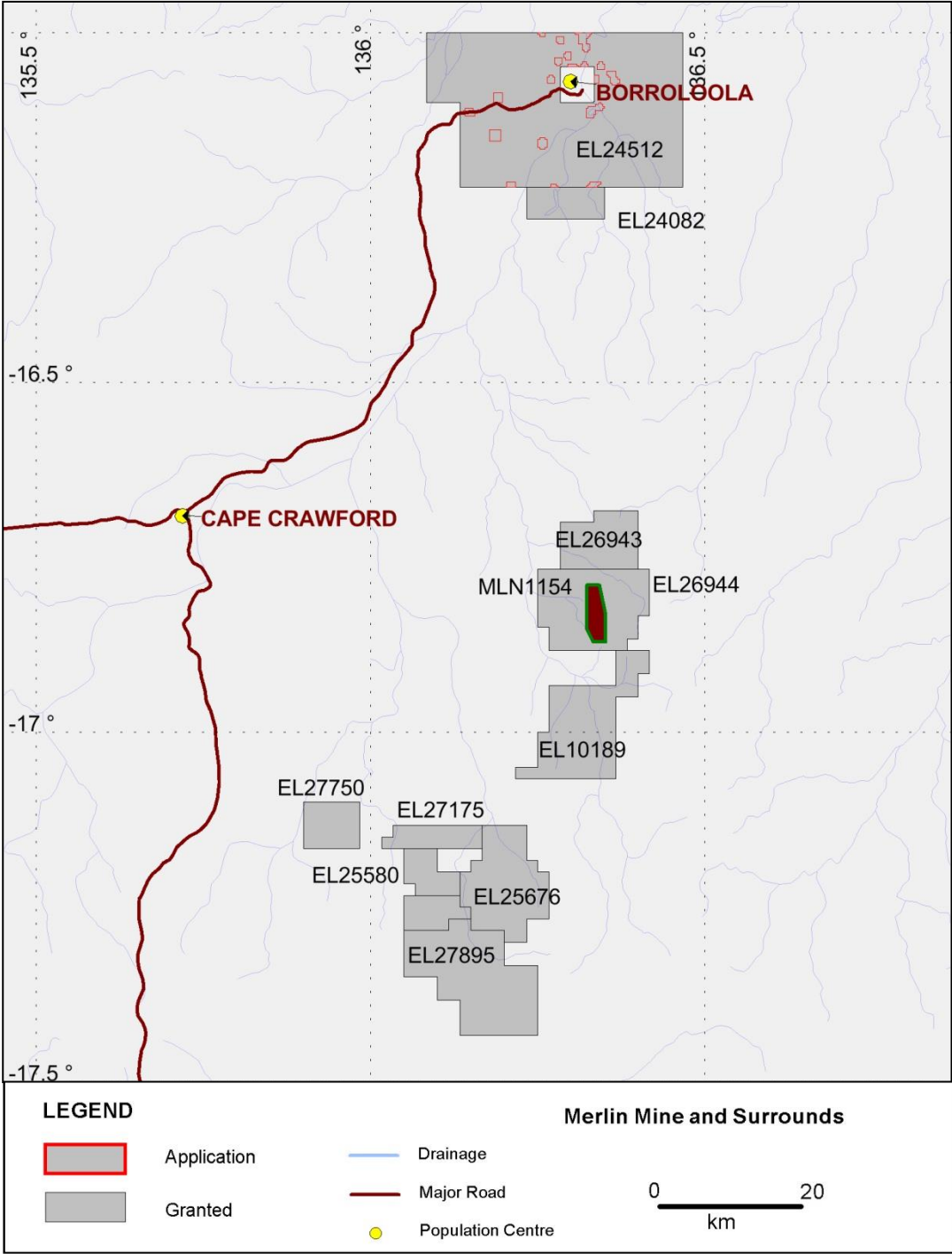
The Company holds three mining licences (M80/492, M80/26 and M80/532) in the Kimberley region of Western Australia (Figure 4). The licences host a number of diamondiferous kimberlite pipes, which the Company has previously evaluated to identify a JORC Compliant Inferred Resource of 869,000 carats. The Company continues to hold the mining licences as they retain commercial potential. The information in the table below was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

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

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

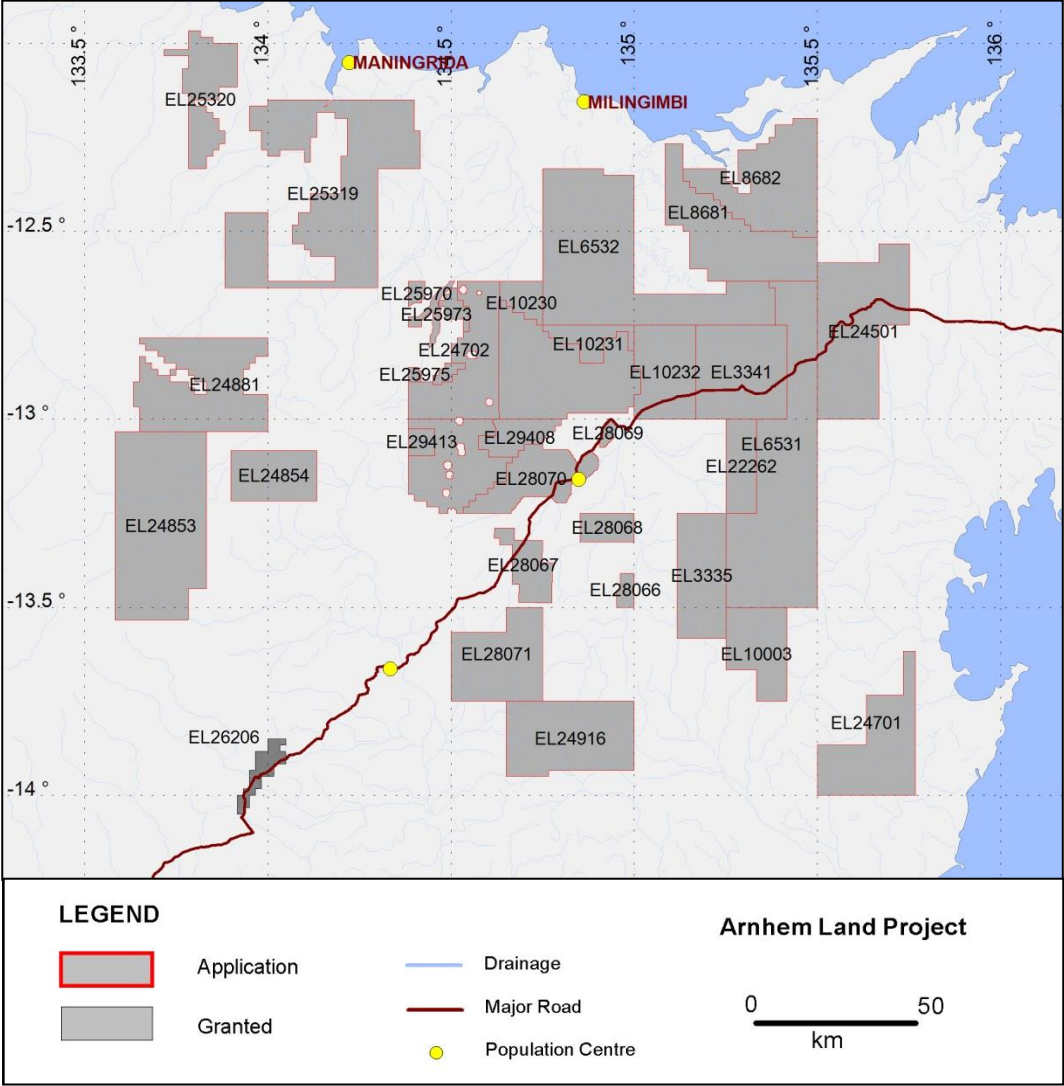
Merlin Diamonds Limited
Review of Activities

Figure 2 Merlin Diamond Mine and Surrounding Areas



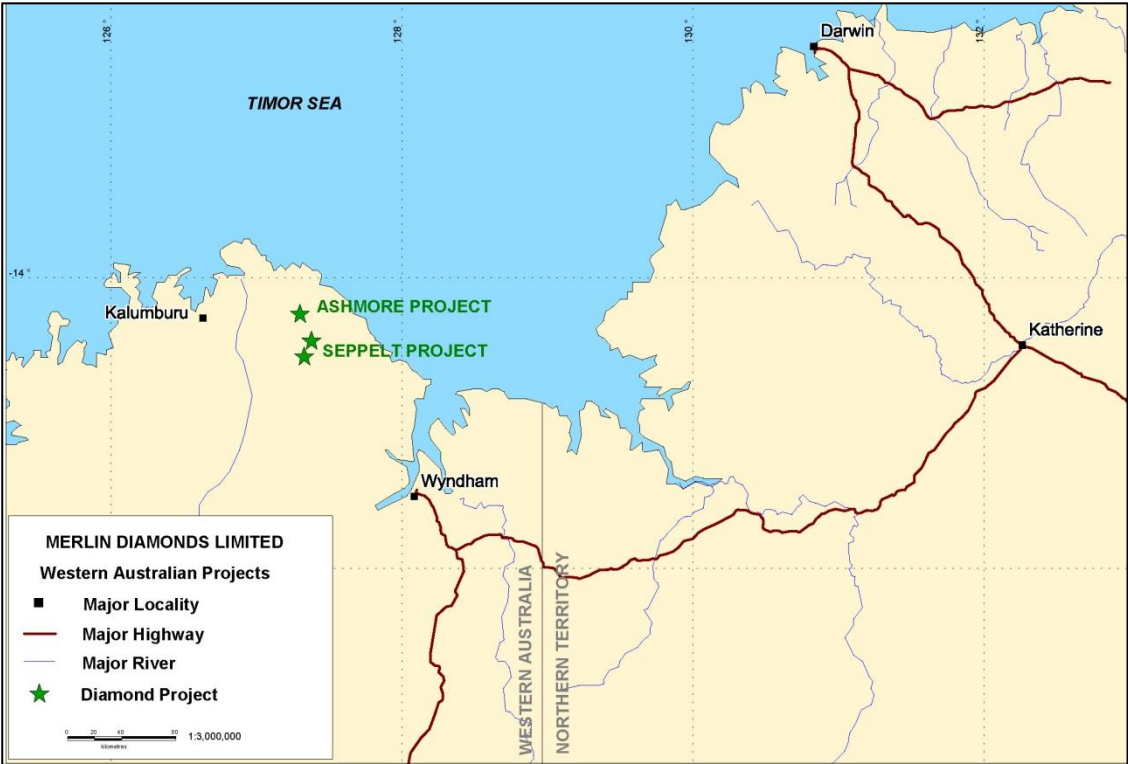
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Review of Activities

Figure 3 Arnhem Land Project Locations



Merlin Diamonds Limited
Review of Activities

Figure 4 Western Australia Project Locations



J. I. Gutnick
Joseph Gutnick
Executive Chairman

Merlin Diamonds Limited
Directors' Report

The Directors of Merlin Diamonds Limited present their report for the year ended 30 June 2015.

1. Directors

The Directors of the Company in office since 1 July 2014 and up to the date of this Report are:

Current Directors

Mr Joseph Gutnick, FAusIMM FAIM MAICD
Executive Chairman, Managing Director and Chief Executive Officer

Mr Gutnick is a leading mining industry entrepreneur. He has been a Director of the Company since 2008. He is currently Executive Chairman, President and Chief Executive Officer of numerous listed public companies in both Australia and North America including Legend International Holdings, Inc., Golden River Resources Corporation, Northern Capital Resources Corp, Great Central Resources Corp, Top End Minerals Limited, Aurum, Inc. and Consolidated Gems, Inc; and was a Director of Quantum Resources Limited and Non-Executive Chairman of Blackham Resources Limited in the last five years. Mr Gutnick has been responsible for overseeing the discovery of the Plutonic gold deposit, and the discovery, development and operation of the world class Bronzewing and Jundee gold mines in Australia. He was awarded the Diggers award at the 1997 Diggers and Dealers Industry Awards and is a former Director of the World Gold Council. Age 63

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 and is currently also a Director of Legend International Holdings, Inc. 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 72

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 Legend International Holdings, Inc., 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.

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 activities whilst providing a safe workplace and ensuring best practice in relation to its environmental obligations.

Merlin Diamonds Limited
Directors' Report

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

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 diamond sales of \$nil (2014: \$268,124) as no diamonds were sold; third party usage of the diamond processing laboratory of \$10,408 (2014: \$5,160); and interest income generated from loans to other entities of \$626,469 (2014: \$444,926). The Company generated \$54,800 (2014: \$48,318) in other income from fuel rebates and other interest income. Employee benefits expense decreased from \$3,681,261 to \$3,140,268 as a result of the focus on development planning rather than mining operations at the Merlin operations; consultancy fees increased from \$636,024 to \$759,708 due to increased costs in relation to marketing of the Company and financing activities; insurance expenses decreased from \$69,882 to \$49,502; lease rental expenses decreased from \$570,644 to \$517,416 largely due to reduction of premises in Singapore; professional fees increased from \$173,336 to \$207,828 primarily due to the taxation consulting work in relation to the research and development grant refund; travel expenses decreased from \$169,117 in 2014 to \$127,188 in 2015 as a result of the relocation of a director from Singapore to Melbourne which reduced travel costs; depreciation expense was \$105,153 (2014: \$136,135); impairment of other receivable of \$3,560,854 (2014: \$4,907,915); exploration expenses written off decreased from \$1,230,695 to \$900,302 as the focus during the current year was development activities at Merlin; loss on disposal of plant and equipment was \$1,503 (2014: \$32,225), the Company recorded a gain on trading security of \$479,859 (2014: \$nil); other expenses were \$602,512 (2014: \$792,578); and the impairment of associate of \$27,457 (2014: reversal of a prior period impairment \$601,948) as a result of the increase in losses of the associate. During the year, finance expense was \$20,030 (2014: \$101,965) being interest on borrowings. The share of the equity accounted profit of TEM was \$5,645 (2014: loss \$841,877) as TEM ceased to be an associate during the year following a dilution in the Company's equity interest in TEM to 15.57% with the controlling shareholder of TEM holding 46.24%.

The loss for the year was \$8,839,534 (2014: \$11,959,043), or 2.60 cents per share (2014: 5.52 cents per share).

Statement of Financial Position

At 30 June 2015, the Company had cash at bank of \$115,940 compared to \$209,897 at 30 June 2014. During the year, the Company's receivables and other current assets decreased from \$654,617 to \$66,318; the investment in equity accounted associate TEM decreased from \$196,306 to \$nil as TEM ceased to be an associate during the year following a dilution in the Company's equity interest in TEM to 15.57% with the controlling shareholder of TEM holding 46.24%; other receivables decreased from \$1,176,730 to \$793,821; the continuing holding of TEM is a non-current asset under the category of trading securities and is valued at market value of \$654,353; plant and equipment decreased from \$4,974,392 to \$4,281,887 as the Company transferred unallocated items to development expenditure as it prepared for mining operations at Merlin. During the year, the Company received a research and development grant refund of \$4,526,014 which in accordance with accounting standards is treated as a reduction of development expenditure.

At 30 June 2015, the Company had total current liabilities of \$2,772,993 compared to \$9,011,474 at 30 June 2014. As a result, the Company had at 30 June 2015 negative working capital of \$2,586,738 and net assets of \$10,338,452.

Cash Flow

During the year, the Company paid net cash of \$4,192,355 (2014: \$6,910,815) for operating activities; paid net cash of \$2,049,605 (2014: \$1,549,831) for investing activities with the key components being the receipt of a research and development tax incentive of \$4,526,013 (2014: \$nil), payments for development expenditure of \$3,546,999 (2014: \$5,105,601), proceeds from disposal of plant and equipment of \$71,163 (2014: \$nil), payments for new plant and equipment of \$471,890 (2014: \$204,652), payment of security deposit for mining operations of \$306,352 (2014: \$nil), Payment to other entity of \$3,126,144 (2014: \$nil), security deposits

Merlin Diamonds Limited
Directors' Report

refunded by government departments of \$nil (2014: \$192,681); and repayment by other entity of \$191,900 (2014: \$3,567,741) and received \$6,148,003 (2014: \$6,744,863) from financing activities with the key components being proceeds from capital raising activities \$4,562,500 (2014: \$3,700,000); loans from other entities and associates of \$3,034,371 (2014: \$670,784); other loans of \$239,279 (2014: \$2,405,669), repayment of a loan from a director of \$319,226 (2014: \$nil), repayment of a loan from other entities of \$1,205,155 (2014: \$nil), payment for finance leases of \$38,779 (2014: \$4,210), and incurred transaction costs of \$124,987 (2014: \$27,380) 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 28 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, 1,675,000 options have lapsed.

Included within the total 6,975,000 options are options issued to the following executives.

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

- (i) 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, no options have lapsed.

Merlin Diamonds Limited
Directors' Report

Included within the total 22,000,000 options are options issued to the following executives.

Name	Position	Quantity
Joseph Gutnick (i) (ii)	Executive Chairman and Chief Executive Officer	18,000,000
Craig Michael (ii)	Executive General Manager	3,000,000
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
J I Gutnick	64,923,077	18,000,000
H Herzog	-	500,000
D 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, 11 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 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 58

Merlin Diamonds Limited
Directors' Report

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 contract 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.

	2015	2014
	\$	\$
Statutory audit		
Auditors of the Company		
- audit and review of financial reports - BDO ¹	51,703	58,013
- for taxation services - BDO ¹	89,640	16,500

¹BDO East Coast Partnership

The auditors performed no other services.

Merlin Diamonds Limited
Directors' Report

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:

	2015 \$000s	2014 \$000s	2013 \$000s	2012 \$000s	2011 \$000s
Revenue	679	734	264	251	588
Net profit /(loss)	(8,840)	(11,959)	(7,358)	(4,906)	(4,047)
Basic loss per share (cents)	(2.60)	(5.52)	(4.19)	(4.13)	(0.03)
Diluted loss per share (cents)	(2.60)	(5.52)	(4.19)	(4.13)	(0.03)
Net assets	10,338	8,122	15,394	6,221	7,846

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.

(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.

Merlin Diamonds Limited
Directors' Report

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/Executive Director (resigned 9 May 2014 – Employed by AXIS
- E Magee Operations Manager – Merlin diamond mine – Employed by the Company – resigned 23 August 2013
- C Fawcett General Manager Operations - Employed by the Company - (appointed 12 August 2013, resigned 23 May 2014)
- M Kammermann Exploration Manager – Employed by AXIS resigned 29 December 2014

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) General Manager Operations – Merlin diamond mine

Mr Fawcett had an employment agreement with the Company dated 10 July 2013. The contract had no fixed term and could be terminated by Mr Fawcett with 2 months' notice or by the Company with the balance of 12 months from commencement date less any time worked by Mr Fawcett in that 12 month period. Mr Fawcett resigned effective 23 May 2014.

(v) Operations Manager - Merlin diamond mine

Mr Magee had an employment agreement with the Company dated 26 November 2012. The contract had no fixed term and could be terminated with 4 weeks' notice in writing by either party other than in the case of summary termination. Mr Magee resigned effective 23 August 2013.

(vi) 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 the financial period are not limited to any specific performance criteria. Options have been granted to retain key management personnel.

Merlin Diamonds Limited
Directors' Report

(vii) 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	Total	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 \$				
Directors										
J Gutnick	2015	-	-	-	-	1,725,000	-	1,725,000	100%	28%
	2014	-	-	-	-	-	-	-	-	-
H Herzog	2015	-	-	-	36,000	13,466	-	49,466	-	31%
	2014	-	-	-	30,000	-	-	30,000	-	-
D Tyrwhitt	2015	36,000	-	-	2,775	13,466	-	452,241	-	29%
	2014	30,000	-	-	2,775	-	-	32,775	-	-
Total all Directors	2015	36,000	-	-	38,775	1,751,932	-	1,826,707	-	30%
	2014	30,000	-	-	32,775	-	-	62,775	-	-
Executives										
P Lee	2015	-	-	-	-	-	-	-	-	-
	2014	-	-	-	-	56,292	-	56,292	100%	100%
C Michael	2015	-	-	-	-	80,800	-	80,800	100%	100%
	2014	-	-	-	-	-	-	-	-	-
C Fawcett	2015	-	-	-	-	-	-	-	-	-
	2014	231,651	-	-	21,448	18,764	-	271,843	-	6.9%
E Magee	2015	-	-	-	-	-	-	-	-	-
	2014	61,369	-	-	5,677	-	-	67,046	-	-
Total all Executives	2015	-	-	-	-	80,800	-	80,800	-	-
	2014	293,020	-	-	27,125	75,056	-	395,181	-	-
Total all Directors & Executives	2015	36,000	-	-	38,775	1,832,732	-	1,907,507	-	-
	2014	323,020	-	-	59,900	75,056	-	457,956	-	-

Merlin Diamonds Limited
Directors' Report

There were no STI cash bonuses, post-employment prescribed benefits, termination benefits or insurance premiums paid during 2015 or 2014 other than as disclosed.

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

Options over equity instruments

	Held at beginning of year	Granted as remuneration	Exercised	Forfeited	Held at end of year
30 June 2015					
Jl Gutnick (a)	-	18,000,000	-	-	18,000,000
H Herzog (a)	-	500,000	-	-	500,000
DS Tyrwhitt (a)	-	500,000	-	-	500,000
P J Lee (b)	1,500,000	-	-	-	1,500,000
C A Michael (a)	-	3,000,000	-	-	3,000,000
M Kammermann (b)	500,000	-	-	500,000	-
C Fawcett (b)	500,000	-	-	500,000	-
E Magee	-	-	-	-	-
	2,500,000	22,000,000	-	1,000,000	23,500,000

	Held at beginning of year	Granted as remuneration	Exercised	Forfeited	Held at end of year
30 June 2014					
Jl Gutnick	-	-	-	-	-
H Herzog	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-
C A Michael	-	-	-	-	-
P J Lee	-	1,500,000	-	-	1,500,000
M Kammermann	-	500,000	-	-	500,000
C Fawcett	-	500,000	-	-	500,000
E Magee	-	-	-	-	-
	-	2,500,000	-	-	2,500,000

- (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. No options have vested during the reporting period. 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 16 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. No options have vested during the reporting period. The Company has estimated a probability factor that the options will vest on a person by person basis.

Merlin Diamonds Limited
Directors' Report

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 2015						
Jl Gutnick	-	-	18,000,000	-	46,923,077	64,923,077
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
C A Michael	-	-	-	-	-	-
M Kammermann	-	-	-	-	-	-
C Fawcett	-	-	-	-	-	-
	-	-	18,000,000	-	46,923,077	64,923,077
30 June 2014						
Jl Gutnick	-	-	-	-	-	-
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
C A Michael	-	-	-	-	-	-
M Kammermann	-	-	-	-	-	-
C Fawcett	-	-	-	-	-	-
E Magee	-	-	-	-	-	-
	-	-	-	-	-	-

(ix) Other transactions

Transactions with Directors

Transactions between the Company, related parties and other entities of which Mr Jl Gutnick is a director during the year ended 30 June 2015 consisted of loans advanced to and repaid to the Company.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2015 \$	2014 \$	2015 \$	2014 \$
<i>Current payables to</i>				
Advance from Perfectus Management Limited	6,403	983,989	-	983,989
Perfectus debt converted to equity	(950,000)	-	-	-
Repayment to Perfectus	(40,391)	-	-	-
Advance from Lenomi Holdings Limited	8,908	80,611	-	80,611
Repayment to Lenomi Holdings Limited	(89,519)	-	-	-
Advance from Jl Gutnick	194,806	63,988	90,500	41,069
Repayment to Jl Gutnick	(145,875)	(22,919)	-	-
	1,015,668	1,105,669	90,500	1,105,669

Terms and Conditions

Transactions with Directors and related persons have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length except that there are no fixed

Merlin Diamonds Limited
Directors' Report

terms for repayment of loans between the parties, no security has been provided and no interest has been charged.

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.

Signed in accordance with a resolution of the Board of Directors at Melbourne this 30th day of September 2015.



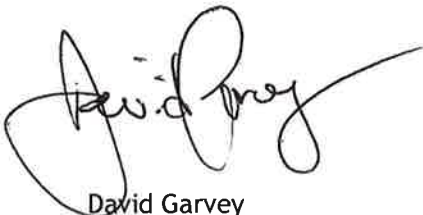
J I Gutnick
Director

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 2015, I declare that, to the best of my knowledge and belief, there have been:

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

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



David Garvey
Partner

BDO East Coast Partnership

Melbourne, 30 September 2015

Merlin Diamonds Limited
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2015

	<i>Note</i>	Consolidated	
		2015 \$	2014 \$
Revenue	3	679,153	734,345
Other income	4	12,524	48,318
Employee benefits expense		(3,140,268)	(3,681,261)
Consultancy fees		(759,708)	(636,024)
Insurance expenses		(49,502)	(69,882)
Lease rental expenses		(517,416)	(570,644)
Professional fees		(207,828)	(173,336)
Travel expenses		(127,188)	(169,117)
Depreciation expenses	5	(105,153)	(136,135)
Impairment of other receivable	9	(3,560,854)	(4,907,915)
Exploration expensed	13	(900,302)	(1,230,695)
Net loss on disposal of plant and equipment		1,503	(32,225)
Gain on trading security		479,859	-
(Impairment)/reversal of prior period impairment of investment in associate	11	(27,457)	601,948
Other expenses		(602,512)	(792,578)
Finance expense	6	(20,030)	(101,965)
Share of profit/(loss) of equity accounted investee (net of income tax)	11	5,645	(841,877)
Loss before income tax		(8,839,534)	(11,959,043)
Income tax expense	7	-	-
Loss for the year		(8,839,534)	(11,959,043)
Other comprehensive income for the year, net of income tax		(125,625)	-
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		-	2,625
Total comprehensive loss for the year		(8,965,159)	(11,956,418)
Loss attributable to members of Merlin Diamonds Limited		(8,839,534)	(11,959,043)
Total comprehensive loss attributable to members of Merlin Diamonds Limited		(8,965,159)	(11,956,418)
Basic loss per share (cents per share)	8	(2.60)	(5.52)
Diluted loss per share (cents per share)	8	(2.60)	(5.52)

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

Merlin Diamonds Limited
Statement of Financial Position
as at 30 June 2015

		Consolidated	
	Note	2015 \$	2014 \$
Assets			
<i>Current Assets</i>			
Cash and cash equivalents	20	115,940	209,897
Trade and other receivables	9	66,318	654,617
Inventories	10	3,997	6,321
Total current assets		186,255	870,835
<i>Non-current Assets</i>			
Other receivables	9	793,821	1,176,730
Investment in equity accounted investee	11	-	196,306
Trading securities		654,353	-
Plant and equipment	12	4,281,887	4,974,392
Exploration expenditure	13	-	-
Development expenditure	14	8,436,680	11,124,957
Total non-current assets		14,166,741	17,472,385
Total assets		14,352,996	18,343,220
Liabilities			
<i>Current Liabilities</i>			
Finance leases	22	-	6,502
Trade and other payables	15	2,615,355	5,905,693
Borrowings	16	90,500	3,076,453
Provisions	17	67,138	22,826
Total current liabilities		2,772,993	9,011,474
<i>Non-current Liabilities</i>			
Finance leases	22	-	25,223
Provisions	17	1,241,551	1,184,806
Total non-current liabilities		1,241,551	1,210,029
Total liabilities		4,014,544	10,221,503
Net assets		10,338,452	8,121,717
Equity			
Issued capital	18	142,991,154	132,034,367
Reserves	19	763,560	538,453
Accumulated losses		(133,416,262)	(124,451,103)
Total equity		10,338,452	8,121,717

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 2015

	Issued capital \$	Consolidated Equity settled incentive options reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2013	127,888,703	-	(112,494,685)	15,394,018
Loss for the year	-	-	(11,959,043)	(11,959,043)
Other comprehensive loss for the year, net of income tax	-	-	2,625	2,625
Total comprehensive loss for the year, net of tax	-	-	(11,956,418)	(11,956,418)
Transactions with owners, recorded directly in equity				
Employee incentive option scheme	-	538,453	-	538,453
Issue of shares	4,173,044	-	-	4,173,044
Transaction costs arising on share issues	(27,380)	-	-	(27,380)
Total transactions with owners	4,145,664	538,453	-	4,684,117
Balance at 30 June 2014	132,034,367	538,453	(124,451,103)	8,121,717
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	132,034,367	538,453	(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

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

Merlin Diamonds Limited
Statement of Cash Flows
for the year ended 30 June 2015

		Consolidated	
		2015	2014
	<i>Note</i>	\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		11,390	53,477
Receipts from diamond sales		-	268,124
Payments to suppliers and employees (inclusive of GST)		(3,801,005)	(6,008,381)
Payments for exploration expenditure		(445,319)	(1,230,695)
Interest received		42,579	6,660
Net cash used in operating activities	20	(4,192,355)	(6,910,815)
Cash flows from investing activities			
Research and development tax incentive		4,526,013	-
Payments for development expenditure		(3,546,999)	(5,105,601)
Proceeds from disposal of plant and equipment		71,163	-
Payments for acquisition of plant and equipment		(471,890)	(204,652)
Payments for security deposits		306,352	-
Receipt of security deposits		-	192,681
Payment to other entity		(3,126,144)	-
Repayment by other entity		191,900	3,567,741
Net cash provided by/(used in) investing activities		(2,049,605)	(1,549,831)
Cash flows from financing activities			
Payment of finance lease liabilities		(38,779)	(4,210)
Proceeds from issue of equity securities		4,562,500	3,700,000
Loan from Director		239,279	1,105,669
Repayment of loan from Director		(319,226)	-
Loan		-	1,300,000
Loans from other entities		3,034,371	670,784
Repayment of loan from other entities		(1,205,155)	-
Equity securities issue transaction costs		(124,987)	(27,380)
Net cash from financing activities		6,148,003	6,744,863
Net decrease in cash and cash equivalents		(93,957)	(1,715,783)
Cash and cash equivalents at 1 July		209,897	1,925,680
Cash and cash equivalents at 30 June	20	115,940	209,897

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

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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 2015 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 30 September 2015.

(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.

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets

The Company has applied 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additional, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

The Company has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 "Share-based Payment": clarifies the definition of "vesting condition" by separately defining a "performance condition" and a "service condition" and amends the definition of "market condition"; AASB 3 "Business Combinations": clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether contingent consideration is within the scope of AASB 9; AASB 8 "Operating Segments": amended to require disclosures of judgments made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 "Fair Value Measurement": clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 "Property, Plant and Equipment" and AASB 138 "Intangible Assets": clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the changes in the gross carrying value of the assets; AASB 124 "Related Party Disclosures": extends the definition of "related party" to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 "Investment Property": clarifies that the acquisition of an investment property may constitute a business combination.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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 Company has incurred a loss of \$8,839,534 in the year to 30 June 2015, had net cash operating outflow of \$4,192,355 for the year ended 30 June 2015 and has negative working capital of \$2,586,738 at 30 June 2015. In order to continue as a going concern, the Company will be required to raise further capital to meet its commitments and ongoing management support to be provided by AXIS Consultants Pty Ltd. These conditions indicate a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern. In considering whether the Company is a going concern, the Directors note that shareholders in general meeting on 10 September 2015 approved the issue of 80 million securities and the Company is planning equity capital raising of securities to raise funds for its operational needs and the Company believes it will be in a position to announce full details shortly; and the feasibility study for the recommencement of mining operations at the Merlin diamond mine has a net present value of \$102,200,000 (using an 8% discount factor) and free cash of \$132,900,000 over the life of the mine with a maximum working capital cash requirement of \$4,230,000 to recommence operations. The Directors are confident of doing so due to the success the Company has previously had raising capital. 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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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.

Development expenditure

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

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 2015 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.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

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.

Associates

Associates are those entities in which the Group has significant influence, but not control, or joint control. Investments in associates are accounted for in the Company's financial statements using the cost method and are classified as non-current other financial assets. In the consolidated financial statements, associates are accounted for using the equity method, after initially being recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses (see note 11).

An assessment is performed at each reporting period of the carrying value of equity accounted investments against fair value. Where the fair value is less than carrying value the equity accounted investment is impaired through Statement of Profit or Loss and Other Comprehensive Income.

The Group's share of its associates' post acquisition profits or losses is recognised in the Statement of Profit or Loss and its share of post-acquisition movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. To ensure consistency, accounting policies of associates have been aligned, where necessary, to those adopted by the Group.

(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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

(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 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 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 are reviewed for impairment whenever events or

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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 receivables

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

Collectability of trade 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 other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Loans and receivables
- financial assets at Fair Value Through Profit or Loss ('FVTPL')
- Held-To-Maturity ('HTM') investments; or
- Available-For-Sale ('AFS') financial assets

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, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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.

HTM investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM as it is the Group's intention and ability to hold them until maturity.

AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Classification and subsequent measurement of financial liabilities

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

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for 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.

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, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

(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 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)).

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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. Any revaluation surplus reserve relating to the item disposed of is transferred directly to accumulated losses.

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.

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) Business combinations

All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group.

Transaction costs that the Group incurs in connection with a business combination, such as legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

(l) 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. 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 income statement 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.

(m) 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.

(n) Inventories

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

(o) 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 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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

(p) 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.

(q) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be 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.

(r) 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.

(s) Transfer from reserves

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

(t) 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 2015. 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 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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

The Company does not expect that this standard will have a significant impact on its financial statements.

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 2015	2014
		\$	\$
Provision of laboratory services		10,408	5,160
Interest income		42,276	16,135
Interest income – other entities	25	626,469	444,926
Revenue from diamond sales		-	268,124
Total revenue		679,153	734,345

4. Other income

		Consolidated 2015	2014
		\$	\$
Fuel tax credits		10,326	47,540
Asset usage		1,600	-
Other		598	778
		12,524	48,318

5. Depreciation expenses

		Consolidated 2015	2014
		\$	\$
Depreciation of plant and equipment		750,722	961,031
Less: transfer to exploration/development		(645,569)	(824,866)
Depreciation expense		105,153	136,165

6. Finance expense

		Consolidated 2015	2014
		\$	\$
Bank charges		(2,639)	(5,128)

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Borrowing costs	(17,391)	(96,837)
Total finance expense	(20,030)	(101,965)

7. Income tax

	Consolidated	
	2015	2014
	\$	\$
Total tax expense comprises		
Current tax expense	-	-
Deferred tax expense	-	-
	-	-

Reconciliation between tax expense and pre-tax accounting profit

	Consolidated	
	2015	2014
	\$	\$
Loss before tax	(8,839,860)	(11,959,043)
Income tax benefit on loss at Australian tax rate of 30% (2014: 30%)	2,651,860	3,587,713
Reversal of prior period impairment of investment in associate	(8,237)	180,584
Share of loss of equity accounted investee	1,693	(252,563)
Non-assessable income	143,958	-
Non-deductible expenses	-	(222,034)
Capital raising	62,589	75,791
Provision for loan receivable	(1,068,499)	(1,472,375)
Capitalised development expenditure	(181,143)	(152,732)
Movement in other temporary differences	(307,347)	361,565
	1,294,874	2,105,948
(Under)/over provided in prior years	(8,516)	(158,052)
Current year benefits/(losses) for which no deferred tax asset was recognised	(1,286,358)	(1,947,896)
Change in previously unrecognised temporary differences, including losses	-	-
Income tax expense	-	-

Deferred tax assets and liabilities

Consolidated	Assets		Liabilities	
	2015	2014	2015	2014
	\$	\$	\$	\$
Accrued income	-	-	(2,540,874)	(1,487,183)
Capitalised exploration and evaluation expenditure	-	-	-	-
Capitalise development expenditure	-	-	(2,531,004)	(3,337,487)
Employee benefits	21,886	20,627	-	-
Other accruals and provisions	669,162	702,257	-	-
Capital raising costs	166,215	149,014	-	-
Tax losses	28,452,296	27,165,939	-	-

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Consolidated	Assets		Liabilities	
	2015	2014	2015	2014
	\$	\$	\$	\$
Deferred tax assets/(liabilities)	29,309,559	28,037,837	(5,071,878)	(4,824,670)
Set off of deferred tax liabilities	(5,071,878)	(4,824,670)	5,071,878	4,824,670
Net deferred tax assets/(liabilities)	24,237,681	27,774,153	-	-
Net deferred tax assets not recognised	(24,237,681)	(27,774,153)	-	-
Net deferred tax assets/(liabilities)	-	-	-	-

	Consolidated	
	2015	2014
	\$	\$
Unused tax losses for which no deferred tax asset has been recognised	94,840,988	90,553,129
Potential tax benefit @ 30%	28,452,296	27,165,939

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 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.

8. Loss per share

	2015	2014
Basic loss per share (cents)	(2.60)	(5.52)
Diluted loss per share (cents)	(2.60)	(5.52)

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

	2015	2014
	\$	\$
Loss attributable to ordinary shareholders (basic)	(8,839,534)	(11,959,043)
Loss attributable to ordinary shareholders (diluted)	(8,839,534)	(11,959,043)

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:

	2015	2014
	Shares	Shares
Weighted average number of shares		
Basic loss per ordinary share denominator	335,510,869	216,480,396
Effect of share options on issue	-	-
Diluted loss per ordinary share denominator	335,510,869	216,480,396

For the years ended 30 June 2014 and 30 June 2015, 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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

9. Trade and other receivables

	Consolidated 2015	2014
	\$	\$
Current		
Receivables due from other entity (note 25)	8,468,770	4,907,915
Impairment provision	(8,468,770)	(4,907,915)
Other receivables	31,357	71,051
Other receivables - employee share options scheme	-	538,454
Prepayments	34,961	45,112
Total current receivables	66,318	654,617
Non-current		
Security deposits	793,821	1,176,730
Receivables due from other entity	-	-
Total non-current receivables	793,821	1,176,730

The Group's exposure to credit risk related to trade and other receivables are disclosed in note 24.

10. Inventory

	Consolidated 2015	2014
	\$	\$
Fuel stores – at cost	3,997	6,321
	3,997	6,321

11. Investment in equity accounted investee

The Group's share of profit in its equity accounted investee for the year was \$5,645 (2014: loss \$841,877). The carrying amount of the investee at 30 June 2015 was \$nil (2014: \$196,306) as TEM ceased to be an associate during the year following a dilution in the Company's equity interest in TEM to 15.57% with the controlling shareholder of TEM holding 46.24%

Summary financial information for the Group's equity accounted investee, not adjusted for the percentage ownership held by the Group:

	2015	2014
	\$	\$
Total assets	-	1,012,448
Total liabilities	-	215,577
Loss	-	(2,551,142)
Percentage ownership	-	33%
	2015	2014
	\$	\$
Opening carrying amount	196,306	436,235
Acquisitions	-	-
Share of net profit/(loss)	5,645	(841,877)
	190,661	(405,642)
Reversal of impairment in prior periods	(27,457)	601,948
Adjustment of cessation of equity accounting	(174,494)	-
Closing carrying amount	-	196,306

The Group's former equity accounted investee, Top End Minerals Limited, is listed on the Australian Securities Exchange (ASX).

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

12. Plant and equipment

	Field and plant equipment \$	Office equipment \$	Vehicles \$	Leased Vehicles \$	Work in progress \$	Total \$
Cost						
Balance at 1 July 2013	5,583,508	179,314	609,994	180,215	4,590,479	11,143,510
Additions	933,047	39,141	133,154	76,632	115,365	1,297,339
Disposals	(12,326)	(27,088)	(498,955)	-	-	(538,369)
Transfers to development expenditure	-	-	-	-	(1,185,265)	(1,185,265)
Transfers and other movements	2,947,471	217,463	183,653	-	(3,350,484)	(1,897)
Balance at 30 June 2014	9,451,700	408,830	427,846	256,847	170,095	10,715,318
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 to development expenditure	-	-	-	-	-	-
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
Accumulated depreciation						
Balance at 1 July 2013	4,300,786	72,211	603,449	111,092	-	5,087,538
Depreciation for the year	778,579	112,553	32,713	37,186	-	961,031
Disposals	(10,501)	(26,848)	(267,706)	-	-	(305,055)
Transfers and other movements	-	(2,291)	(113)	(184)	-	(2,588)
Balance at 30 June 2014	5,068,864	155,625	368,343	148,094	-	5,740,926
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
Carrying amounts						
At 1 July 2013	1,282,722	107,103	6,545	69,123	4,590,479	6,055,972
At 30 June 2014	4,382,836	253,205	59,503	108,753	170,095	4,974,392
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

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

13. Exploration and evaluation expenditure

	Consolidated 2015	2014
	\$	\$
Balance at 1 July	-	-
Expenditure incurred	900,302	1,230,695
Amount written off	(900,302)	(1,230,695)
Balance at 30 June	-	-

14. Development expenditure

	Consolidated 2015	2014
	\$	\$
Balance at beginning of year	11,124,957	1,169,363
Expenditure incurred	1,837,737	8,770,329
Transfers from work in progress (note 12)	-	1,185,268
Research & development claim recovery	(4,526,014)	-
Carrying amount at end of year	8,436,680	11,124,957

15. Trade and other payables

	Note	Consolidated 2015	2014
		\$	\$
Trade payables		1,748,689	4,233,020
Payables due to other entity	25	414,240	825,506
Accruals		452,426	308,713
Accruals - employee share options scheme		-	538,454
Total trade and other payables		2,615,555	5,905,693

16. Borrowings

	Note	Consolidated 2015	2014
		\$	\$
Current			
Loans due to other persons	25	-	670,784
Loans due to director	25	90,500	1,105,669
Loans - other		-	1,300,000
Total borrowings		90,500	3,076,453

Loans - Other

The loans - other are unsecured, no interest has been charged and there are no fixed terms for repayment of loans between parties.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

17. Provisions

	Employee Entitlements \$	Rehabilitation \$	Lease Makegood/ Demobilisation \$	Total \$
Balance at 1 July 2014	69,755	1,115,069	22,808	1,207,632
Provisions used during the year	(28,405)	-	-	(28,405)
Provisions made during the year/revised	31,603	-	97,859	129,562
Balance at 30 June 2015	72,953	1,115,069	120,667	1,308,689
At 30 June 2014				
Current	22,826	-	-	22,826
Non-current	46,929	1,115,069	22,808	1,184,806
Total provisions	69,755	1,115,069	22,808	1,207,632
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

18. Capital and reserves

Ordinary share capital

	2015 No. shares	2014 No. shares	2015 \$	2014 \$
Balance at beginning of year	261,480,396	175,783,427	132,034,367	127,888,703
Share Placement 27 November 2014 @ 6.5 cents per share	43,769,230	-	2,845,000	-
Share Placement 24 December 2014 @ 6.5 cents per share	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	-
Convertible note equity component				
Convertible note converted 17 September 2013 @ 22 cents per share	-	36,363,636	-	473,044
Share Placement 27 February 2014 @ 7.5 cents per share	-	13,333,333	-	1,000,000
Share Placement 10 April 2014				

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

	2015 No. shares	2014 No. shares	2015 \$	2014 \$
@ 7.5 cents per share	-	36,000,000	-	2,700,000
Transaction costs arising on share issues	-	-	(153,946)	(27,380)
Balance at end of year	431,334,750	261,480,396	142,991,154	132,034,367

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.

- (i) On 15 January 2015, the Company issued 18,000,000 incentive shares to JI Gutnick under the Incentive Share Scheme. The shares were valued by Remuneration Strategies Group using a 5 day VWAP. The issue of the shares was approved by shareholders at the annual general meeting held on 27 November 2014. The shares have a fair value of \$1,240,200.

19. 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 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, 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.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

(a) **Movement in share options on issue and period expense**

	For the year ended June 30, 2015	
	Number of options	Weighted average exercise price \$
Balance at beginning of year	6,975,000	0.15
Granted during the year	22,000,000	0.15
Expired during the year	-	-
Forfeited during the year	(1,675,000)	0.15
Balance at end of year	27,300,000	0.15
Exercisable at end of year	-	-

During the year ended June 30, 2015 the Company recognised a net expense of \$225,107 (2014: \$538,453) 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, 2015**

The share options outstanding at June 30, 2015 had a weighted average exercise price of \$0.15 and a weighted average remaining contractual life of 4.21 years.

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

During the year ended June 30, 2015 the Company issued 22,000,000 options. It is a requirement that the employee receiving the options be still be employed by the Company at the end of each vesting period in order to exercise the options.

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

During the year ended June 30, 2015 1,675,000 options were forfeited.

20. **Cash and cash equivalents**

	Consolidated	
	2015	2014
	\$	\$
Cash at bank and on hand	115,940	209,897
Deposits at call	-	-
Cash and cash equivalents	115,940	209,897
Cash and cash equivalents in the Statement of Cash Flows	115,940	209,897

The Group's exposure to interest rate risk is disclosed in note 24. The term deposits have a maturity of between 1 and 3 months.

Reconciliation of cash flows from operating activities

	Consolidated	
	2015	2014
	\$	\$
Loss for the year	(8,839,534)	(11,959,043)
<i>Adjustments for</i>		
Depreciation	270,734	302,559
Exploration expensed	900,302	-
Gain on marketable security	(479,859)	-

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

	Consolidated	
	2015	2014
	\$	\$
Impairment/(Reversal of prior period impairment) of investment in associate	27,457	(601,948)
Share of loss in associate	(5,645)	841,877
Employee incentive share/option based expenses	1,465,307	-
Impairment of receivable other entity	3,560,854	4,907,915
	(3,100,384)	(6,508,640)
Change in trade and other receivables	588,707	(430,315)
Change in trade and other payables	(1,680,678)	28,140
Net cash used in operating activities	(4,192,355)	(6,910,815)

21. 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.

22. Commitments

Finance lease commitments

Finance lease liabilities for motor vehicles of the Group are payable as follows:

	Future minimum lease payments		Present value of minimum lease payments		Future minimum lease payments		Present value of minimum lease payments	
	2015	Interest 2015	2015	2014	2014	Interest 2014	2014	2014
	\$	\$	\$	\$	\$	\$	\$	\$
Due within one year	-	-	-	8,421	1,919	6,502		
Due later than one year and not later than five years	-	-	-	28,044	2,821	25,223		
Due later than five years	-	-	-	-	-	-		
	-	-	-	36,465	4,740	31,725		

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Operating lease commitments

Future non-cancellable operating lease rentals for premises not provided for in the financial statements:

	Consolidated	
	2015	2014
	\$	\$
Due within one year	156,310	276,928
Due later than one year and not later than five years	-	149,277
Due later than five years	-	-
	156,310	426,205

The Group's operating lease premises consists of office space. The lease has 2 years to run, with an option to renew the lease. Lease payments are increased every year by a predetermined fixed percentage. As the rent paid to the landlord of the premises is increased to market rent at regular intervals, and the Group does not participate in the residual value of the premises, it was determined that substantially all the risks and rewards of the premises are with the landlord. As such, the Group determined that the lease is an operating lease.

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	
	2015	2014
	\$	\$
Due within one year	631,656	935,489
Due later than one year and not later than five years	1,116,083	2,028,532
Due later than five years	693,110	881,391
	2,440,849	3,845,412

Pursuant to the Mineral Rights Deed with Top End Minerals Limited, \$nil (2014: \$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:

	Consolidated	
	2015	2014
	\$	\$
Due within one year	631,656	721,666
Due later than one year and not later than five years	1,116,083	2,006,267
Due later than five years	693,110	881,391
	2,440,849	3,609,324

23. Group entities

Parent company

The parent company of the Group is Merlin Diamonds Limited.

Ownership interest

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

	2015 %	2014 %
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
Associate		
Top End Minerals Limited	-	33.07

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

24. 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.

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

	Consolidated Carrying amount 2015 \$	2014 \$
Variable rate instruments		
Cash and cash equivalents	115,940	209,897
Security deposits*	26,791	400,159
Receivables due from other entity		-
	142,731	610,056

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

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

2013. The following table summarises the sensitivity of the Group's financial assets (cash) to interest rate risk:

Consolidated	Carrying amount \$	Profit or loss		Equity	
		100 bp increase \$	100 bp decrease \$	100 bp increase \$	100 bp decrease \$
30 June 2015					
Variable rate instruments					
Cash and cash equivalents	115,940	1,159	(1,159)	1,159	(1,159)
Security deposits*	26,791	268	(268)	268	(268)
Receivables due from other entity	-	-	-	-	-
	142,731	1,427	(1,427)	1,427	(1,427)
30 June 2014					
Variable rate instruments					
Cash and cash equivalents	209,897	2,099	(2,009)	2,009	(2,009)
Security deposits*	400,159	4,002	(4,002)	4,002	(4,002)
Receivables due from other entity	-	-	-	-	-
	610,056	6,101	(6,101)	6,101	(6,101)

* Excludes \$767,300 of non-interest bearing security deposits held with the Department of Mines at 30 June 2015 (2014: \$776,571).

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 an 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	
	2015 \$	2014 \$
Cash and cash equivalents	115,940	209,897
Receivables	31,357	71,051
Security deposits	793,821	1,176,730
	941,118	1,457,678

Impairment loss

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

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

	At 30 June 2015		At 30 June 2014	
	Gross	Impairment	Gross	Impairment
	\$	\$	\$	\$
Current	-	-	71,051	-
31 – 60 days	31,357	-	-	-
61 – 90 days	-	-	-	-
91 days and over	8,468,769	(8,468,769)	4,907,915	(4,907,915)
	8,500,126	-	4,978,966	(4,907,915)

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

	Consolidated	
	2015	2014
	\$	\$
At July	(4,907,915)	-
Provision for impairment recognised during the year	(3,560,854)	(4,907,915)
At June	(8,468,769)	(4,907,915)

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	Contractual maturities	
			6 months or less	7 to 12 months
	\$	\$	\$	\$
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	-
30 June 2014				
Financial liabilities				
Trade and other payables	5,905,693	5,905,693	5,905,693	-
Borrowings	1,300,000	1,300,000	1,300,000	-
	7,205,693	7,205,693	7,205,693	-

Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair value determined in accordance with the accounting policies referred to in note 1. Fair value approximates carrying value due to the short term nature of these instruments.

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Fair Value Measurement

Financial assets and financial liabilities measured at fair value in the Statement of Financial Position are grouped into three levels of fair value hierarchy. The three (3) levels are defined based on observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly

Level 3: unobservable inputs for the asset or liability

	Consolidated		2014
	2015		\$
	\$		\$
Level 1			
Trading securities – ordinary shares held at fair value	654,353		-

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.

25. 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) and its associate (Top End Minerals Limited).

The percentage ownership of ordinary shares in subsidiaries and associate are disclosed in note 23 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

	2015		2014
	\$		\$
Short-term employee benefits	36,000		323,020

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Post-employment benefits	38,775	59,900
Employee share options	1,832,732	75,056
	1,907,507	457,956

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:

Transactions with related parties

Transactions between the Company, related parties and other entities in the Group during the year ended 30 June 2014 and 2015 consisted services provided to Top End Minerals Limited pursuant to the Administration and Technical Services Agreement between the Company and Top End Minerals Limited which had a value of \$110,000. The amount payable by Top End Minerals Limited at 30 June 2015 was \$nil (2014: \$nil).

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 2015 consisted of loans advanced to and repaid to the Company.

	Transaction value for the		Balance outstanding at 30	
	year ended 30 June		June	
	2015	2014	2015	2014
	\$	\$	\$	\$
<i>Current payables to</i>				
Advance from Perfectus Management Limited	6,402	983,989	-	983,989
Perfectus debt converted to equity	(950,000)	-	-	-
Repayment to Perfectus	(40,391)	-	-	-
Advance from Lenomi Holdings Limited	8,910	80,611	-	80,611
Repayment to Lenomi Holdings Limited	(89,521)	-	-	-
Advance from JI Gutnick	234,585	63,988	90,500	41,069
Repayment to JI Gutnick	(185,154)	(22,919)	-	-
	1,015,169	1,105,669	90,500	1,105,669

Transactions with other persons

Transactions between the Company, related parties and other entities and other persons, Mr MZ Gutnick during the year ended 30 June 2015 consisted of loans advanced to and repaid by the Company.

	Transaction value for the		Balance outstanding at 30	
	year ended 30 June		June	
	2015	2014	2015	2014
	\$	\$	\$	\$
<i>Payables to</i>				
Advance from MZ Gutnick	3,034,371	1,086,550	-	670,784
Debt converted to equity	(2,500,000)	-	-	-
Repayment to MZ Gutnick	(1,205,155)	(415,766)	-	-
	(670,784)	670,784	-	670,784

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

Transactions with other entities

The Company has entered into agreements on normal commercial terms and conditions with Legend International Holdings, Inc. ('Legend'), a company of which Mr. J I Gutnick is President and Chief Executive Officer, and Mr. H Herzog and Dr D Tyrwhitt are Directors to purchase site assets at Merlin, pursuant to an Asset Sale Agreement.

During 2013/2014, the Company announced that commissioning of the diamond processing plant and production at the Merlin mine site had commenced. Accordingly, pursuant to the Sale and Purchase Agreement entered into with Ashton Mining Limited (subsequently acquired by Legend) for Merlin diamond mine, a milestone payment of \$2,000,000 on the commissioning of a mine was paid to Legend. A further \$550,868 milestone payment is payable.

	Transaction value for the		Balance outstanding	
	year ended 30 June		at 30 June	
	2015	2014	2015	2014
	\$	\$	\$	\$
<i>Receivable/(payable) from/(to)</i>				
<i>other entity</i>				
Purchase of plant and equipment	270,974	(270,974)	-	-
Milestone payment on the commissioning of mine	-	(2,000,000)	-	-
Milestone payment CPI adjustment	139,572	(550,868)	-	-
Shared facility costs	719	(3,663)	-	-
Balance	-	-	(414,240)	(825,505)
	411,265	(2,825,505)	(414,240)	(825,505)

Terms and Conditions

Transactions with Directors and related persons have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length except that there are no fixed terms for repayment of loans between the parties, no security has been provided and no interest has been charged.

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

	Transaction value for the		Balance outstanding at 30	
	year ended 30 June		June	
	2015	2014	2015	2014
	\$	\$	\$	\$
<i>Receivable/(payable) from/(to)</i>				
<i>other entity</i>				
Advance to other entity	585,037	393,614	8,468,769	4,907,915
Repayment by other entity	(1,211,505)	(2,442,300)	-	-
Interest payable by other entity	626,469	444,926	-	-
Management services paid	3,871,528	6,024,582	-	-
Management services rendered	(3,871,528)	(6,024,582)	-	-
Impairment of receivable	(3,560,854)	(4,907,915)	(8,468,869)	(4,907,915)
	(3,560,854)	(6,511,675)	-	-

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The interest rate charged during the year ranged from 8.84% to 9.34% (2014: 9.34% to 9.59%).

26. Auditors remuneration

	Consolidated 2015	2014
	\$	\$
Audit services		
<i>BDO</i> ¹		
Audit and review of financial reports	51,703	58,013
Other services		
<i>BDO</i> ¹		
Taxation services	89,640	16,500
	141,343	74,513

¹BDO East Coast Partnership.

27. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2015, the parent company of the Group was Merlin Diamonds Limited.

	Company 2015	2014
	\$	\$
Result of the parent entity		
Loss for the year	(10,218,770)	(12,994,483)
Other comprehensive income	-	-
Total comprehensive loss for the year	(10,218,770)	(12,994,483)
Financial position of the parent entity at year end		
Current assets	978,314	817,610
Total assets	13,155,639	16,384,366
Current liabilities	2,005,256	5,061,153
Total liabilities	2,342,738	8,262,649
Total equity of the parent entity comprising of:		
Issued capital	142,991,153	132,034,366
Reserves	763,560	538,453
Accumulated losses	(132,941,812)	(124,451,102)
Total equity	10,812,901	8,121,717

Merlin Diamonds Limited
Notes to and forming part of the Financial Statements
for the year ended 30 June 2015

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

Operating lease commitments

Future non-cancellable operating lease rentals for premises not provided for in the financial statements:

	Company	
	2015	2014
	\$	\$
Due within one year	156,310	276,928
Due later than one year and not later than five years	-	149,277
Due later than five years	-	-
	156,310	426,205

The Company's operating lease premises consists of office space. The lease runs for a period of 3 years, with an option to renew the lease. Lease payments are increased every year by a predetermined fixed percentage. As the rent paid to the landlord of the premises is increased to market rent at regular intervals, and the Company does not participate in the residual value of the premises, it was determined that substantially all the risks and rewards of the premises are with the landlord. As such, the Company determined that the lease is an operating lease.

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	
	2015	2014
	\$	\$
Due within one year	335,089	721,665
Due later than one year and not later than five years	540,283	2,006,267
Due later than five years	544,326	881,391
	1,419,698	3,609,323

28. Subsequent events

Other than the matters outlined below, no matters or circumstance have arisen since 30 June 2015 that have a significant effect on the Company.

The Company has entered into an option agreement with Legend International Holdings, Inc. to purchase tenements prospective for diamonds located in the Northern Territory. The transaction is subject to shareholder approval of the Company. The consideration payable by the Company for the purchase is \$515,000.

The Company has issued 9,230,765 ordinary shares at a price of 6.5 cents per share raising \$600,000.

Merlin Diamonds Limited
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 21 to 53 and the Remuneration Report in the Directors Report set out on pages 14 to 19 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 2015 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 2015



J I Gutnick
Director

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 consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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.

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 2015 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 company to continue as a going concern is dependent upon the future successful capital raising, the successful development and subsequent exploitation of the company'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 14 to 19 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



David Garvey
Partner

Melbourne, 30 September 2015

Merlin Diamonds Limited
Australian Securities Exchange Information

As at 28 September 2015, 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
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 5,651. 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	3,323
Holding between 1,001 - 5,000 Shares	1,346
Holding between 5,001 – 10,000 Shares	401
Holding between 10,001-100,000 Shares	486
Holding more than 100,001 Shares	95

The number of holders with less than a marketable parcel of fully paid ordinary shares is 4,970. 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	50,578,430	11.68
ISR Investments Ltd	39,763,636	9.19%
Mr Patrick Kong Koon Lim	35,000,000	8.09%
SH Rayburn Nominees Pty Ltd	32,761,229	7.57%
Mazil Pty Ltd	32,307,692	7.46%
Blumont Group Ltd	27,538,461	6.36%
Newton Centre Development Limited	24,000,000	9.18%
Lim Kuan Yew	21,600,000	8.26%
Trinity Management Pty Ltd	18,000,000	4.16%
HSBC Custody Nominees (Australia) Limited - A/C 3	15,425,573	3.56%
Great Central Gold Limited	14,615,385	3.38%
ABN Amro Clearing Sydney Nominees Pty Ltd	10,559,902	2.24%
CS Fourth Nominees Pty Ltd	9,737,182	2.25%
National Nominees Limited	9,200,879	2.13%
Edwin Sugiarto	9,000,000	2.08%
Aethia Capital Pte Ltd	6,666,666	1.54%
Mr Ari Kantor	4,307,692	1.00%
Trayburn Pty Ltd	4,225,895	0.98%

Merlin Diamonds Limited
Australian Securities Exchange Information

Name	Number of Fully Paid Ordinary Shares held	Percentage interest
Martin Suman	4,000,000	0.92%
AD Amusements Pty Ltd	3,333,333	0.77%

Merlin Diamonds Limited
Tenement List

Tenement	Project	State	Holder	Status	Percentage Interest
EL24082	Merlin Orbit	NT	Merlin Diamonds Limited	Granted	100%
EL24512	Merlin Orbit	NT	Merlin Diamonds Limited	Granted	100%
EL26943	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	0%
EL26944	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100%
EL27175	Merlin Orbit	NT	Merlin Diamonds Limited	Granted	100%
EL27750	Merlin Orbit	NT	Merlin Diamonds Limited	Granted	100%
EL28165	Arnhem Land	NT	Merlin Diamonds Limited	Application	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%
ML29899	Merlin	NT	Merlin Operations Pty Ltd	Application	100%
ML29900	Merlin	NT	Merlin Operations Pty Ltd	Application	100%
MLN1154	Merlin	NT	Merlin Operations Pty Ltd	Granted	100%
EL10003	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
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
EL10231	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL10232	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL22262	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24501	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24701	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24702	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only

Merlin Diamonds Limited
Tenement List

Tenement	Project	State	Holder	Status	Percentage Interest
EL24703	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24853	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24854	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24881	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL24916	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL25319	Arnhem Land	NT	Zohar/Swancove	Application	100% Diamond rights only
EL25320	Arnhem Land	NT	Zohar David Alan/Swancove	Application	100% Diamond rights only
EL25676	Merlin Orbit	NT	Merlin Diamonds Limited	Granted	100% Diamond rights only
EL25970	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL25973	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL25974	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL25975	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
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

Merlin Diamonds Limited
Corporate Information

Directors

Joseph Gutnick
Henry Herzog
David Tyrwhitt

Company Secretary

Peter Lee

Registered Office and Domicile

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Legal Form

A public company limited by shares

Country of Incorporation

Australia

Share Registry

Link Market Services Limited
Level 9, 333 Collins Street
Melbourne Victoria 3000
Australia
Telephone: 1300 554 474 or + 61 3 9615 9999
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Shareholder Information

Manager Investor Relations
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Auditors

BDO
Level 14, 140 William Street
Melbourne Victoria 3000
Australia

Australian Securities Exchange Listing Code

MED

Bankers

Westpac
Level 6, 360 Collins Street
Melbourne Victoria 3000
Australia