Merlin Diamonds Limited

ABN 86 009 153 119

ANNUAL REPORT 2017

The Directors of Merlin Diamonds Limited present their report for the year ended 30 June 2017.

1. Directors

The Directors of the Company in office since 1 July 2016 and up to the date of this Report are:

Current Directors

Mr Mordechai Gutnick
Chairman

Mr Gutnick is a businessman and long-term investor in the mining industry. He has served as a project advisor to the mining industry for over 10 years. He was appointed a Director in July 2016. He is a director of Consolidated Gems Inc. and Golden River Resources Corporation and was formerly a Director of Quantum Resources Limited, Legend International Holdings, Inc. and Top End Minerals Limited. Age 39.

Henry Herzog
Non-Executive Director

Mr Herzog has more than 40 years of corporate and management experience. He has been a Director of the Company since December 2009. Mr. Herzog has served in various positions as President, Vice President or Director of a number of publicly listed companies in Australia and the United States, predominantly in the mining sector. Mr. Herzog was responsible for the restructuring and reorganization of several publicly listed companies including Golden River Resources Corporation, where he served as its President and Chief Executive Officer from 1986-1988 and as a Vice President from 1988-1989. For at least the past five years, Mr. Herzog has also been managing a number of private investment entities. Age 75

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 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., Quantum Resources Limited, Legend International Holdings, Inc and Top End Minerals Ltd. He established his own consultancy in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia. Age 79.

Former Director

Joseph Gutnick –Director – resigned 8 July 2016

2. Principal Activities and Review and Results of Activities

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

Objectives

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

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

During the year, the Company re-commenced trial mining activities.

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, government grants and rebates and interest received on cash in bank.

In the current year, revenue was primarily from interest income generated from loans to other entities of $924,635 (2016: $791,184). The Company generated $223,394 (2016: $10,679) in other income from fuel rebates and other interest income. Employee benefits expense increased from $435,120 to $1,433,342 as a result of the commencement of trial mining operations at the Merlin operations; consultancy fees increased from $919,217 to $1,174,789 due to increased costs in relation to promotion of the Company and financing activities; insurance expenses increased from $75,802 to $82,317; lease rental expenses decreased from $239,018 to $159,727 largely due to reduction of costs of premises; professional fees increased from $139,041 to $165,767 primarily due to legal fees involved in the defense of application to the Takeovers Panel and general legal work; travel expenses increased from $73,400 in 2016 to $208,291 in 2017 due to travel relating to marketing of diamonds and fund raising activities as well as travel to the mine site; depreciation expense was $453 (2016: $17,826); impairment of plant and equipment of $393,557 (2016: $2,111,038) being the write down of the scrubber due to significant maintenance issues; impairment of other receivable of $3,634,918 (2016:$54,345); exploration expenses written off increased from $447,867 to $850,588 in accordance with our accounting policy of writing off exploration costs as incurred, development expenditure of $10,591,665 (2016: $nil) has been written off which relates to the previously proposed grab mining method of mining activities which we do not currently plan to proceed with as we are focusing on open pit mining; inventory has been written down to estimated net realizable value which resulted in an expense of $1,929,593 (2016: $nil); a fair value adjustment on the conversion of convertible notes into ordinary shares of $235,822 (2016: $nil); the Company recorded a loss on trading security of $nil (2016: $370,800); a loss on derivative liability – convertible note of $216,738 (2016: gain $162,000; other expenses were $611,318 (2016: $400,966); and finance expense was $436,304 (2016: $37,869) being interest on borrowings.

The loss for the year was $20,768,767 (2016: $4,357,982), or 2.54 cents per share (2016: 0.99 cents per share).

Statement of Financial Position

At 30 June 2017, the Company had cash at bank of $16,402 compared to $1,906,830 at 30 June 2016. During the year, the Company's trade and other current assets increased from $148,885 to $219,999; inventory increased from $6,020 to $1,469,559 primarily being the estimated net realisable value of diamonds at 30 June 2017; other receivables decreased from $789,771 to $778,548; plant and equipment decreased from $1,533,378 to $1,239,473 as the Company impaired plant and equipment that will not be required in 2017 for the planned mining operations at Merlin; and development expenditure has decreased from $10,011,091 in 2016 to $4,691,318 in 2017 as we have written off development expenditure which relates to the previously proposed grab mining method of mining activities which we do not currently plan to proceed with as we are focusing on open pit mining .

At 30 June 2017, the Company had total current liabilities of $6,475,206 compared to $3,686,136 at 30 June 2016. As a result, the Company had at 30 June 2017 negative working capital of $4,769,246 (2016: $1,624,401) and net liabilities of $(1,596,673) (2016: net assets $6,808,040).

Cash Flow

During the year, the Company paid net cash of $2,745,512 (2016: $959,904) for operating activities; paid net cash of $10,587,742 (2016: $648,585) for investing activities with the key components being payments for development expenditure of $6,853,184 (2016: $1,198,413); proceeds from disposal of investment of $nil (2016: $283,554); payments for new plant and equipment of $721,587 (2016: $119,340); payment to other entity of $3,923,380 (2016: $736,602); security deposits to (refunded by) government departments of $320,687 (2016: ($4,050)); and repayment by other entity of $1,213,096 (2016: $1,118,166); and received $11,442,826 (2016: $3,399,379) from financing activities with the key components being proceeds from capital raising activities $7,068,270 (2016: $600,000); proceeds from convertible notes of $3,075,000

(2016:$500,000); proceeds from notes of $1,607,290 (2016: $nil); loans from other entities and associates of $375,000 (2016: $511,000); other loans of $130,000 (2016: $2,397,537); repayment of a loan from a director of $nil (2016: $90,500); repayment of a loan from other entities of $310,000 (2016: $511,000); and incurred transaction costs of $502,734 (2016: $7,658) on the capital raising activities.

3. Significant Change in State of Affairs

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

4. Dividends

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

5. Events After The End Of The Financial Year

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

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

in financial years subsequent to this financial year.

6. Future Developments and Results

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

7. Options

a) 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, 200,000 options have lapsed.

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

Name	Position	Quantity
Mordechai Gutnick	Managing Director	1,500,000
Peter Lee	Chief Financial Officer and Company Secretary	1,500,000

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.

Included within the total remaining 1,000,000 options are options issued to the following executives.

Name	Position	Quantity
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.

b) During the year and up to the date of this report, the following options have been issued and/or exercised. No options have been forfeited.

Balance 1 July 2016	Issued	Exercised	Balance 30 June 2017	Exercise Price (cents)	Expiry Date
10,000,000	10,000,000	-	10,000,000	4.87 (i)	10/12/2019
-	26,137,064	-	26,137,064	1.36 (ii)	6/09/2020
-	149,275,813	-	149,275,813	1.36 (ii)	29/09/2020
-	34,333,505	-	34,333,505	1.36 (ii)	11/10/2020
-	61,667,508	-	61,667,508	1.36 (ii)	21/10/2020
-	3,333,350	-	3,333,350	1.36 (ii)	27/10/2020
-	16,000,080	-	16,0200,080	1.36 (ii)	2/11/2020
-	6,666,666	-	6,666,666	1.36 (ii)	21/12/2020
-	20,000,000	-	20,000,000	1.36 (ii)	04/01/2021
-	575,939,461	8,125	575,931,336	1.30	21/03/2021

(i) Following the pro-rata issue of shares in March 2017, the option exercise price of 5 cents was amended within the terms of the option certificate which required the exercise price to be amended in accordance with the formula in Listing Rule 6.23 of the ASX Listing Rules. As a result the exercise price was amended to 4.87 cents per option.

(ii) Following the pro-rata issue of shares in March 2017, the option exercise price of 1.5 cents was amended within the terms of the option certificate which required the exercise price to be amended in accordance with the formula in Listing Rule 6.23 of the ASX Listing Rules. As a result the exercise price was amended to 1.36 cents per option.

8. Directors' Interests in Shares and Options

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

Director	Relevant Interest	
	Ordinary Shares	Options
M Z Gutnick	3,153,846	1,500,000
H Herzog	-	3,062,500
D S Tyrwhitt	-	500,000

9. 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
MZ Gutnick	11	10
H Herzog	12	12
D Tyrwhitt	12	12
J I Gutnick[(i)]	-	-

(i) resigned 8 July 2016

The Company also uses resolutions in writing to approve certain matters. During the year, 18 resolutions in writing were approved by all Directors.

Effective from November 2008 and September 2008 as a result of changes to the size of 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.

10. 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 60.

11. Indemnification of Directors, Officers and Auditors

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

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

12. 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.

13. Non- Audit Services

During the year, Grant Thornton, the Company's auditor, has not performed any other services in addition to their statutory duties.

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, Grant Thornton, and its related practices for audit services provided during the year are set out below.

		2017 $	2016 $
Statutory audit			
Auditors of the Company			
- audit and review of financial reports	- Grant Thornton	70,000	-
- audit and review of financial reports	- BDO[1]	-	59,460
- for taxation services	- BDO[1]	-	17,933

[1]BDO East Coast Partnership

The auditors performed no other services.

14. 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:

	2017 $000s	2016 $000s	2015 $000s	2014 $000s	2013 $000s
Revenue	925	792	679	734	264
Net profit /(loss)	(20,769)	(4,357)	(8,840)	(11,959)	(7,358)
Basic loss per share (cents)	(2.54)	(0.99)	(2.60)	(5.52)	(4.19)
Diluted loss per share (cents)	(2.54)	(0.99)	(2.60)	(5.52)	(4.19)
Net assets/(liabilities)	(1,597)	6,808	10,338	8,122	15,394

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 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.

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

- M Z Gutnick — Chairman and Managing Director– Employed by AXIS – appointed 8 July 2016
- 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
- J I Gutnick — Executive Chairman, Managing Director and Chief Executive Officer – Employed by AXIS – resigned 8 July 2016

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

(iii) Non-Executive Directors

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

(iv) Performance-Linked Remuneration

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

(v) Remuneration

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

		Primary			Post-employment	Equity compensation	Termination Benefits			
		Salary & fees $	Bonus $	Non-monetary benefits $	Super-annuation benefits $	Value of shares/options $		Total $	s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(vi) Value of options as proportion of remuneration %
Directors										
M Gutnick	2017	-	-	-	-	1,760	-	1,760	100%	100%
	2016	-	-	-	-	-	-	-	100%	100%
H Herzog	2017	12,000	-	-	-	2,565		14,565		
	2016	-	-	-	*36,000*	*5,629*	-	*41,629*	*13.5%*	*13.5%*
D Tyrwhitt	2017	61,759	-	-	-	2,565	-	64,324		
	2016	*36,000*	-	-	*2,775*	*5,629*	-	*44,404*	*12.7%*	*12.7%*
J Gutnick	2017	-	-	-	-	47	-	47	100%	100%
	2016	-	-	-	-	202,655		202,655	100%	100%
Total all Directors	2017	73,759			-	6,937		80,696		
	2016	*36,000*	-	-	*38,775*	*213,913*	-	*288,688*		
Executives										
P Lee	2017	-	-	-	-	1,760	-	1,760	100%	100%
	2016	-	-	-	-	11,781	-	11,781	100%	100%
C Michael	2017	-	-	-	-	-		-		
	2016	-	-	-	-	(2,442)	-	(2,442)	100%	100%
Total all Executives	2017	-	-	-	-	1,760	-	1,760		
	2016	-	-	-	-	*9,339*	-	*9,339*		
Total all Directors & Executives	2017	73,759	-	-	-	8,697	-	82,456		
	2016	*36,000*	-	-	*38,775*	*223,252*	-	*298,027*		

There were no STI cash bonuses, post-employment prescribed benefits, termination benefits or insurance premiums paid during 2017 or 2016 other than as disclosed.

AXIS Consultants Pty Ltd ("AXIS") provided key management personnel services to the Company. Included in the management fees paid to AXIS are fees for provision of key management personnel services of $352,386 (2016: $232,235). All charges were on commercial terms. These amounts are included within total management services of $2,173,985 (2016: $1,508,324).

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

Options over equity instruments

	Held at beginning of year	Granted as remuneration	Value $	Forfeited	Value $	Held at end of year	Vested at end of year	Vested and exercisable at end of year	Vested and unexercisable at end of year
30 June 2017									
MZ Gutnick (b)	1,500,000	-	-	-	-	1,500,000	1,500,000	1,500,000	-
H Herzog (a)	500,000	-	-	-	-	500,000	500,000	500,000	-
DS Tyrwhitt (a)	500,000	-	-	-	-	500,000	500,000	500,000	-
P J Lee (b)	1,500,000	-	-	-	-	1,500,000	1,500,000	1,500,000	-
	4,000,000	-	-			4,000,000	4,000,000	4,000,000	-
Mr. JI Gutnick was a director from 1 July 2016 to 8 July 2016 and held 18,000,000 options during that period. There were no changes between 1 July 2016 and the date of his resignation.									
	Held at beginning of year	Granted as remuneration	Value $	Forfeited	Value $	Held at end of year	Vested at end of year	Vested and exercisable at end of year	Vested and unexercisable at end of year
30 June 2016									
JI Gutnick (a)	18,000,000	-	-	-	-	18,000,000	6,000,000	6,000,000	12,000,000
H Herzog (a)	500,000	-	-	-		500,000	133,333	133,333	366,667
DS Tyrwhitt (a)	500,000	-	-	-		500,000	133,333	133,333	366,667
C A Michael (b) & (c)	3,000,000	-	-	3,000,000	80,800	-	-	-	-
P J Lee (b)	1,500,000	-		-		1,500,000	1,000,000	1,000,000	500,000
	23,500,000	-	-	3,000,000	80,800	20,500,000	7,266,666	7,266,6666	13,233,334

(a) The options have a life of 5 years, were granted on 4 December 2014 and expire on 4 December 2019, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. The fair value of the options on grant date were $0.0251 for the options vesting 12 months from issue date, $0.0266 for the options vesting 24 months from issue date and $0.0291 for the options vesting 36 months from grant date. The Company has estimated a probability factor that the options will vest on a person by person basis.

(b) The options have a life of 5 years, were granted on 17 September 2013 and expire on 16 September 2018, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. The fair value of the options on grant date were $0.0743 for the options vesting 12 months from issue date, $0.0806 for the options vesting 24 months from issue date and $0.0856 for the options vesting 36 months from grant date. The Company has estimated a probability factor that the options will vest on a person by person basis.

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

Equity holdings and transactions

	Held at beginning of year	Purchases	Received as remuneration	Received on exercise of options	Other changes	Held at end of year
30 June 2017						
MZ Gutnick [(i)]	67,176,923	-	-	-	-	67,176,923
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
JI Gutnick [(ii)]	64,923,077	-	-	-	(64,923,077)	-
	132,100,000	-	-	-	(64,923,077)	67,176,923
30 June 2016						
H Herzog	-	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-	-
P J Lee	-	-	-	-	-	-
JI Gutnick	64,923,077	-	-	-	-	64,923,077
C A Michael	-	-	-	-	-	-
	64,923,077	-	-	-	-	64,923,077

(i) **At date of appointment**

(ii) **Represents holding at date of resignation 8 July 2016**

(vii) Other transactions

Transactions with Directors

Transactions between the Company, related parties and other entities of which Mr. MZ Gutnick (and Mr. JI Gutnick for 2016) is a related party during the year ended 30 June 2017 consisted of unsecured interest free advances to and repaid to the Company. There was no formal loan agreements.

	Transactions during year		**Balance outstanding ay 30 June**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Current payables to				
Advance from Brocho Investments Pty Ltd, Hoydu Nominees Pty Ltd, ("Brocho")	65,000	511,000	-	-
Repayment to Brocho	(70,000)	(837,000)	(5,000)	-
Expenses incurred by Gutnick on behalf on Merlin	-	326,000	-	-
Advance to S Gutnick	(10,000)	-	(10,000)	-
Advance by Critinda Pty Ltd	110,000	-	-	-
Repayment to Critinda Pty Ltd	(30,000)	-	80,000	-
Advance by Power Developments Pty Ltd	200,000	-	-	-
Repayment to Power Developments Pty Ltd	(200,000)	-	-	-
Repayment to JI Gutnick	-	(90,500)	-	-

During the year, the Company received shareholder approval to the issue of 2 million convertible notes Chabad Properties Pty Ltd (Chabad). The convertible notes had a face value of $1.00 per convertible note, a term of 3 years, an interest rate of 10% and could be converted at the lower of 1.5 cents or the 5 day VWAP. For each convertible note subscribed for, Chabad received 66.667 options (totaling 133,334,000 options) with a life of 4 years and an exercise price of 1.5 cents.

Transactions with other entities

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

	Transactions during the year		Balance 30 June	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Receivable/(payable) from/(to) other entity				
Balance	-	-	12,158,032	8,523,114
Advance to other entity	3,920,283	162,074	-	-
Repayment by other entity	(1,210,000)	(898,913)	-	-
Interest payable by other entity	924,636	791,184	-	-
Management services paid	2,173,985	1,508,324	-	-
Management services rendered	(2,173,985)	(1,508,324)	-	-
Impairment of receivable	(3,634,918)	(54,345)	(12,158,032)	(8,523,114)

Unsecured advances have been made to AXIS. A formal loan agreement was put in place during the year. The loan is repayable in June 2020. The interest rate on monies advanced during the year ranged from 8.70% to 8.80% (2016: 8.80% to 9.05%). The nature of the consideration to be provided in settlement is through services provided or repayment in cash or shares.

Transactions between the Company, related parties and other entities during the year ended 30 June 2017 and 2016 consisted of services provided to Myanmar Metals Limited pursuant to the Administration and Technical Services Agreement ("Agreement") between the Company and Myanmar Metals Limited ("Myanmar"), formerly Top End Minerals Limited, which had a value of $26,314 (2016:$114,138). The amount payable by Myanmar at 30 June 2017 was $nil (2016: $nil). The Agreement was terminated in June 2017 when Myanmar ceased to be a related party. During the year ended 30 June 2016, the Company sold the balance of its investment in Myanmar being 21,811,766 shares for as consideration of $283,553.

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 28th day of September 2017.

MZ Gutnick
Director

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Auditor's Independence Declaration to the Directors of Merlin Diamonds Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Merlin Diamonds Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B L Taylor
Partner - Audit & Assurance

Melbourne, 28 September 2017

Merlin Diamonds Limited
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2017

	Note	Consolidated 2017 $	2016 $
Revenue	3	924,835	791,648
Other income	4	223,394	10,679
Employee benefits expense		(1,433,342)	(435,120)
Consultancy fees		(1,174,789)	(919,217)
Insurance expenses		(82,317)	(75,802)
Lease rental expenses		(159,727)	(239,018)
Professional fees		(165,767)	(139,041)
Travel expenses		(208,921)	(73,400)
Depreciation expenses	6	(453)	(17,826)
Impairment of other receivable		(3,634,918)	(54,345)
Exploration expensed		(850,588)	(447,867)
Development costs expensed	14	(10,591,665)	-
Net (loss)/gain on disposal of trading securities		-	(370,800)
Impairment of plant and equipment	12	(393,557)	(2,111,038)
Impairment of inventory	11	(1,929,593)	-
Fair value (loss)/gain on derivative liability – convertible note	5	(216,738)	162,000
Other expenses		(611,317)	(400,966)
Finance expense	7	(463,304)	(37,869)
Loss before income tax		**(20,768,767)**	**(4,357,982)**
Income tax expense	8	-	-
Loss for the year		**(20,768,767)**	**(4,357,982)**
Items to be subsequently reclassified to profit and loss			
Other comprehensive income/(loss) for the year, net of income tax		-	-
Total comprehensive loss for the year		**(20,768,767)**	**(4,357,982)**
Loss attributable to members of Merlin Diamonds Limited		**(20,768,767)**	**(4,357,982)**
Total comprehensive loss attributable to members of Merlin Diamonds Limited		**(20,768,767)**	**(4,357,982)**
Basic loss per share (cents per share)	9	**(2.54)**	**(0.99)**
Diluted loss per share (cents per share)	9	**(2.54)**	**(0.99)**

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 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Assets			
Current Assets			
Cash and cash equivalents	22	16,402	1,906,830
Trade and other receivables	10	219,999	148,885
Inventories	11	1,469,559	6,020
Total current assets		**1,705,960**	**2,061,735**
Non-current Assets			
Other receivables	10	778,548	789,771
Plant and equipment	12	1,239,473	1,533,378
Development expenditure	14	4,961,318	10,011,091
Total non-current assets		**6,979,339**	**12,334,240**
Total assets		**8,685,299**	**14,395,974**
Liabilities			
Current Liabilities			
Trade and other payables	15	4,669,055	3,541,821
Borrowings	18	211,833	-
Derivative liability at fair value	17	1,480,319	91,000
Provisions	19	113,999	53,315
Total current liabilities		**6,475,206**	**3,686,136**
Non-current Liabilities			
Borrowings	18	-	2,397,537
Convertible notes	16	2,184,389	274,866
Provisions	19	1,622,377	1,229,396
Total non-current liabilities		**3,806,766**	**3,901,799**
Total liabilities		**10,281,972**	**7,587,935**
Net assets/(liabilities)		**(1,596,673)**	**6,808,040**
Equity			
Issued capital	20	156,182,778	143,818,724
Reserves	21	622,160	622,160
Accumulated losses		(158,401,611)	(137,632,844)
Total equity (deficiency)		**(1,596,673)**	**6,808,040**

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 2017

	Consolidated			
	Issued capital $	Equity settled incentive options reserve $	Accumulated losses $	Total equity/ (deficiency) $
Balance at 1 July 2015	**142,991,154**	**763,560**	**(133,416,262)**	**10,338,452**
Loss for the year	-	-	(4,357,982)	(4, 357,982)
Other comprehensive loss for the year, net of income tax	-	-	-	-
Total comprehensive loss for the year, net of tax	-	-	(4,357,982)	(4,357,982)
Employee options forfeited transferred to accumulated losses	-	(141,400)	141,400	-
Issue of shares	835,228	-	-	835,228
Transaction costs arising on share issues	(7,658)	-	-	(7,658)
Total transactions with owners	827,570	(141,400)	141,400	827,570
Balance at 30 June 2016	**143,818,724**	**622,160**	**(137,632,844)**	**6,808,040**
Balance at 1 July 2016	**143,818,724**	**622,160**	**(137,632,844)**	**6,808,040**
Loss for the year	-	-	(20,768,767)	(20, 768,767)
Other comprehensive income for the year, net of income tax	-	-	-	-
Total comprehensive loss for the year, net of tax	-	-	(20,768,767)	(20,768,767)
Issue of shares	13,137,310	-	-	13,137,310
Transaction costs arising on share issues	(773,256)	-	-	(773,256)
Total transactions with owners	12,364,054	-	-	12,364,054
Balance at 30 June 2017	**156,182,778**	**622,160**	**158,401,611**	**(1,596,673)**

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

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Merlin Diamonds Limited
Statement of Cash Flows
for the year ended 30 June 2017

	Note	Consolidated 2017 $	2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		-	-
Payments to suppliers and employees (inclusive of GST)		(2,387,327)	(780,271)
Payments for exploration expenditure		(358,613)	(180,148)
Interest received		428	515
Net cash used in operating activities	22	**(2,745,512)**	**(959,904)**
Cash flows from investing activities			
Payments for development expenditure		(6,853,184)	(1,198,413)
Proceeds from disposal of investment		-	283,554
Payments for acquisition of plant and equipment		(721,587)	(119,340)
Payments for security deposits		(320,687)	-
Receipt of security deposits		18,000	4,050
Payment to other entity		(3,923,380)	(736,602)
Repayment by other entity		1,213,096	1,118,166
Net cash used in investing activities		**(10,587,742)**	**(648,585)**
Cash flows from financing activities			
Proceeds from issue of equity securities		7,068,270	600,000
Proceeds from issue of convertible notes		3,075,000	500,000
Proceeds from the issue of notes		1,607,290	-
Repayment of loan from Director		-	(90,500)
Loan from others		130,000	2,397,537
Loans from other entities		375,000	511,000
Repayment of loan from other entities		(310,000)	(511,000)
Equity securities issue transaction costs		(502,734)	(7,658)
Net cash from financing activities		**11,442,826**	**3,399,379**
Net decrease in cash and cash equivalents		(1,890,428)	1,790,890
Cash and cash equivalents at 1 July		1,906,830	115,940
Cash and cash equivalents at 30 June	22	**16,402**	**1,906,830**

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

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1. Summary of significant accounting policies

Merlin Diamonds Limited (the 'Company') is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 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 28 September 2017.

(a) New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

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

Basis of preparation

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

Historical Cost Convention

The consolidated financial statements have been prepared on the historical cost basis, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

Going concern

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

The Company has incurred a loss of $20,768,767 in the year to 30 June 2017, had net cash operating outflows of $2,745,512 for the year ended 30 June 2017 and has negative working capital of $4,769,246 at 30 June 2017. In order to continue as a going concern, the Company will be required to raise further capital to meet its commitments, resume mining operations at commercial levels, and have the continued support of creditors. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Directors believe the going concern basis to be appropriate for the reasons set out below. In considering whether the Company is a going concern, the Directors note that since balance date the Company has raised funds through the issue of convertible notes, has received the proceeds from the sale of part of the diamond stock and the proceeds from the sale of further diamonds are expected to be received shortly, the Company has capacity under ASX Listing Rules to raise further funds through the placement of securities, mining operations are expected to resume shortly following the installation of the Tomra machine which will see recovery of diamonds promptly which will be able to be sold on world markets. The Directors are confident of meeting the Company's capital raising plans due to the success the Company has previously had in raising capital. The Directors have continued to manage creditors. The Directors believe the going concern basis to be appropriate for the reasons referred to previously. Based on the forecasted cashflows of the Company, the Directors are satisfied that adequate plans are in place and that the Company will be able to raise sufficient cash for a minimum of 12 months from the date of signature of the financial report.

Should the Company be unable to continue as a going concern, it may be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Company be unable to continue as a going concern.

Functional and presentation currency

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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 14 contains information about the assumptions and risk factors relating to exploration, evaluation and development expenditure impairment.

Fair Value of Financial Instruments

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

Share based payment transactions

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

Inventory

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

(b) 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.

(c) Impairment of non-financial assets

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

(d) Employee benefits

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.

(e) 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 2017. 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)(applicable to accounting annual reporting periods beginning on or after 1 January 2018). This standard introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking ‘expected loss’ impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are:

a) Financial assets that are debt instruments will be classified based on: (i) the objective of the entity’s business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.

b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c) Introduces a ‘fair value through other comprehensive income’ measurement category for particular simple debt instruments.

d) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

e) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

   - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)

   - the remaining change is presented in profit or loss

   If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

   - classification and measurement of financial liabilities; and

   - derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward looking information and applies to all financial instruments that are subject to impairment accounting.

The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations (applicable to accounting annual reporting periods beginning on or after 1 January 2018) and establishes a new revenue recognition model; changes the basis for deciding whether revenue is to be recognised over time or at a point in time; provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); and expands and improves disclosures about revenue. The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 16 Leases replaces AASB 117 Leases and some lease-related Interpretations (applicable to accounting annual reporting periods beginning on or after 1 January 2019); requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; · provides new guidance on the application of the definition of lease and on sale and lease back accounting; largely retains the existing lessor accounting requirements in AASB 117; and requires new and different disclosures about leases.

The Company is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the Company's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet:
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities;
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses; and
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

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

Accounting policy

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.

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.

		Consolidated	
		2017	2016
		$	$
Interest income		200	464
Interest income – other entities	24	924,635	791,184
Total revenue		**924,835**	**791,648**

4. Other income

Accounting policy

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

	Consolidated	
	2017	2016
	$	$
Fuel tax credits	223,394	10,679
	223,394	**10,679**

5. Gain/(loss) on derivative liability

	Consolidated	
	2017	2016
	$	$
Convertible notes (Note 16)	**(216,738)**	**162,000**

6. Depreciation expenses

		Consolidated	
		2017	2016
		$	$
Depreciation of plant and equipment		505,374	664,364
Less transfer to exploration/development		(504,921)	(646,538)
Depreciation expense	**12**	**453**	**17,826**

7. Finance expense

Accounting policy

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.

	Consolidated	
	2017	2016
	$	$
Bank charges	(466)	(1,118)
Borrowing costs	(21,350)	(36,751)
Note interest	(138,657)	-
Convertible note interest	(302,531)	-
Total finance expense	**(463,304)**	**(37,869)**

8. Income tax

Accounting policy

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

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

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

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

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

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

Tax consolidation legislation

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

	Consolidated	
	2017	**2016**
	$	**$**
Total tax expense comprises		
Current tax expense	-	-
Deferred tax expense	-	-
	-	-

Reconciliation between tax expense and pre-tax accounting profit

	Consolidated	
	2017	**2016**
	$	**$**
Loss before tax	(20,768,767)	(4,311,522)
Income tax benefit on loss at Australian tax rate of 27.5% (2016: 30%)	5,711,411	660,145
Impairment of plant and equipment	(140,329)	(633,311)
Non-deductible expenses	(64,851)	(114,007)
Gain on derivative liability – convertible note	5,248	48,600
Capital raising	61,828	64,037
Provision for loan receivable	(999,602)	(16,304)
Capitalised development expenditure	(2,988,566)	(119,900)
Impairment of inventory	(530,638)	-
Movement in other temporary differences	(46,147)	1,011,784
	1,008,354	1,534,355
(Under)/over provided in prior years	116,708	(71)
Current year benefits/(losses) for which no deferred tax asset was recognised	(1,125,062)	(1,534,284)
Income tax expense	-	-

Deferred tax assets and liabilities

Consolidated	**Assets**		**Liabilities**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Accrued income	-	-	(3,343,459)	(2,556,934)
Inventory	-	-	(441,737)	-
Capitalise exploration, evaluation and development expenditure	-	-	(1,488,395)	(3,636,729)

Consolidated	Assets		Liabilities	
	2017	2016	2017	2016
	$	$	$	$
Employee benefits	21,770	13,765	-	-
Other accruals and provisions	518,983	643,245	(67,207)	-
Capital raising costs	117,671	111,091	-	-
Tax losses	29,366,702	31,247,332	-	-
Deferred tax assets/(liabilities)	**30,025,126**	**32,015,433**	**(5,340,798)**	**(6,193,663)**
Set off of deferred tax liabilities	(5,340,798)	(6,193,663)	5,340,798	6,193,663
Net deferred tax assets/(liabilities)	**24,684,328**	**25,821,770**	**-**	**-**
Net deferred tax assets not recognised	24,684,328	(25,821,770)	-	-
Net deferred tax assets/(liabilities)	**-**	**-**	**-**	**-**

	Consolidated	
	2017	2016
	$	$
Unused tax losses for which no deferred tax asset has been recognised	**106,788,009**	**104,157,774**
Potential tax benefit @27.5% (2016: 30%)	**29,366,702**	**31,247,332**

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.

9. Loss per share

Accounting policy

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.

	2017	2016
Basic loss per share (cents)	**(2.54)**	**(0.99)**
Diluted loss per share (cents)	**(2.54)**	**(0.99)**

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

	2017 $	2016 $
Loss attributable to ordinary shareholders (basic)	(20,768,767)	(4,357,982)
Loss attributable to ordinary shareholders (diluted)	(20,768,767)	(4,357,982)

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:

	2017 Shares	2016 Shares
Weighted average number of shares		
Basic loss per ordinary share denominator	816,282,163	440,164,074
Effect of share options on issue	-	-
Diluted loss per ordinary share denominator	816,282,163	440,164,074

For the years ended 30 June 2016 and 30 June 2017, options were not considered to be dilutive as the conversion would result in a reduced loss per share. The options were therefore excluded from the weighted average number of shares in the calculation of loss per share.

10. Trade and other receivables

Accounting policy

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

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

	Consolidated 2017 $	2016 $
Current		
Receivables due from other entity (note 27)	-	8,523,114
Impairment provision	-	(8,523,114)
Receivables due other entity	15,000	-
Other receivables	110,320	48,030
Prepayments	94,679	100,855
Total current receivables	**219,999**	**148,885**
Non-current		
Receivables due from other entity (note 27)	12,158,032	-
Impairment provision	(12,158,032)	-
Security deposits	778,548	789,771
Total non-current receivables	**778,548**	**789,771**

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

11. Inventory

Accounting policy

Raw materials, diamond stock and stores are stated at the lower of cost and net realisable value. Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the mining and processing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

	Consolidated	
	2017	**2016**
	$	**$**
Fuel stores – at cost	83,385	6,020
Stores – at cost	106,922	
Diamond stock – at cost	3,208,845	-
Impairment	(1,929,593)	-
	1,469,559	**6,020**

The diamond stock at 30 June 2017 has been written down to estimated realisable value.

12. Plant and equipment

Accounting policy

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

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

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

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

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

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.

	Field and plant equipment	**Office equipment**	**Vehicles**	**Work in progress**	**Total**
	$	**$**	**$**	**$**	**$**
Cost					
Balance at 1 July 2015	9,503,060	99,656	578,491	170,095	10,351,302
Additions	117,090	-	-	-	117,090
Disposals	(3,075)	(3,111)	-	(90,095)	(96,281)
Impairment of plant and equipment	(2,510,920)	-	-	-	(2,510,920)
Transfers and other movements	(3,577)	1,091	(234,806)	-	(237,292)
Balance at 30 June 2016	**7,102,578**	**97,636**	**343,685**	**80,000**	**7,623,899**
Balance at 1 July 2016	7,102,578	97,636	343,685	80,000	7,623,899
Additions	707,667	14,088	-	-	721,755
Disposals	(225,878)	(20,270)	-	-	(246,148)
Impairment of plant and equipment	(411,364)	-	-	-	(411,364)
Transfers to development	80,000	-	-	(80,000)	-
Transfers and other movements	-	(1,923)	-	-	(1,923)
Balance at 30 June 2017	**7,253,003**	**89,531**	**343,685**	**-**	**7,686,219**
Accumulated depreciation					
Balance at 1 July 2015	5,478,066	68,213	523,136	-	6,069,415
Depreciation for the year	629,414	20,841	14,109	-	664,364
Disposals	(3,075)	(2,908)	-	-	(5,983)
Impairment of plant and equipment	(399,882)	-	-	-	(399,882)
Transfers and other movements	(3,577)	990	(234,806)	-	(237,393)
Balance at 30 June 2016	**5,700,946**	**87,136**	**302,439**	**-**	**6,090,521**
Balance at 1 July 2016	5,700,946	87,136	302,439	-	6,090,521
Depreciation for the year	481,938	9,365	14,070	-	505,373
Disposals	(111,703)	(21,561)	-	-	(133,264)
Impairment of plant and equipment	(17,807)	-	-	-	(17,807)

	Field and plant equipment $	Office equipment $	Vehicles $	Work in progress $	Total $
Transfers and other movements	-	1,923	-	-	1,923
Balance at 30 June 201	**6,053,374**	**76,863**	**316,509**	**-**	**6,446,746**
Carrying amounts					
At 1 July 2015	4,024,994	31,443	55,355	170,095	4,281,887
At 30 June 2016	1,401,632	10,500	41,246	80,000	1,533,378
At 1 July 2016	1,401,632	10,500	41,246	80,000	1,533,378
At 30 June 2017	**1,199,629**	**12,668**	**21,176**	**-**	**1,239,473**

The Company has impaired certain plant and equipment at Merlin as a result of the constant failure which gives rise to its ability to function at commercial levels. The net effect of the impairment is $393,557.

13. Exploration expenditure

Accounting policy

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

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

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

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

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

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

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

14. Development expenditure

	Consolidated 2017 $	2016 $
Balance at beginning of year	10,011,091	8,436,680
Expenditure incurred	8,750,737	1,574,411
Transfer to inventory	(3,208,845)	-
Expenditure impaired	(10,591,665)	-
Carrying amount at end of year	**4,961,318**	**10,011,091**

The cut-off point between development and production is when "Assets must be "available for use" before they can be depreciated. For mining entities, assets are "available for use" when commercial levels of production are achieved."The Company considers that the operations at the mine have not yet reached commercial levels of production. The expenditure of $10,591,665 (2016: $nil) has been written off which relates to the previously proposed grab mining method of mining activities which the Company does not currently plan to proceed with as it is focusing on open pit mining

15. Trade and other payables

Accounting policy

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are recognised initially at fair value plus directly attributable transaction costs and subsequently at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

	Consolidated 2017 $	2016 $
Trade payables	4,381,551	2,554,299
Accruals	287,504	987,522
Total trade and other payables	**4,669,055**	**3,541,821**

16. Convertible notes

Accounting policy

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

	Consolidated 2017 $	2016 $
Non current		
Convertible notes	2,184,389	274,866
	2,184,389	**274,866**

During fiscal 2016 and 2017, the Consolidated Entity issued 10% convertible notes, with a face value of $1.00 each with an expiration date of 36 months from the date of issue; and options. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The accrued interest at

30 June 2017 is $415,249 (2016: $27,866). The notes are convertible into fully paid ordinary shares of the parent entity at various conversion prices. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. Each Option is exercisable at any time after the date on which the options issues (vesting date) until and including their expiry date, namely 4 years from the vesting date (expiry date). Any options not exercised by the expiry date will automatically lapse on the expiry date. The convertible notes are secured.

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

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

17. Derivative Liabilities at fair value

	Consolidated	
	2017	**2016**
	$	**$**
Non current		
Carrying amount at 1 July	91,000	-
Recognition of derivative from convertible	4,981,069	253,000
Conversion of convertible notes to ordinary shares	(3,811,488)	-
Fair value movement	(216,738)	(162,000)
	1,480,319	**91,000**

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

The value of the derivative fluctuates with the Company's underlying share price and the time to expiry. The change in the value of the derivatives between inception and 30 June 2017 is due to the difference in the share price between inception and 30 June 2017.

The derivative liability is measured at fair market value and is a Level 2. The Company has engaged an external party to calculate the fair value of the Level 2 embedded derivative which has been estimated using the forward pricing model. The options were valued using an amended Black Scholes methodology. The key inputs were share price at the date of issue, exercise price of the relevant convertible note, volatility as assessed by the external party and a risk-free rate calculated ona case by case basis which gave rise to a fair value.

The carrying value of the convertible notes at 30 June 2017 and 2016 approximates their fair value at those dates.

18. Borrowings

Accounting policy

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.

	Note	Consolidated 2017 $	2016 $
Current			
Loans due to other entity		80,000	-
Loans - other		131,833	-
		211,833	**-**
Non current			
Loans - other		-	2,397,537
		-	**2,397,537**

Loans - other

The non-current loans - other were unsecured notes, interest is to be charged at the rate of 10%, payable on repayment of the notes and the notes are repayable three years after the date of issue. It is a requirement of the agreement that the Company obtain shareholder approval for the transfer of the notes to convertible notes.

On 6 September 2016, shareholders approved the issue of up to 4,392,054 10% convertible notes, with a face value of $1.00 each with an expiration date of 36 months from the date of issue; and 292,805,064 options for total proceeds of $4,392,054. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The notes are convertible into fully paid ordinary shares of the parent entity at conversion price of 1.5 cents or the 5 day VWAP ending on the ASX trading day immediately preceding the date of the relevant conversion notice, whichever is lower. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. Each Option is exercisable at any time after the date on which the options issues (vesting date) until and including their expiry date, namely 4 years from the vesting date (expiry date). Any options not exercised by the expiry date will automatically lapse on the expiry date. The convertible notes are unsecured. As a result, 2,397,537 of the loans other (notes) have been converted into 2,397,537 convertible notes.

19. Provisions

Accounting policy

Wages and salaries and annual leave

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

Long service leave

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

Rehabilitation

The Group is obligated to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment and areas disturbed as a result of its exploration, mining and processing activities.

Provisions for the cost of closure and rehabilitation are recognised when the Group has a present obligation and it is probable that restoration/rehabilitation costs will be incurred at a future date, which generally arises at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of an operation, the provision is increased accordingly. The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating license conditions and the environment in which the mine operates. Expenditure may occur before and after closure, and can continue for a period of time dependent on the closure and rehabilitation requirements.

A corresponding asset is booked within Property, plant and equipment for mining assets and exploration and evaluation assets, and is depreciated on the basis of the current estimate of the useful life of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Restoration and rehabilitation provisions are also adjusted for changes in estimates. Restoration and rehabilitation provisions are remeasured at each reporting date to reflect any changes.

	Employee Entitlements	Rehabilitation	Lease Makegood/ Demobilisation	Total
	$	$	$	$
Balance at 1 July 2016	45,883	1,115,069	121,759	1,282,711
Provisions used during the year	(34,254)	-	-	(34,254)
Provisions made during the year/revised	67,535	422,308	(1,924)	487,919
Balance at 30 June 2017	**79,164**	**1,537,377**	**119,835**	**1,736,376**
At 30 June 2016				
Current	16,556	-	36,759	53,315
Non-current	29,327	1,115,069	85,000	1,229,396
Total provisions	**45,883**	**1,115,069**	**121,759**	**1,282,711**
At 30 June 2017				
Current	79,164	-	34,835	113,999
Non-current	-	1,537,377	85,000	1,622,376
Total provisions	**79,164**	**1,537,377**	**119,835**	**1,736,376**

20. Capital and reserves

Accounting policy

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.

Transfer from reserves

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

Ordinary share capital

	2017 No. shares	2016 No. shares	2017 $	2016 $
Balance at beginning of year	**451,257,719**	**431,334,750**	**143,818,724**	**142,991,154**
Conversion of convertible note 31 August 2016 @ 1.5 cents per share	50,000,000	-	1,000,000	-
Consulting fees 31 August 2016 @ 1.5 cents per share	2,000,000	-	30,000	-
Consulting fees 31 August 2016 @ 2.0 cents per share	4,317,090	-	87,084	-
Conversion of convertible note 2 September 2016 @ 1.9 cents per share	26,136,933	-	496,602	-
Consulting and promotional fees 2 September 2016 @ 1.5 cents per share	12,100,000	-	181,500	-
Consulting and promotional fees 20 October 2016 @ 2.2 cents per share	4,166,667	-	91,667	-
Conversion of convertible notes 8 November 2016 @ 1.9 cents per share	6,666,666	-	126,667	-
Conversion of convertible notes 17 November 2016 @ 1.8 cents per share	50,608,935	-	910,961	-
Conversion of convertible notes 18 November 2016 @ 1.8 cents per share	32,666,667	-	588,000	-
Conversion of convertible notes 22 November 2016 @ 1.8 cents per share	11,760,274	-	210,000	-
Conversion of convertible notes 29 November 2016 @ 1.8 cents per share	3,333,333	-	60,000	-
Share placement 15 December 2016 @ 1.3 cents per share	102,423,076	-	1,331,500	-
Conversion of convertible notes 21 December 2016 @ 1.6 cents per share	6,666,666	-	106,667	-
Consulting and promotional fees 21 December 2016 @ 1.3 cents per share	24,000,000	-	312,000	-
Share placement 21 December 2016 @ 1.3 cents per share	15,384,615	-	200,000	-
Consulting and promotional fees 21 December 2016 @ 1.6 cents per share	1,562,500	-	25,000	-
Consulting and promotional fees 21 December 2016 @ 1.8 cents per share	2,000,000	-	36,000	-
Consulting and promotional fees 21 December 2016 @ 1.9 cents per share	10,000,000	-	170,000	-
Conversion of convertible	22,307,692	-	338,931	-

	2017 No. shares	2016 No. shares	2017 $	2016 $
notes 24 January 2017 @ 1.5 cents per share				
Conversion of convertible notes 8 February 2017 @ 1.5 cents per share	1,666,675	-	25,000	-
Conversion of convertible notes 9 February 2017 @ 1.7 cents per share	10,769,229	-	181,677	-
Issue of shares 23 March 2017 @ 1.3 cents per share	157,994,229	-	2,053,923	-
Issue of shares 30 March 2017 @ 1.3 cents per share	267,903,139	-	3,482,741	-
Issue of shares as underwriting fee 3 April 2017 @1.3 cents per share	20,000,000	-	280,000	-
Conversion of convertible notes 18 April 2017 @ 1.5 cents per share	9,927,290	-	148,910	-
Conversion of convertible notes 14 June 2017 @ 1.2 cents per share	20,000,000	-	240,000	-
Issue of shares for exploration, development and mining activities 26 June 2017 @ 1.5 cents	14,548,471	-	221,228	-
Consulting and promotional fees 26 June 2017 @ 1.1 cents per share	17,500,000	-	192,500	-
Issue of shares for interest on convertible notes 26 June 2017 @ 1.5 cents per share	576,394	-	8,646	-
Issue of shares on exercise of options 26 June 2017	8,125	-	106	-
Share placement 13 July 2015 @ 6.5 cents per share	-	1,538,461	-	100,000
Share placement 24 September 2015 @ 6.5 cents per share	-	7,692,304	-	500,000
Consulting and promotional fees 11 May 2016 @ 2.2 cents per share	-	10,692,204	-	235,228
Transaction costs arising on share issues	-	-	(773,256)	(7,658)
Balance at end of year	**1,360,252,385**	**451,257,719**	**156,182,778**	**143,818,724**

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

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

21. Employee Share Options

Accounting policy

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

The options were valued by Remuneration Strategies Group using an amended Black Scholes Merton methodology with a 250 step binomial variation. The key inputs were a 5 day VWAP of $0.1324, exercise price of $0.15, volatility of 140.9033%, vesting of 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date, risk-free rate of 3.09% and an exercise multiple of 2.0.

This gave rise to a value of $0.0743 for the options vesting 12 months from issue date, $0.0806 for the options vesting 24 months from issue date and $0.0856 for the options vesting 36 months from issue date.

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

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

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

	For the year ended June 30, 2016	
	Number of options	**Weighted average exercise price $**
Balance at beginning of year	23,200,000	0.15
Granted during the year	-	-
Expired during the year	-	-
Forfeited during the year	(200,000)	0.15
Balance at end of year	23,000,000	0.15
Exercisable at end of year	-	-

During the year ended June 30, 2017 the Company recognised a net expense of $nil (2016: $nil) 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, 2017

The share options outstanding at June 30, 2017 had a weighted average exercise price of $0.15 and a weighted average remaining contractual life of 2.21 years.

(c) Options forfeited during the period

During the year ended June 30, 2017 200,000 options were forfeited.

22. Cash and cash equivalents

Accounting policy

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.

	Consolidated	
	2017	**2016**
	$	**$**
Cash at bank and on hand	16,402	1,906,830
Cash and cash equivalents	**16,402**	**1,906,830**
Cash and cash equivalents in the Statement of Cash Flows	**16,402**	**1,906,830**

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

Reconciliation of cash flows from operating activities

	Consolidated	
	2017	**2016**
	$	**$**
Loss for the year	(20,768,767)	(4,357,982)
Adjustments for		
Depreciation	453	17,826
Development expenditure expensed	10,591,665	-
Exploration expensed	850,588	447,867
Loss/(gain) on marketable security	-	370,800
Unrealised (gain) /loss on derivative liability – convertible note	216,738	(162,000)
Impairment of plant and equipment	393,557	2,111,038
Suppliers paid in shares	1,190,562	235,228
Impairment of receivable other entity	3,634,918	54,345
	(3,890,286)	(1,282,878)
Change in inventories	(1,469,559)	-
Change in trade and other receivables	(71,113)	(82,568)
Change in trade and other payables	2,685,445	405,542
Net cash used in operating activities	(2,745,512)	(959,904)

23. Contingencies

Contingent liabilities

Merlin Diamond Mine Acquisition

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

24. Commitments

Exploration expenditure

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

	Consolidated	
	2017	**2016**
	$	**$**
Due within one year	393,193	386,537
Due later than one year and not later than five years	936,728	670,930
Due later than five years	207,680	462,031
	1,537,601	**1,519,498**

25. Group entities

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 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 consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

Parent company

The parent company of the Group is Merlin Diamonds Limited.

	Ownership interest	
	2017	**2016**
	%	**%**
Parent entity		
Merlin Diamonds Limited		
Subsidiaries		
Striker Diamonds Pty Ltd	100	100
Merlin Operations Pty Ltd	100	100
Merlin Diamonds Pte Ltd	100	100
Merlin Diamonds (North Australia) Ltd	100	100

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

26. Financial instruments

Accounting policy

Recognition, Initial Measurement and Derecognition

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

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

Classification and Subsequent Measurement of Financial Assets

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

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

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

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

Classification and subsequent measurement of financial liabilities

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

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

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

Loans and receivables

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

Financial assets at FVTPL

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

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	
	2017	**2016**
	$	**$**
Variable rate instruments		
Cash and cash equivalents	16,402	1,906,830
Security deposits	29,518	22,741
Receivables due from other entity	-	-
	45,920	**1,929,571**

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 2016. The following table summarises the sensitivity of the Group's financial assets (cash) to interest rate risk:

Consolidated	Carrying amount $	Profit or loss 100 bp increase $	Profit or loss 100 bp decrease $	Equity 100 bp increase $	Equity 100 bp decrease $
30 June 2016					
Variable rate instruments					
Cash and cash equivalents	1,906,830	19,068	(19,068)	19,068	(19,068)
Receivables due from other entity	-	-	-	-	-
	1,906,830	**19,068**	**(19,068)**	**19,068**	**(19,068)**
30 June 2017					
Variable rate instruments					
Cash and cash equivalents	16,402	164	(164)	164	(164)
Receivables due from other entity	-	-	-	-	-
	16,402	**164**	**(164)**	**164**	**(164)**

Credit risk

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

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

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

	Consolidated 2017 $	Consolidated 2016 $
Cash and cash equivalents	16,402	1,906,830
Receivables	110,320	48,030
Security deposits	778,548	789,771
	905,270	**2,744,631**

Impairment loss

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

	At 30 June 2017		At 30 June 2016	
	Gross	**Impairment**	**Gross**	**Impairment**
	$	**$**	**$**	**$**
Current				
31 – 60 days	110,320	-	48,030	-
61 – 90 days	-	-	-	-
91 days and over	12,158,032	(12,158,032)	8,523,114	(8,523,114)
	12,268,352	**(12,158,032)**	**8,571,114**	(8,523,114)

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

	Consolidated	
	2017	**2016**
	$	**$**
At July	(8,523,114)	(8,468,769)
Provision for impairment recognised during the year	(3,634,918)	(54,345)
At June	**(12,158,032)**	**(8,523,114)**

Liquidity risk

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

The following are the contractual maturities of financial liabilities:

Consolidated

	Carrying amount	**Total contractual cash flows**	**6 months or less**	**7 to 12 months**	**1 to 5 years**
	$	**$**	**$**	**$**	**$**
30 June 2017					
Financial liabilities					
Trade and other payables	4,669,055	4,669,055	4,669,055	-	-
Borrowings	1,692,152	1,692,152	-	-	1,692,152
Convertible note	2,184,389	5,146,231	-	-	5,146,231
	8,545,596	**11,507,438**	**4,669,055**	**-**	**6,838,383**
30 June 2016					
Financial liabilities					
Trade and other payables	3,541,821	3,541,821	3,541,821	-	
Borrowings	2,397,537	3,116,799	-	-	3,116,799
Convertible note	274,866	650,000	-	-	650,000
	6,214,224	**7,308,620**	**3,541,821**	**-**	**3,766,799**

Fair value

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

Capital management

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

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

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

27. Related party transactions

Group

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

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

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

Key management personnel employed by the Company

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

	2017	**2016**
	$	**$**
Short-term employee benefits	73,759	36,000
Post-employment benefits	-	38,775
Employee share options	8,697	223,252
	82,456	**298,027**

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 during the year ended 30 June 2017 and 2016 consisted of services provided to Myanmar Metals Limited ("Myanmar") pursuant to the Administration and Technical Services Agreement ("Agreement") between the Company and Myanmar which had a value of $26,314 (2016:$114,138). The amount payable by Myanmar at 30 June 2017 was $nil (2016: $nil). The Agreement was terminated in June 2017 when Myanmar ceased to be a related party. During the year ended 30 June 2016, the Company sold the balance of its investment in Myanmar being 21,811,766 shares for as consideration of $283,553.

Transactions with Directors

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

	Transaction value for the year ended 30 June		**Balance outstanding at 30 June**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Current payables to				
Advance by Power Developments Pty Ltd	200,000	-	-	-
Repayment to Power Developments Pty Ltd	(200,000)	-	-	-
Advance to S Gutnick	(10,000)	-	(10,000)	-
Advance by Critinda Pty Ltd	110,000	-		
Repayment to Critinda Pty Ltd	(30,000)	-	80,000	-
Advance from Brocho Investments Pty Ltd and Hoydu Nominees Pty Ltd(“Brocho”)	65,000	511,000	-	-
Expenses incurred by Brocho on behalf on Merlin	-	326,000	-	-
Repayment to Brocho	(70,000)	(837,000)	(5,000)	-
Repayment to JI Gutnick	-	(90,500)	-	-
	65,000	**(90,500)**	**65,000**	**-**

During the year, the Company received shareholder approval to the issue of 2 million convertible notes to Chabad Properties Pty Ltd (Chabad). The convertible notes had a face value of $1.00 per convertible note, a term of 3 years, an interest rate of 10% and could be converted at the lower of 1.5 cents or the 5 day VWAP. For each convertible note subscribed for, Chabad received 66.667 options with a life of 4 years and an exercise price of 1.5 cents.

Transactions with other entities

AXIS Consultants Pty Ltd (‘AXIS’), a company of which Mr. JI Gutnick, Mr MZ Gutnick and Dr DS Tyrwhitt were directors during the year, provided management services to the Company for the year.

	Transaction value for the year ended 30 June		**Balance outstanding at 30 June**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Receivable/(payable) from/(to) other entity				
Opening balance	-	-	12,158,032	8,523,114
Advance to other entity	3,920,283	162,074	-	-
Repayment by other entity	(1,210,000)	(898,913)	-	-
Interest payable by other entity	924,636	791,184	-	-
Management services paid	2,173,985	1,508,324	-	-
Management services rendered	(2,173,985)	(1,508,324)	-	-
Impairment of receivable	(3,634,918)	(54,345)	(12,158,032)	(8,523,114)

Unsecured advances have been made to AXIS. A formal loan agreement was put in place during the year. The loan is repayable in June 2020. The interest rate on monies advanced during the year ranged from 8.70% to 8.80% (2016: 8.80% to 9.05%). The nature of the consideration to be provided in settlement is through services provided or repayment in cash or shares.

28. Auditors remuneration

	Consolidated 2017 $	2016 $
Audit services		
Grant Thornton Audit Pty Ltd		
Audit and review of financial reports	70,000	-
BDO[1]		
Audit and review of financial reports	-	59,460
Other services		
BDO[1]		
Taxation services	5,925	17,933
	75,925	**77,393**

[1]BDO East Coast Partnership.

29. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017, the parent company of the Group was Merlin Diamonds Limited.

	Company 2017 $	2016 $
Result of the parent entity		
Loss for the year	(5,290,294)	(1,990,319)
Other comprehensive income	-	-
Total comprehensive loss for the year	(5,290,294)	(1,990,319)
Financial position of the parent entity at year end		
Current assets	318,193	2,168,003
Total assets	8,491,783	15,724,677
Current liabilities	4,339,295	3,252,036
Total liabilities	8,512,670	6,159,766
Total equity of the parent entity comprising of:		
Issued capital	156,182,779	143,818,724
Reserves	622,160	622,160
Accumulated losses	(156,825,826)	(134,875,973)
Total equity	**(20,887)**	**9,564,911**

Parent entity contingencies

Financial Support – controlled entities

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

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

Parent entity commitments

Exploration expenditure

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

	Company	
	2017	**2016**
	$	**$**
Due within one year	153,814	133,070
Due later than one year and not later than five years	467,578	410,374
Due later than five years	207,681	428,326
	829,073	**971,770**

30. Subsequent events

Subsequent to balance date, the Company has issued 1,956,111 convertible notes for $1,956,111, on the same terms and conditions set out in note 16 and 18; issued 152,393,012 quoted options (MED OB) as result of the issue of the convertible notes; issued 368,455,010 shares as a result of the conversion of convertible notes. The Company has also purchased a Tomra XRT machine at a cost of $950,000 for use in diamond processing at the Merlin diamond mine and has sold a portion of its diamond stock. Other than this matter and the matters disclosed elsewhere in the financial statements or outlined below, no matters or circumstance have arisen since 30 June 2017 that have a significant effect on the Company.

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 14 to 47 and the Remuneration Report in the Directors Report set out on pages 6 to 12 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 2017 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 2017.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 28th day of September 2017

M Z Gutnick
Director

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Independent Auditor's Report
to the Members of Merlin Diamonds Limited

Report on the audit of the financial report

Qualified Opinion

We have audited the financial report of Merlin Diamonds Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated statement statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, with the exception of the matters identified in the subsequent paragraphs, the accompanying consolidated statement report of Merlin Diamonds Limited is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

A limitation in the scope of our audit work exists for the reasons described below:

Included within Notes 10 & 27 of the financial report, the Company has reported a loan receivable from AXIS Consultants Pty Ltd amounting to $12,158,032 (2016: $8,523,114) which has been fully provided for. We have been unable to obtain sufficient appropriate audit evidence in respect to the collectability or otherwise of this amount.

Included within Note 14 of the financial report, the Company has reported capitalised development expenditure in relation to its mine properties amounting to $4,961,318. We have been unable to obtain sufficient appropriate audit evidence in respect to the forecasts relating to future production levels, revenues and costs contained within the Director's impairment assessment. These uncertainties may require an impairment of the capitalised development expenditure, should management be unable to achieve these targets.

Included within Note 11 of the financial report, the Company has reported Inventory in relation to its diamond stock at an estimated realisable value of $1,279,252. We have been unable to obtain sufficient appropriate audit evidence in respect to the expected sale price of a material proportion of this diamond stock supporting its estimated realisable value as shown in the financial report. These uncertainties may require a further adjustment to the value of the diamond stock, should management achieve sales at materially different prices to those estimated.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial report, which notes net operating cash outflows of $2,475,512 and a negative working capital position of $4,769,246 for the year ended 30 June 2017. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our report has not been modified in relation to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in both the Basis for Qualified Opinion and the Material Uncertainty Related to Going Concern sections, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Convertible Notes **Notes 16 & 17**	
The convertible notes issued by the Company contain a number of clauses that gave rise to embedded derivatives which required the engagement of a valuation specialist to value the convertible notes and embedded derivatives. This area is a key audit matter due the complex judgements involved in the valuation.	Our procedures included, amongst others: • agreeing the details of convertible notes issued to secure note deeds; • reviewing the terms of the notes to ensure the appropriateness of the accounting treatment; • testing the calculations and amounts recorded where notes were converted for accuracy and agreeing to supporting documentation; • assessing the independent expert valuations of both the debt and embedded derivative components of notes upon issue and outstanding at 30 June 2017, including the assumptions and inputs used in the valuation and reviewing for accuracy; • assessing the competence, capabilities and objectivity of managements expert used in performing the valuations; • engaging with internal valuation experts to assess the reasonableness of assumptions and inputs used in the valuation and the accounting treatment of the convertible notes; and • reviewing the appropriateness of the related disclosures within the financial statements.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Grant Thornton

Responsibilities of the Directors' 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 preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Merlin Diamonds Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B L Taylor
Partner - Audit & Assurance

Melbourne, 28 September 2017

As at 20 September 2017, 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, Trinity Management Group Pty Ltd, Chabad Properties Pty Ltd, Hoydu International Enterprises Pty Ltd, Atlantic Holdings (Aust) Pty Ltd, Morzev Pty Ltd, Stera Gutnick and Mordechai Gutnick and Joseph Gutnick	313,076,923

2. Fully Paid Ordinary Shares

The number of holders of fully paid ordinary shares in the Company is 6,221. 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	3,276
Holding between	1,001 - 5,000 Shares	1,273
Holding between	5,001 – 10,000 Shares	378
Holding between	10,001-100,000 Shares	681
Holding more than	100,001 Shares	613

The number of holders with less than a marketable parcel of fully paid ordinary shares is 5,521. 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
Chabad Properties Pty Ltd	220,000,000	12.73
BNP Paribas Noms Pty Ltd	123,718,103	7.16
Mr Vince Zangari	101,481,976	5.87
Citicorp Nominees Pty Ltd	71,241,403	4.12
SH Rayburn Nominees Pty Ltd	49,141,844	2.84
Mr Robert Jesse Hunt	41,828,355	2.42
IFM Pty Ltd	40,384,616	2.34
Ledger Holdings Pty Ltd	36,858,777	2.13
Australian Executor Trustees Limited	32,307,692	1.87
Mr Mordechail Engel & Mrs Elisheva Beille Engel	28,480,975	1.65
WinterCrest Advisors LLC	27,538,461	1.59
Hoydu International Enterprises Pty Ltd	25,000,000	1.45
Newton Centre Development Limited	24,000,000	1.39
Lim Kuan Yew	21,600,000	1.25
Oska Nominees Pty Ltd	19,535,000	1.13
HSBC Custody Nominees (Australia) Pty Ltd	19,257,146	1.11
Trinity Management Pty Ltd	18,000,000	1.04
Sapphire Chip Pty Ltd	17,500,000	1.01

Name	Number of Fully Paid Ordinary Shares held	Percentage interest
Everblu Pty Ltd	17,500,000	1.01

3. Quoted Options (MEDOB)

The number of holders of quoted options in the Company is 557. 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	115
Holding between	1,001 - 5,000 Shares	106
Holding between	5,001 – 10,000 Shares	40
Holding between	10,001-100,000 Shares	109
Holding more than	100,001 Shares	115

The number of holders with less than a marketable parcel of fully paid ordinary shares is 557. The Company's options are quoted on the Australian Securities Exchange using the code MEDOB.

The top 20 optionholders are as follows:

Name	Number of Options held	Percentage interest
Regals Fund LP	115,597,807	19.61
Edensor Holdings Pty Ltd	115,384,500	19.58
Riveck Nominees Pty Ltd	63,985,000	10.86
Ledger Holdings Pty Ltd	46,250,000	7.85
Oska Nominees Pty Ltd	26,250,000	4.45
BSUT Pty Ltd	23,076,923	3.92
Mr Vince Zangari	12,054,592	2.05
Mr Mordechail Engel & Mrs Elisheva Beille Engel	11,426,763	1.94
SH Rayburn Nominees Pty Ltd	8,190,307	1.39
Gramview Pty Ltd	7,733,871	1.31
Mosnow Pty Ltd	6,769,225	1.15
IFM Pty Ltd	6,730,769	1.14
Nutsville Pty Ltd	5,750,000	0.98
Mr Philip John Cawood	5,000,000	0.85
Perishing Australia Nominees Pty Ltd	4,897,929	0.83
Mr Brett David Sellars & Mrs Janelle Marie Sellars	3,335,000	0.57
Wittie Pty Ltd	3,000,000	0.51
Mrs Lisa Jane Hamann	3,000,000	0.51
Claymore Ventures Limited	3,000,000	0.51
HSBC Custody Nominees (Australia) Pty Ltd	2,875,000	0.49
Rucking Investments Pty Ltd	2,685,184	0.46
Mr Andrew John Pearson	2,671,154	0.45

4 Unquoted Options

The Company has on issue 329,080,661 unquoted options, held by 35 holders. Chabad Properties Pty Ltd holds 40.52% of these options.

Merlin Diamonds Limited
Tenement List

Tenement	Project	State	Holder	Status	% Interest (End of Quarter)
EL26944	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100%
M80/526	Seppelt	WA	Merlin Diamonds Limited	Granted	100%
M80/532	Seppelt	WA	Merlin Diamonds Limited	Granted	100%
M80/492	Ashmore	WA	Striker Diamonds P/L	Granted	100%
MLN1154	Merlin	NT	Merlin Operations Pty Ltd	Granted	100%
EL10189	Merlin Orbit	NT	Merlin Operations Pty Ltd	Granted	100% Diamond rights only
EL26206	Arnhem Land	NT	Merlin Diamonds Limited	Granted	100% Diamond rights only
EL28066	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28067	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL28068	Arnhem Land	NT	Merlin Diamonds Limited	Application	100% Diamond rights only
EL6532	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only
EL8681	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only
EL8682	Arnhem Land	NT	Rio Tinto Pty Ltd	Application	100% Diamond rights only

Merlin Diamonds Limited
Corporate Information

Directors
Mordechai Gutnick
Henry Herzog
David Tyrwhitt

Company Secretary
Peter Lee

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Legal Form
A public company limited by shares

Country of Incorporation
Australia

Share Registry
Link Market Services Limited
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Melbourne VIC 3008
Australia

Telephone:	1300 554 474 or + 61 3 9615 9999
Facsimile:	+61 3 8614 2903

Australian Securities Exchange Listing Code
MED
MEDOB