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# Merlin Diamonds Limited

ABN 86 009 153 119

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**ANNUAL REPORT 2014**

Merlin Diamonds Limited  
Review of Activities

Dear Shareholder

I am pleased to have this opportunity to advise you that we have made significant progress over the past year and expect to recommence production at the Merlin diamond mine in 2015.

*Introduction*

During the year, the Company completed a hydraulic borehole mining (“HBM”) trial at its Merlin diamond mine in the Northern Territory, Australia in September 2013 and following a review of the results, other alternative mining methods that could potentially provide a quicker path to restarting mining operations with lower upfront capital costs were investigated. The previously identified alternative mining methods investigated were:

- A hydrofraise – a machine with rotating cutters and suction slurry line to recover excavated material. This machinery would be suspended from a crane erected on a barge afloat on the pit lakes.
- A weighted hydraulic clamshell grab or a mechanical clamshell grab (dredging grab) – this machinery would also be suspended from a crane erected on a barge afloat on the pit lakes.
- Large diameter auger drilling and large diameter reverse circulation drilling.

Preliminary costings and submissions from three ground engineering contractors presented the following challenges:

- Heavy hydraulic grabs requiring large cranes and large drill rigs needed for large diameter augers presented very costly mobilisation and demobilisation costs with the potential for access road upgrades (i.e. high capital)
- Large cranes and drill rigs with vehicle masses of 110 to 170 tonnes and tall masts/booms require large barges to provide a stable working platform (i.e. high capital)
- The hydraulic grabs and large diameter augers are designed for diaphragm walls and piles respectively and hence the payloads are small for each cycle resulting in relatively low production rates per shift (i.e. high \$ per tonne)

Mechanical clamshell grabs or dredging grabs however, typically used in marine environments for clearing channels and preparing foundations for marine structures, presented an attractive option. The dredging grabs are similar to the weighted hydraulic grabs adopted for ground improvement however the weight to volume ratio is less requiring less craneage and typically the grab has a mechanical closing mechanism rather than hydraulic.

The Company has been in discussions with several dredging contractors to develop a clamshell grab mining technique for mining at Merlin. This mining method has been assessed with the completion of a full feasibility study (“FS”). The FS has estimated a new Probable Ore Reserve based on the mechanical clamshell grab mining methodology.

A summary of the results of the FS, the updated Probable Ore Reserve and Mineral Resource estimate is provided below. For full results of the FS and a detailed description of the Probable Ore Reserve and Mineral Resource estimates please see Merlin Diamond’s announcement to the Australian Stock Exchange (“ASX”) dated 30 September 2014 (“FS Report”) and titled “Mechanical Clamshell Grab Mining Feasibility Study, Probable Ore Reserve Estimate and Mineral Resource Estimate Update” (also available at [www.merlindiamonds.com.au](http://www.merlindiamonds.com.au)). The FS Report has been prepared in accordance with the 2012 JORC Code and is based upon documentation prepared by a Competent Person as defined by the JORC Code. The information provided below is a summary of information provided in the FS Report.

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*Project Highlights*

The Company has completed a FS and Ore Reserve update for extending mining at 8 of the 9 existing open pits at the Merlin diamond mine via mechanical clamshell grab mining. It has also updated its Mineral Resource estimate. A summary of the results of the FS, Ore Reserve and Mineral Resource estimate is provided in the table below:

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

<sup>1</sup> Mt = million tonnes, cpht = carats of diamonds per hundred tonnes, Mcts = millions of carats of diamonds.

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

The above Mineral Resource and Ore Reserves estimates are effective from 30 September 2014 and have been reported in accordance with the 2012 JORC Code and are based on documentation prepared by a Competent Person as defined by the JORC Code. The Competent Person compliance statements can be found in the relevant sections below.

**Probable Ore Reserves**

The Probable Ore Reserve for all diamond pipes at Merlin is 4.04 million tonnes for an average grade of 15 carats per hundred tonnes representing a total contained 0.61 million carats. These Ore Reserves have been estimated with mechanical clamshell grab mining assumptions and supersede previous Ore Reserve estimates based upon open pit and underground mining assumptions which were conducted in 2011. There are material changes in the 2014 Ore Reserve estimates compared to the 2011 Ore Reserve estimates. For a detailed discussion on the 2014 Ore Reserve estimates and the material changes since 2011 please refer to the FS Report announced to the ASX on 30 September 2014 and also available on the Company's website.

The 2014 Ore Reserve estimate for all 8 kimberlite pipes considered in the FS is tabled below:

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

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

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

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

Rounding of tonnage and carats may result in computational discrepancies.

## Merlin Diamonds Limited Review of Activities

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

### Indicated and Inferred Mineral Resources

The combined Indicated and Inferred Mineral Resource for all diamond pipes at Merlin is 27.8 million tonnes for an average grade of 16 carats per hundred tonnes representing a total contained 4.35 million carats. This Mineral Resource estimate supersedes previous estimates last updated in 2010. There are material changes in the 2014 Mineral Resource estimate compared to the 2010 Mineral Resource estimates. For a detailed discussion on the 2014 Mineral Resource estimates and the material changes since 2010 please refer to the FS Report announced to the ASX on 30 September 2014 and also available on the Company's website.

The 2014 Mineral Resource estimate is tabled below:

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

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

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

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

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

Rounding of tonnage and carats may result in computational discrepancies.

*The information in this report that relates to Exploration Targets, Exploration Results or Mineral Resources is based on information compiled by Mr Mike Kammermann, a Competent Person who is a Member of The Australasian Institute of Geoscientists. Mr Kammermann is employed by Axis Consultants Ltd and has been engaged by Merlin Diamonds Ltd to prepare the documentation for the Mineral Resource estimates. Mr Kammermann has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Kammermann consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

### Merlin Mine Lease Exploration and Near Mine Exploration

The Merlin Project comprises the Merlin diamond mine operations and the surrounding exploration tenements ("Merlin Orbit") totalling approximately 2,062 km<sup>2</sup> which effectively encompasses the known extent of the Merlin kimberlite field (Figure 1).

The Merlin diamond mine is located approximately 100 km south of the settlement of Borroloola and comprises 13 kimberlite pipes grouped into four clusters. Ten of these pipes were subject to open-pit mining via 9 open pits over a 5 year period commencing in 1998. The operations ceased in 2003 having produced 507,000 carats of diamonds. During its short operational life, the Merlin diamond mine was renowned for the production of top quality white

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Review of Activities

diamond and large specials, the largest being 104.73 carats. The diamonds from Merlin include excellent clarity, super white, high value stones. The Company acquired the project from the Rio Tinto group in 2004.

The Merlin Project holds significant potential for further kimberlite discoveries. Merlin has over 70 targets identified through geophysical survey and diamond indicator mineral anomalies on the Merlin Mine Lease and adjacent exploration tenements held by the Company. In addition to the Merlin Project, the Company has an extensive 20,402 km<sup>2</sup> tenement holding in Arnhem Land. These tenements are considered to have potential for diamonds and other minerals.

Review of all available historical data was completed in early 2014 with the identification of seventy-four new target areas that require further investigation. Four of these targets are ready for immediate drilling (Figure 2).

Exploration activity during the year included EM34 surveying of several of the seventy-four targets. Interpretation of the survey results is ongoing and the Company expects to investigate further targets during the next field season.

During 2013 the Company's field personnel completed an extensive heavy mineral sampling program on MLN1154 and EL26944 targeting areas where sampling density was considered insufficient. Kimberlitic chromites have been recovered from a number of these samples in an area where no known kimberlites occur (Figure 2). This area has been poorly explored in the past relative to other parts of the mining lease and these new results are highly encouraging. High resolution ground electromagnetic surveying will be undertaken to define drilling targets.

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

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Figure 1 The Merlin Project

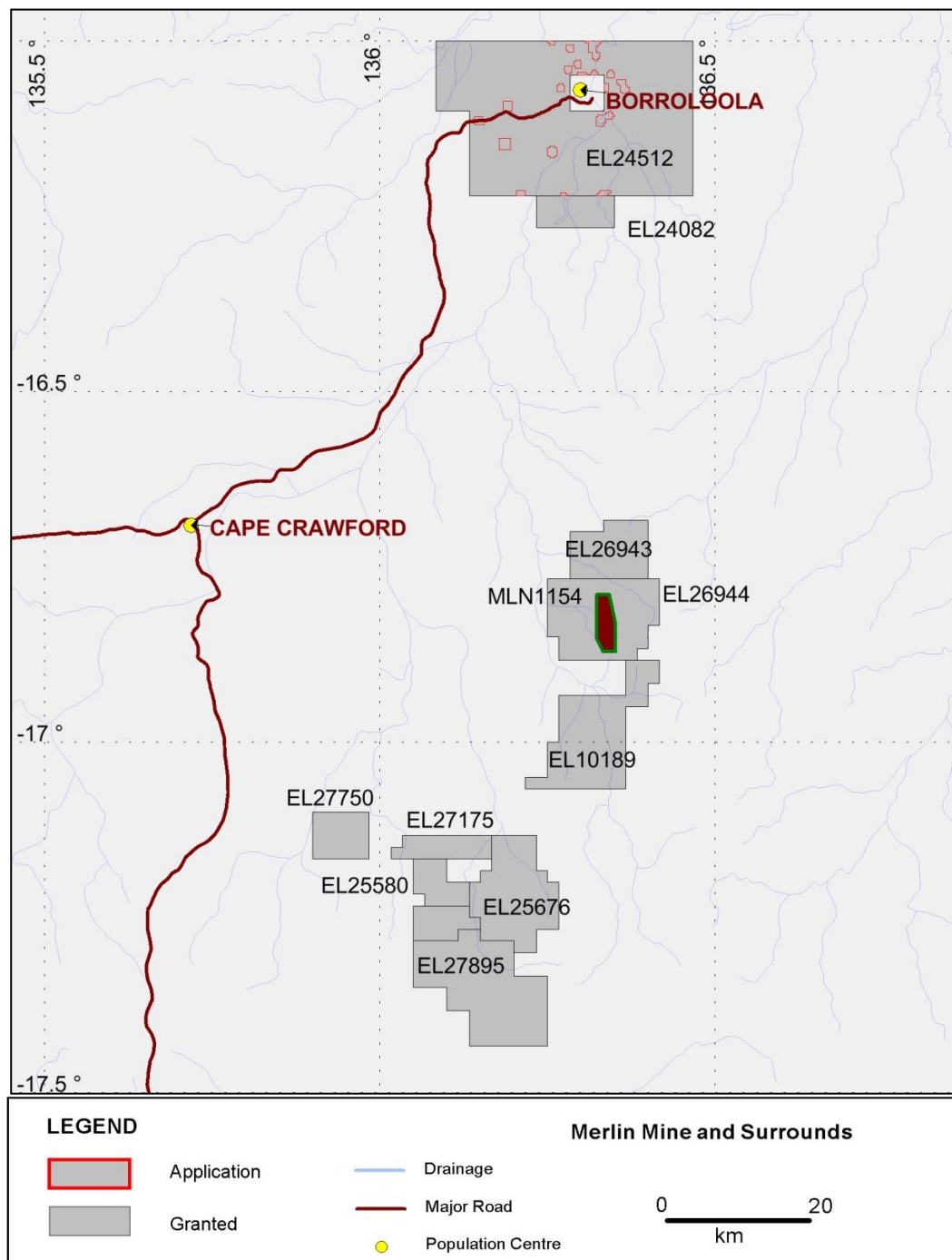
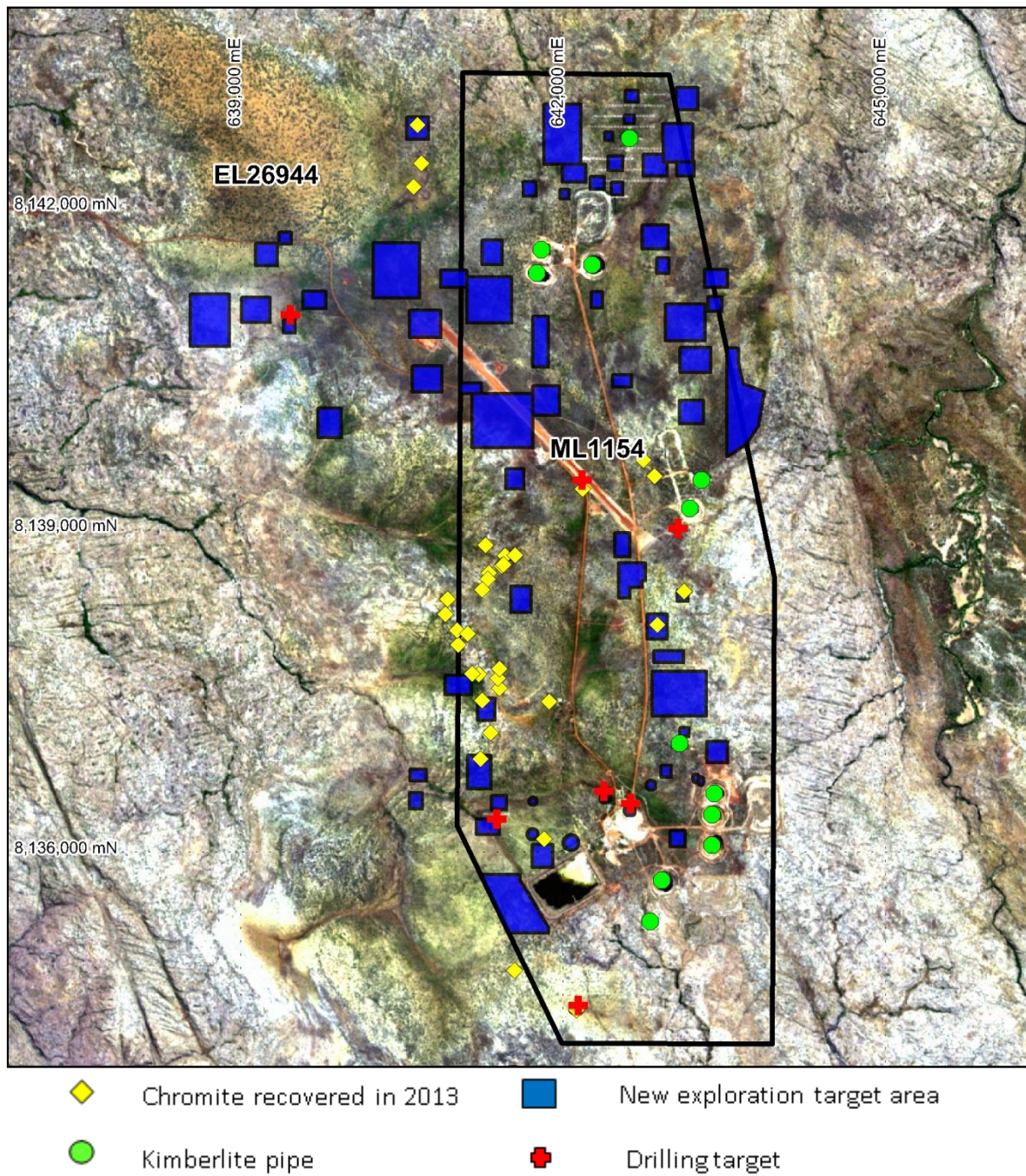




Figure 2 Merlin Mine Lease Exploration



## Merlin Diamonds Limited Review of Activities

### **Merlin Orbit Exploration – Northern Territory**

The Company holds a portfolio of tenements in the region surrounding the Merlin diamond mine that are highly prospective for the discovery of additional kimberlites or alluvial diamond deposits.

#### ***Borrooloola Alluvial Project***

Ten kilometres south of the township of Borrooloola, the Company holds tenements over significant alluvial gravels that are known to host diamonds.

In 2011 the Company extracted 5,000 tonnes of gravel from five test pits at the Borrooloola Alluvial Project. Three thousand tonnes of gravel was processed at the Merlin diamond mine recovering 22 stones with a total weight of 1.09 carats. Thirteen of the recovered stones are white in colour including the largest two at 0.19 and 0.25 carats.

The Borrooloola exploration permit EL24512 is granted until August 2017.

#### ***Lancelot Prospect***

The Lancelot Prospect is situated some 40 km south of Merlin and comprises an area where there are significant numbers of indicator minerals and diamonds reporting to surface samples. Trench mapping and heavy mineral sampling has led to the identification of alluvial material bearing indicator minerals, derived from the eroding of rocks in the southern part of the license area. It is possible that one or more kimberlites are located within these areas, which are contributing to the diamonds and indicator minerals found in the alluvial material. In 2012, the Company excavated fifty eight costeans with a total of 91 samples collected and processed through the Company laboratory in Perth. A total of 32 samples reported positive with significant numbers of kimberlitic chromites, microdiamonds and macrodiamonds (>0.4mm) recovered.

### **Arnhem Land Project – Northern Territory**

The Company's Arnhem Land projects include a total of 1 granted exploration licence (EL26206). A further 47 exploration licences are currently at the application stage and are either held and managed by Merlin Diamonds or under joint venture agreements with other parties (Figure 3).

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

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

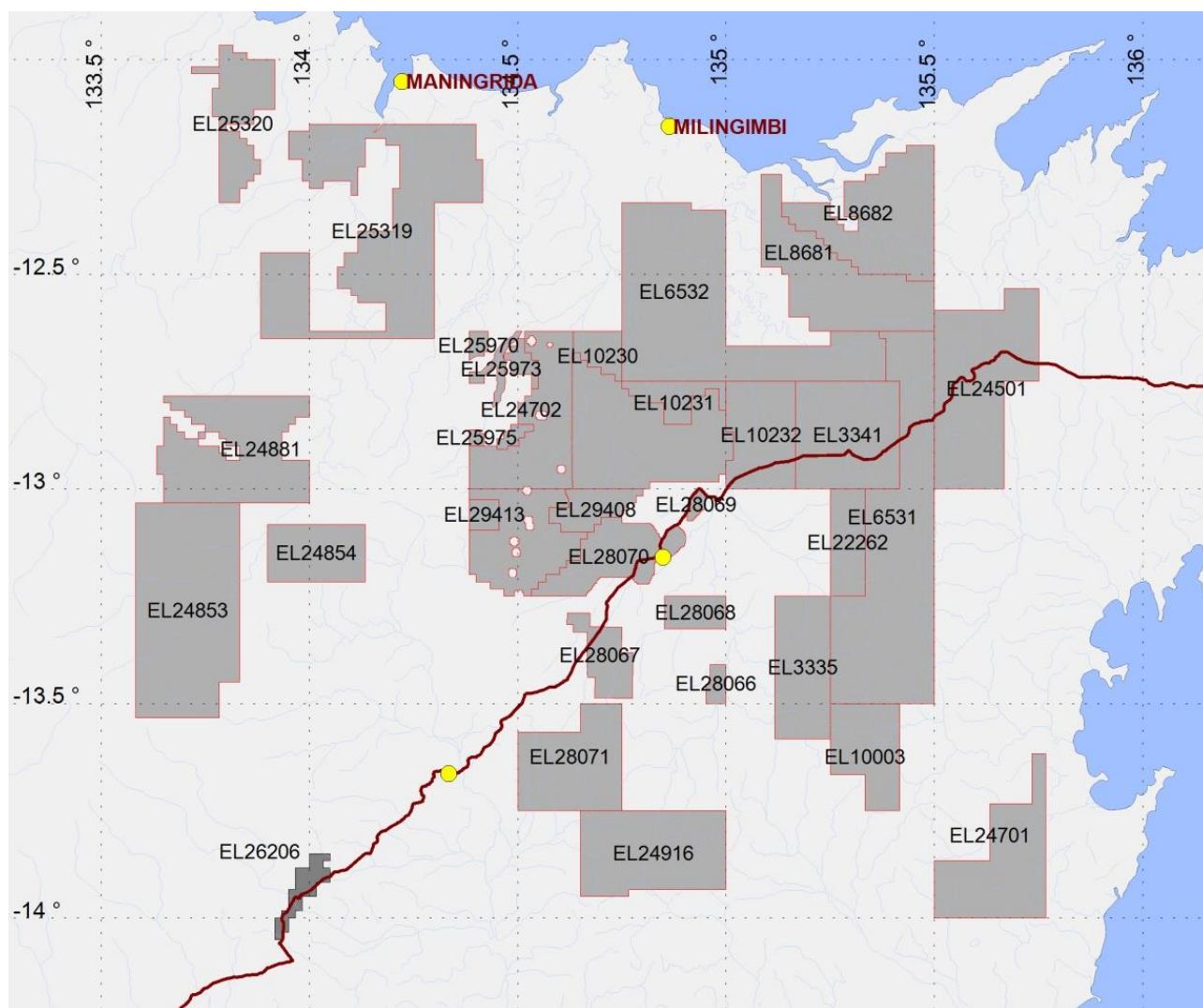
The Company will endeavour to collect diamond exploration samples on any licences available for exploration under a Preliminary Exploration Permit.

#### ***Swancove and Red River Resources Joint Venture agreement – MED earning 80%***

The Company has a contractual right to obtain an 80% interest in 2 tenements covering approximately 2,012 km<sup>2</sup> of land in the prospective western region of Arnhem Land. The Company's right to acquire an 80% interest in the two tenements is conditional on the grant of these tenements which are currently at the application stage. The tenements have not been subjected to modern diamond exploration techniques and represent a highly prospective grassroots opportunity.



Figure 3 Arnhem Land



## Kimberley Projects

### North Kimberley

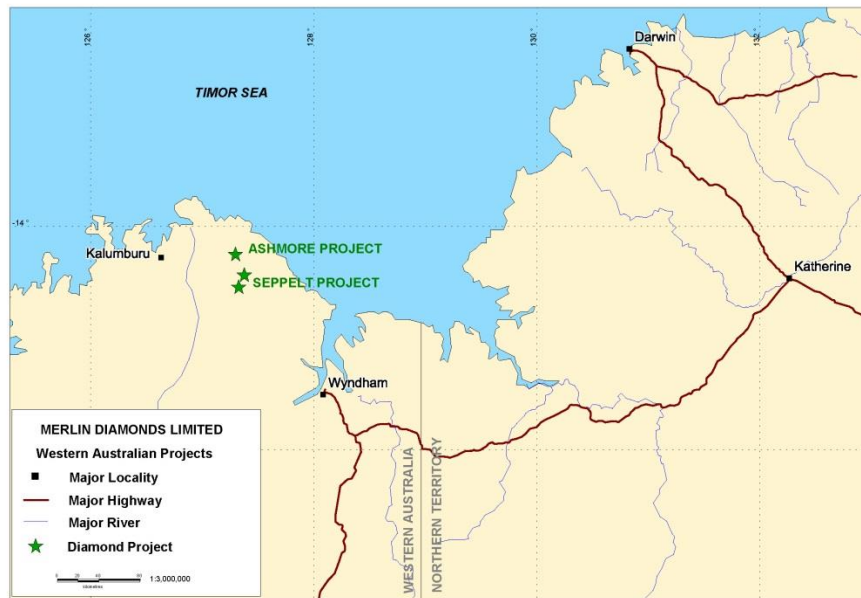
The Company holds three mining licences M80/492, M80/526 and M80/532 in the North Kimberley region of Western Australia. The leases include the Ashmore and Seppelt diamondiferous kimberlites. The Company continues to hold the mining leases as they retain commercial value. The information in the table below was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 guidelines on the basis that the information has not materially changed since it was last reported.

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

<sup>1</sup>Resource grade based recovery using a +0.75 mm square mesh bottom screen.

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Figure 4 Kimberley Projects



The Company also continues to hold a 33% interest in Top End Minerals (“Top End”) which it successfully spun-out in late 2007.

I would like to thank shareholders for their patience whilst we have undertaken the detailed work necessary to complete the feasibility study and reserve and resource estimates and look forward to a busy next 12 months whilst we restart mining operations at Merlin.

*J. I. Gutnick*

Joseph Gutnick  
Executive Chairman

Merlin Diamonds Limited  
Directors' Report

The Directors of Merlin Diamonds Limited present their report for the year ended 30 June 2014.

**1. Directors**

The Directors of the Company in office since 1 July 2013 and up to the date of this Report are:

Current Directors

**Mr Joseph Gutnick, FAusIMM FAIM MAICD**

**Executive Chairman, Managing Director and Chief Executive Officer**

Mr Gutnick is a leading mining industry entrepreneur. He has been a Director of the Company since 2008. He is currently Executive Chairman, President and Chief Executive Officer of numerous listed public companies in both Australia and North America including Legend International Holdings, Inc., Golden River Resources Corporation, Northern Capital Resources Corp, Great Central Resources Corp, Quantum Resources Limited, Top End Minerals Limited, Aurum, Inc. and Consolidated Gems, Inc; and was Non-Executive Chairman of Blackham Resources Limited from February 2013 to August 2014. Mr Gutnick has been responsible for overseeing the discovery of the Plutonic gold deposit, and the discovery, development and operation of the world class Bronzewing and Jundee gold mines in Australia. He was awarded the Diggers award at the 1997 Diggers and Dealers Industry Awards and is a former Director of the World Gold Council. Age 62

**Henry Herzog**

**Non-Executive Director**

Mr Herzog has more than 40 years of corporate and management experience. He has been a Director of the Company since December 2009. Mr. Herzog has served in various positions as President, Vice President or Director of a number of publicly listed companies in Australia and the United States, predominantly in the mining sector and is currently also a Director of Legend International Holdings, Inc. Mr. Herzog was responsible for the restructuring and reorganization of several publicly listed companies including Golden River Resources Corporation, where he served as its President and Chief Executive Officer from 1986-1988 and as a Vice President from 1988-1989. For at least the past five years, Mr. Herzog has also been managing a number of private investment entities. He is also a member of the Board of Trustees of a non-profit college of higher education. Age 72

**David Tyrwhitt**

**Non-Executive Director**

Dr Tyrwhitt has been a Director of the Company since 2011. He has more than 50 years' experience in the mining industry. He is currently a Director of Legend International Holdings, Inc., Quantum Resources Limited, Hawthorn Resources Limited and Golden River Resources. He worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive Officer of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991 and a Director of Astro Diamond Mines N.L. from November 1996 to May 2008. He established his own consultancy in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia. Age 76.

Former Directors

**Craig Michael**

**Executive Director**

Mr Michael has over 13 years' experience as a geology professional in the mining and resources industry. He is currently Executive General Manager of the Company and Chief Executive Officer of Paradise Phosphate Limited. He previously worked with Oxiana Ltd, an international mining company with operations in South East Asia and Australia. Mr. Michael was based in Laos in senior management positions both as a Mine Geologist and Resource Geologist at the Sepon Copper Gold Project. Prior to his time with Oxiana, he was a Mine Geologist at Sons of Gwalia's Carosue Dam Gold Project in Western Australia where he also conducted his first class honours thesis on their flagship Karari gold deposit. In the past five years, Mr Michael has been a Director

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Directors' Report

of Top End Minerals Limited, Quantum Resources Limited and Consolidated Gems, Inc. Age 36. Resigned 9 May 2014.

## **2. Principal Activities and Review and Results of Activities**

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

### **Objectives**

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

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

### *Statement of Profit or Loss and Other Comprehensive Income*

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

In the current year, revenue was diamond sales of \$268,124 (2013: nil); third party usage of the diamond processing laboratory of \$5,160 (2013: \$12,881); and interest income generated from loans to other entities of \$460,261 (2013: \$251,546). The Company generated \$48,318 (2013: \$284,714) in other income from government research and development grants and fuel rebates, asset usage charges by related parties. Employee benefits expense increased from \$2,315,483 to \$3,681,261 as a result of support services to the Merlin operations and increased activity as it entered the development stage; consultancy fees increased from \$102,244 to \$636,024 due to increased IT, security and diamond consultants as the Merlin diamond project activity increased; insurance expenses decreased from \$96,484 to \$69,882; lease rental expenses increased from \$157,059 to \$570,644 largely due to new premises in Singapore and the increased costs of the office in Melbourne; professional fees increased from \$93,851 to \$173,336 primarily due to additional services due to the takeover bid by Blumont; travel expenses decreased from \$559,683 in 2013 to \$169,117 in 2014 as a result of the relocation of a director to Singapore which reduced travel costs; impairment of other receivable of \$4,907,915 (2013: \$nil); exploration expenses written off decreased from \$3,405,128 to \$1,230,695 as the focus during the current year was development activities at Merlin; and the reversal of a prior period impairment of associate of \$601,948 (2013: \$243,047) as a result of the increase in losses of the associate. During the year, finance expense was \$101,965 (2013: \$17,283) being interest on borrowings.

As a result, MED incurred a loss from continuing operations of \$11,117,166 (2013: \$6,949,288). The share of the equity accounted loss of TEM was \$841,877 (2013: \$408,678).

The loss for the year was \$11,959,043 (2013: \$7,357,966), or 5.52 cents per share (2013: 4.19 cents per share).

### *Statement of Financial Position*

At 30 June 2014, the Company had cash at bank of \$209,897 compared to \$1,925,680 at 30 June 2013. During the year, the Company's receivables and other current assets decreased from \$1,084,932 to \$654,617; the investment in equity accounted associate TEM decreased from \$436,235 to \$196,306 as a result of the decrease in the market value of TEM shares and share of the equity accounted loss of TEM; plant and equipment decreased from \$6,055,972 to \$4,974,392 as the Company transferred unallocated items to development expenditure as it prepared for mining operations at Merlin. At 30 June 2014, the Company had total current liabilities of \$9,011,474 compared to \$1,349,339 at 30 June 2013. As a result, the Company had at 30 June 2014 negative working capital of \$8,140,639 and net assets of \$8,121,717.

Merlin Diamonds Limited  
Directors' Report

*Cash Flow*

During the year, the Company paid net cash of \$6,910,815 (2013: \$7,355,807) for operating activities; paid net cash of \$1,519,831 (2013: paid \$10,586,002) for investing activities with the key components being payments for development expenditure of \$5,105,601 (2013: \$nil), payments for new plant and equipment of \$204,652 (2013: \$4,573,480), security deposits refunded by government departments of \$192,681 (2013: nil); and repayment by other entity of \$3,567,741 (2013: nil) and received \$6,744,863 (2013: \$16,943,276) from financing activities with the key components being proceeds from capital raising activities \$3,700,000 (2013: \$9,030,000); loans from other entities and associates of \$3,076,453 (2013: nil); other loans of \$2,405,669 (2013: \$nil) and incurred transaction costs of \$27,380 on the capital raising activities.

**3. Significant Change in State of Affairs**

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

**4. Dividends**

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

**5. Events After The End Of The Financial Year**

Other than as disclosed in note 28 to the financial statements, there has not arisen in the interval between the end of the financial year and the date of this Report any item, transaction or event of a material and unusual nature which in the opinion of the Directors of the Company, has significantly affected or may significantly affect:

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

in financial years subsequent to this financial year.

**6. Future Developments and Results**

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

**7. Options**

On 17 September, 2013, the Company offered 7,925,000 options under the Merlin Diamonds Limited Incentive Option Scheme and 6,975,000 options were taken up. The options have a life of 5 years, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. During the year and up to the date of this Report, no options have lapsed.

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

Name	Position	Quantity
Peter Lee	Chief Financial Officer and Company Secretary	1,500,000
Craig Fawcett	General Manager Operations	500,000
Mike Kammermann	Exploration Manager	500,000

- (i) The options have a life span of 5 years, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months.

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

Merlin Diamonds Limited  
Directors' Report

There were no options granted to Directors of the Company during the year and up to the date of this report.

#### Directors' Interests in Shares and Options

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

Director	Relevant Interest Ordinary Shares	Options
J I Gutnick	-	-
H Herzog	-	-
D Tyrwhitt	-	-

#### 8. Meetings of Directors

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

	BOARD	
	ELIGIBLE TO ATTEND	ATTENDED
J I Gutnick	2	2
C A Michael	2	1
H Herzog	2	-
D Tyrwhitt	2	2

The Company also uses resolutions in writing to approve certain matters. During the year, 7 resolutions in writing were approved by all Directors.

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

#### 9. Company Secretary

Mr Peter Lee is the Company Secretary of the Company. Mr Lee is a Member of the Institute of Chartered Accountants in Australia, a Fellow of Chartered Secretaries Australia Ltd., a Member of the Australian Institute of Company Directors and holds a Bachelor of Business (Accounting) from Royal Melbourne Institute of Technology. He has over 30 years commercial experience and is currently Chief Financial Officer and Company Secretary of several listed public companies in Australia and a Director, Chief Financial Officer and Secretary of a US Corporation listed on the over the counter market in the USA, Chief Financial Officer and Secretary of a further several US Corporations listed on the over the counter market in the USA and a Director of a company listed on the Toronto Venture Exchange. Age 57

#### 10. Indemnification of Directors, Officers and Auditors

The Company has entered into an Indemnity Deed with each of the Directors and certain former Directors which will indemnify them against a liability incurred to a third party (not being the Company or any related company) where the liability does not arise out of conduct including a breach of good faith. The Indemnity Deed will continue to apply for a period of 10 years after a Director ceases to hold office and a Director's Access and Insurance Deed with each of the Directors pursuant to which a Director can request access to copies of documents provided to the Director whilst serving the Company for a period of 10 years after the Director ceases to hold office. There will be certain restrictions on the Directors' entitlement to access under the deed.

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.



Merlin Diamonds Limited  
Directors' Report

**11. Environment**

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

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

**12. Non- Audit Services**

During the year, BDO, the Company's auditor, has performed certain other services in addition to their statutory duties.

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

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

	2014 \$	2013 \$
<b>Statutory audit</b>		
Auditors of the Company		
- audit and review of financial reports - BDO <sup>1</sup>	58,013	49,201
- audit of royalty returns - BDO <sup>1</sup>	-	3,000
	<u>58,013</u>	<u>52,201</u>
- for taxation services - BDO <sup>1</sup>	<u>16,500</u>	<u>35,709</u>

<sup>1</sup>BDO East Coast Partnership

The auditors performed no other services.

**13. Remuneration Report - Audited**

(i) Overview of Remuneration Policies

The Company employs certain staff in its own right and is managed by AXIS Consultants Pty Ltd ("AXIS 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 have authority and responsibility for planning, directing and controlling the activities of the Company, including Directors of the Company and other Executives.

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

## Merlin Diamonds Limited Directors' Report

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:

	2014 \$000s	2013 \$000s	2012 \$000s	2011 \$000s	2010 \$000s
Revenue	734	264	251	588	174
Net profit /(loss)	(11,959)	(7,358)	(4,906)	(4,047)	(9,517)
Basic loss per share (cents)	(5.52)	(4.19)	(4.13)	(0.03)	(0.08)
Diluted loss per share (cents)	(5.52)	(4.19)	(4.13)	(0.03)	(0.08)
Net assets	8,122	15,394	6,221	7,846	11,335

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 Consultants Pty Ltd ("AXIS"). AXIS pays the Executive Chairman and Managing Director's remuneration and certain Executive Directors' remuneration on behalf of the Company, based on pre-agreed amounts. AXIS invoices the Company for remuneration paid to the Company's Executives (not being Directors) based on the time the Executive spends in servicing the requirements of the Company. AXIS has provided the following information in regard to the amounts invoiced to the Company for the Directors and Executives in respect of all remuneration (as that term is defined in the Corporations Act 2001) received by the Directors and/or Executives in connection with the management of the affairs of the Company.

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

- J I Gutnick Executive Chairman, Managing Director and Chief Executive Officer – Employed by AXIS
- D Tyrwhitt Non-Executive Director – Employed by the Company
- C A Michael Executive Director (resigned 9 May 2014) / Executive General Manager – Employed by AXIS
- H Herzog Non-Executive Director – Employed by the Company
- P J Lee Chief Financial Officer and Company Secretary - Employed by AXIS
- E Magee Operations Manager – Merlin diamond mine – Employed by the Company – resigned 23 August 2013
- C Fawcett General Manager Operations - Employed by the Company - (appointed 12 August 2013, resigned 23 May 2014)
- M Kammermann Exploration Manager – Employed by AXIS

Merlin Diamonds Limited  
Directors' Report

(iii) Service Agreements with AXIS Consultants Pty Ltd

Mr Gutnick does not have a contract for his service as a Director. His remuneration is paid by AXIS, based on amounts agreed by the Company.

Mr Michael did not have a contract for his service as a Director. His remuneration is paid by AXIS, based on amounts agreed by the Company.

Mr Lee, Company Secretary, and Mr Kammermann, Exploration Manager, do not have a contract of employment with the Company. Their services are provided to the Company through the service arrangements with AXIS. This service contract with AXIS is for an unlimited term and is capable of termination on two months' notice.

(iv) 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.

(v) General Manager Operations – Merlin diamond mine

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

(vi) Operations Manager - Merlin diamond mine

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

(vii) Performance-Linked Remuneration

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

Merlin Diamonds Limited  
Directors' Report

(viii) Remuneration

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

		Primary			Post-employment	Equity compensation	Termination Benefits	Total \$	s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees \$	Bonus \$	Non-monetary benefits \$	Super-annuation benefits \$	Value of options \$				
<b>Directors</b>										
J I Gutnick	2014	212,500	-	191,441	19,656	-	-	423,597	-	-
	2013	486,692	-	35,200	43,802	-	-	565,694	-	-
C A Michael	2014	120,638		26,357	11,159	-	-	158,154	-	-
	2013	49,000	-	-	4,410	-	-	53,410	-	-
H Herzog	2014	-	-	-	-	-	-	-	-	-
	2013	36,000	-	-	3,240	-	-	39,240	-	-
D Tyrwhitt	2014	30,000	-	-	2,775	-	-	32,775	-	-
	2013	36,000	-	-	3,240	-	-	39,240	-	-
Total all Directors	2014	363,138	-	217,798	33,590	-	-	614,526	-	-
	2013	607,692	-	35,200	54,692	-	-	697,584	-	-
<b>Executives</b>										
P J Lee	2014	156,947	-	21,668	14,517	56,292	-	249,424	-	22.6%
	2013	123,472	-	-	11,113	-	-	134,585	-	-
C A Michael	2014	24,128	-	5,271	2,232	-	-	31,631	-	-
	2013	-	-	-	-	-	-	-	-	-
M Kammermann	2014	89,319			8,262	18,764	-	116,345	-	16.2%
	2013	98,025	-	-	8,822	-	-	106,847	-	-
C Fawcett	2014	231,651	-	-	21,428	18,764	-	271,843	-	6.9%
	2013	-	-	-	-	-	-	-	-	-
E Magee	2014	61,369	-	-	5,677	-	-	67,046	-	-
	2013	163,974	-	-	14,758	-	-	178,732	-	-
Total all Executives	2014	563,414	-	26,939	52,116	93,820	-	736,289	-	-
	2013	385,471	-	-	34,693	-	-	420,164	-	-
Total all Directors & Executives	2014	926,552	-	244,737	85,706	93,820	-	1,350,815	-	-
	2013	993,163	-	35,200	89,385	-	-	1,117,748	-	-

Merlin Diamonds Limited  
Directors' Report

There were no STI cash bonuses, post-employment prescribed benefits, termination benefits or insurance premiums paid during 2014 or 2013 other than as disclosed.

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

*Options over equity instruments*

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

	Held at beginning of year	Granted as remuneration	Exercised	Forfeited	Held at end of year
<b>30 June 2013</b>					
Jl Gutnick	-	-	-	-	-
H Herzog	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-
C A Michael	-	-	-	-	-
P J Lee	-	-	-	-	-
M Kammermann	-	-	-	-	-
E Magee	-	-	-	-	-
	-	-	-	-	-

(1) Mr Fawcett has 6 months from the date of leaving the Company to exercise the options otherwise the options are forfeited.

The options have a life of 5 years, were granted on 16 September 2013 and expire on 16 September 2018, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months. The fair value of the options on grant date were \$0.0743 for the options vesting 12 months from issue date, \$0.0806 for the options vesting 24 months from issue date and \$0.0856 for the options vesting 36 months from grant date. No options have vested during the reporting period. The Company has estimated a probability factor that the options will vest on a person by person basis.

*Equity holdings and transactions*

	Held at beginning of year	Purchases	Received on exercise of options	Other changes	Held at end of year
<b>30 June 2014</b>					
Jl Gutnick	-	-	-	-	-
H Herzog	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-
P J Lee	-	-	-	-	-
C A Michael	-	-	-	-	-

Merlin Diamonds Limited  
Directors' Report

	Held at beginning of year	Purchases	Received on exercise of options	Other changes	Held at end of year
<b>30 June 2014</b>					
M Kammermann	-	-	-	-	-
C Fawcett	-	-	-	-	-
E Magee	-	-	-	-	-
	-	-	-	-	-
<b>30 June 2013</b>					
JI Gutnick	-	-	-	-	-
H Herzog	-	-	-	-	-
DS Tyrwhitt	-	-	-	-	-
P J Lee	-	-	-	-	-
C A Michael	-	-	-	-	-
M Kammermann	-	-	-	-	-
C Fawcett	-	-	-	-	-
E Magee	-	-	-	-	-
	-	-	-	-	-

(x) Other transactions

Transactions with Directors

Transactions between the Company, related parties and other entities of which Mr JI Gutnick is a director during the year ended 30 June 2014 consisted of loans advanced to and repaid to the Company.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2014 \$	2013 \$	2014 \$	2013 \$
<i>Current payables to</i>				
Advance from Perfectus Management Limited	983,989	-	983,989	-
Advance from Lenomi Holdings Limited	80,611	-	80,611	-
Advance from JI Gutnick	63,988	-	63,988	-
Repayment to JI Gutnick	(22,919)	-	(22,919)	-
	<b>1,105,669</b>	-	<b>1,105,669</b>	-

*Terms and Conditions*

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

*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.



Merlin Diamonds Limited  
Directors' Report

Signed in accordance with a resolution of the Board of Directors at Melbourne this 30th day of September 2014.

A handwritten signature in black ink, reading "J. I. Gutnick". The signature is written in a cursive style with a large, stylized 'J' and 'G'.

J I Gutnick  
Director



Tel: +61 3 9603 1700  
Fax: +61 3 9602 3870  
www.bdo.com.au

Level 14, 140 William St  
Melbourne VIC 3000  
GPO Box 5099 Melbourne VIC 3001  
Australia

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

As lead auditor of Merlin Diamonds Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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

David Garvey  
Partner

**BDO East Coast Partnership**

Melbourne, 30 September 2014

Merlin Diamonds Limited  
Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 30 June 2014

		Consolidated	
	Note	2014 \$	2013 \$
Revenue	3	734,345	264,427
Other income	4	48,318	284,714
Employee benefits expense		(3,681,261)	(2,315,483)
Consultancy fees		(636,024)	(102,244)
Insurance expenses		(69,882)	(96,484)
Lease rental expenses		(570,644)	(157,059)
Professional fees		(173,336)	(93,851)
Travel expenses		(169,117)	(559,683)
Depreciation expenses	5	(136,135)	(27,904)
Impairment of other receivable	9	(4,907,915)	-
Exploration expensed	13	(1,230,695)	(3,405,128)
Net loss on disposal of plant and equipment (Impairment)/reversal of prior period impairment of investment in associate	11	(32,225) 601,948	- 243,047
Other expenses		(792,578)	(966,357)
Finance expense	6	(101,965)	(17,283)
<b>Loss from continuing operations</b>		<b>(11,117,166)</b>	<b>(6,949,288)</b>
Share of loss of equity accounted investee (net of income tax)	11	(841,877)	(408,678)
<b>Loss before income tax</b>		<b>(11,959,043)</b>	<b>(7,357,966)</b>
Income tax expense	7	-	-
<b>Loss for the year</b>		<b>(11,959,043)</b>	<b>(7,357,966)</b>
Other comprehensive income for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		2,625	-
<b>Total comprehensive loss for the year</b>		<b>(11,956,418)</b>	<b>(7,357,966)</b>
Loss attributable to members of Merlin Diamonds Limited		<b>(11,959,043)</b>	<b>(7,357,966)</b>
Total comprehensive loss attributable to members of Merlin Diamonds Limited		<b>(11,956,418)</b>	<b>(7,357,966)</b>
Basic loss per share (cents per share)	8	<b>(5.52)</b>	<b>(4.19)</b>
Diluted loss per share (cents per share)	8	<b>(5.52)</b>	<b>(4.19)</b>

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 2014

		Consolidated	
	<i>Note</i>	2014 \$	2013 \$
<b>Assets</b>			
<i>Current Assets</i>			
Cash and cash equivalents	20	209,897	1,925,680
Trade and other receivables	9	654,617	1,084,932
Inventories	10	6,321	21,339
<b>Total current assets</b>		<b>870,835</b>	<b>3,031,951</b>
<i>Non-current Assets</i>			
Other receivables	9	1,176,730	7,291,812
Investment in equity accounted investee	11	196,306	436,235
Plant and equipment	12	4,974,392	6,055,972
Development expenditure	14	11,124,957	1,169,363
<b>Total non-current assets</b>		<b>17,472,385</b>	<b>14,953,382</b>
<b>Total assets</b>		<b>18,343,220</b>	<b>17,985,333</b>
<b>Liabilities</b>			
<i>Current Liabilities</i>			
Finance leases	22	6,502	-
Trade and other payables	15	5,905,693	808,101
Borrowings	16	3,076,453	477,852
Provisions	17	22,826	63,386
<b>Total current liabilities</b>		<b>9,011,474</b>	<b>1,349,339</b>
<i>Non-current Liabilities</i>			
Finance leases	22	25,223	-
Provisions	17	1,184,806	1,241,976
<b>Total non-current liabilities</b>		<b>1,210,029</b>	<b>1,241,976</b>
<b>Total liabilities</b>		<b>10,221,503</b>	<b>2,591,315</b>
<b>Net assets</b>		<b>8,121,717</b>	<b>15,394,018</b>
<b>Equity</b>			
Issued capital	18	132,034,367	127,888,703
Reserves	19	538,453	-
Accumulated losses		(124,451,103)	(112,494,685)
<b>Total equity</b>		<b>8,121,717</b>	<b>15,394,018</b>

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 2014

	Consolidated			
	Issued capital	Equity settled incentive options reserve	Accumulated losses	Total equity
	\$	\$	\$	\$
<b>Balance at 1 July 2012 - restated</b>	<b>111,357,499</b>	<b>-</b>	<b>(105,136,719)</b>	<b>6,220,780</b>
Loss for the year	-	-	(7,357,966)	(7,357,966)
Other comprehensive loss for the year, net of income tax	-	-	-	-
<b>Total comprehensive loss for the year, net of tax</b>	<b>-</b>	<b>-</b>	<b>(7,357,966)</b>	<b>(7,357,966)</b>
Transactions with owners, recorded directly in equity				
Convertible note equity component	7,526,956	-	-	7,526,956
Issue of shares	9,030,000	-	-	9,030,000
Transaction costs arising on share issues	(25,752)	-	-	(25,752)
<b>Total transactions with owners</b>	<b>16,531,204</b>	<b>-</b>	<b>-</b>	<b>16,531,204</b>
<b>Balance at 30 June 2013</b>	<b>127,888,703</b>	<b>-</b>	<b>(112,494,685)</b>	<b>15,394,018</b>
<b>Balance at 1 July 2013</b>	<b>127,888,703</b>	<b>-</b>	<b>(112,494,685)</b>	<b>15,394,018</b>
Loss for the year	-	-	(11,959,043)	(11,959,043)
Other comprehensive loss for the year, net of income tax	-	-	2,625	2,625
<b>Total comprehensive loss for the year, net of tax</b>	<b>-</b>	<b>-</b>	<b>(11,956,418)</b>	<b>(11,956,418)</b>
Transactions with owners, recorded directly in equity				
Employee incentive option scheme	-	538,453	-	538,453
Issue of shares	4,173,044	-	-	4,173,044
Transaction costs arising on share issues	(27,380)	-	-	(27,380)
<b>Total transactions with owners</b>	<b>4,145,664</b>	<b>538,453</b>	<b>-</b>	<b>4,684,117</b>
<b>Balance at 30 June 2014</b>	<b>132,034,367</b>	<b>538,453</b>	<b>(124,451,103)</b>	<b>8,121,717</b>

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

Merlin Diamonds Limited  
Statement of Cash Flows  
for the year ended 30 June 2014

		Consolidated	
	Note	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		53,477	56,496
Receipts from diamond sales		268,124	-
Payments to suppliers and employees (inclusive of GST)		(6,008,381)	(3,766,746)
Payments for exploration expenditure		(1,230,695)	(3,719,607)
Interest received		6,660	74,050
<b>Net cash used in operating activities</b>	20	<b>(6,910,815)</b>	<b>(7,355,807)</b>
<b>Cash flows from investing activities</b>			
Payments for acquisition of investments		-	(47,341)
Payments for development expenditure		(5,105,601)	-
Payments for acquisition of plant and equipment		(204,652)	(4,573,480)
Payments for security deposits		-	(192,100)
Receipt of security deposits		192,681	-
Payment to other entity		-	(5,773,081)
Repayment by other entity		3,567,741	-
<b>Net cash provided by/(used in) investing activities</b>		<b>(1,549,831)</b>	<b>(10,586,002)</b>
<b>Cash flows from financing activities</b>			
Payment of finance lease liabilities		(4,210)	(60,972)
Proceeds from issue of convertible notes		-	8,000,000
Proceeds from issue of equity securities		3,700,000	9,030,000
Loan from Director		1,105,669	-
Loan		1,300,000	-
Loans from other entities		3,076,453	-
Equity securities issue transaction costs		(27,380)	(25,753)
<b>Net cash from financing activities</b>		<b>6,744,863</b>	<b>16,943,275</b>
Net decrease in cash and cash equivalents		(1,715,783)	(998,534)
Cash and cash equivalents at 1 July		1,925,680	2,924,214
<b>Cash and cash equivalents at 30 June</b>	20	<b>209,897</b>	<b>1,925,680</b>

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



Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the year ended 30 June 2014

**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 2014 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates.

The consolidated financial statements were authorised for issue by the Board of Directors on 30 September 2014.

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

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

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

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

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

*AASB 10 Consolidated Financial Statements*

The Group has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The Group not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

*AASB 12, Disclosure of Interests in Other Entities*

The Group has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

*AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

The Group has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value.

We have assessed the new guidance and definition of fair value against our previous fair value measurements of assets and liabilities and determined there is no change required in how we measure fair value.

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*AASB 13 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*

The Group has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No. 1) now specify the KMP disclosure requirements to be included within the Directors' Report.

*AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*

The Group has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

*AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards.*

The Group has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

***Basis of preparation***

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

***Historical Cost Convention***

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

***Going concern***

The Company has incurred a loss of \$11,959,043 in the year to 30 June 2014, had net cash operating outflow of \$12,016,416 for the year ended 30 June 2014 and has negative working capital of \$8,140,639 at 30 June 2014. In order to continue as a going concern, the Company will be required to raise further capital to meet its commitments and ongoing management support to be provided by AXIS Consultants Pty Ltd. These conditions indicate an uncertainty that may cast doubt about the Company's ability to continue as a going concern. In considering whether the Company is a going concern, the Directors note that the Company is planning an equity raising to raise funds for its operational needs and the Company believes it will be in a position to announce full details shortly; a number of lenders to the Company have indicated their verbal approval to convert loans into shares in the Company, the Company has had its Merlin diamond mine project approved for research and development grants purposes and will shortly lodge a research and development claim which should

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give rise to a refund; and the feasibility study for the recommencement of mining operations at the Merlin diamond mine has a net present value of \$102,200,000 (using an 8% discount factor) and free cash of \$132,900,000 over the life of the mine with a maximum working capital cash requirement of \$4,230,000 to recommence operations. The Directors are confident of doing so due to the success the Company has previously had raising capital. The Directors believe the going concern basis to be appropriate for the reasons referred to previously. Based on the forecasted cashflows of the Company, the Directors are satisfied that adequate plans are in place and that the Company will be able to raise sufficient cash for a minimum of 12 months from the date of signature of the financial report. Should the Company be unable to continue as a going concern, it may be required to realise their assets and extinguish their liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Company be unable to continue as a going concern.

***Functional and presentation currency***

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

***Foreign currency translation***

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

***Foreign currency transactions***

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

***Foreign operations***

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

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

***Critical accounting estimates***

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

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

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

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***Development expenditure***

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

***Share based payment transactions***

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

**(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2014 and the results of all subsidiaries for the year then ended.

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

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

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

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

***Associates***

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

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

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

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

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

**(c) Revenue recognition**

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

***Diamond revenue***

Diamond sales revenue is recognised when it is received.

***Interest revenue***

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

***Other revenue***

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

**(d) Income tax**

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

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

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

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

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

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

***Tax consolidation legislation***

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

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

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

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

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

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

**(f) Impairment of assets**

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

**(g) Cash and cash equivalents**

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

**(h) Trade receivables**

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

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

**(i) Plant and equipment**

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



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

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

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

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to accumulated losses.

The assets' residual values and useful lives (being 3 to 5 years) are reviewed and adjusted as appropriate at each balance date. An asset carrying amount is written down immediately to its recoverable amount if the assets' carrying amount is greater than its recoverable amount (see note 1(f)).

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

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

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

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

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

**(j) Business combinations**

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

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

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

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

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

**(k) Exploration, evaluation and development assets**

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

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

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

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

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

Any development expenditure incurred once a mine property is in production is immediately expensed to the income statement except where it is probable that future economic benefits will flow to the entity, in which case it is capitalised as property, plant and equipment.

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

**(l) Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

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

**(m) Inventories**

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

**(n) Trade and other payables**

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

**(o) Borrowings**

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

**(p) Finance costs**

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

**(q) Employee benefits**

***Wages and salaries and annual leave***

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

***Long service leave***

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

***Share-Based payments***

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

**(r) Issued capital**

Ordinary shares are classified as equity.

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

**(s) Transfer from reserves**

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

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2014. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

***AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)***

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This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018. AASB 9 includes requirements for the classification and measurement of financial assets and was further amended by AASB 2010-7 to reflect amendments to accounting for financial liabilities. These requirements aim to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139 *Financial Instruments: Recognition and Measurement*. The Group does not expect that this standard will have a significant impact on its financial statements.

The Group has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

**AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009- 2011 Cycle**

The Group has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

**AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities arising from Annual Improvements 2009-2011 Cycle**

The Group has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

**AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities**

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the Group.

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

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the Group.

**Annual Improvements to IFRSs 2010-2012 Cycle**

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These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the Group.

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**Annual Improvements to IFRSs 2011-2013 Cycle**

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

**2. Segment Reporting**

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

Management has determined the operating segment based upon reports reviewed by the Board and executive management that are used to make strategic decisions. Management and the Board consider the business only from a diamond exploration and development perspective and therefore only reviews reports based upon its current diamond exploration and development operations as disclosed within these financial statements. Whilst the Company has invested limited capital into its overseas operations, both the Board and management consider these currently insignificant for separate segment reporting purposes. There are no sales or material non-current assets other than those listed in Australia.

**3. Revenue**

		<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Provision of laboratory services		5,160	12,881
Interest income		16,135	46,178
Interest income – other entities	25	444,926	205,368
Revenue from diamond sales		268,124	-
Total revenue		<b>734,345</b>	<b>264,427</b>

**4. Other income**

		<b>Consolidated</b>	
		<b>2014</b>	<b>2013</b>
		<b>\$</b>	<b>\$</b>
Associate management fee		-	240,000
Fuel tax credits		47,540	43,614
Asset usage		-	1,100
Other		778	-
		<b>48,318</b>	<b>284,714</b>

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**5. Depreciation expenses**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Depreciation of plant and equipment	961,031	498,854
Less: transfer to exploration/development	(824,866)	(470,950)
<b>Depreciation expense</b>	<b>136,165</b>	<b>27,904</b>

**6. Finance expense**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Bank charges	(5,128)	(4,219)
Borrowing costs	(96,837)	(13,064)
<b>Total finance expense</b>	<b>(101,965)</b>	<b>(17,283)</b>

**7. Income tax**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Total tax expense comprises</b>		
Current tax expense	-	-
Deferred tax expense	-	-
	-	-

**Reconciliation between tax expense and pre-tax accounting profit**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Loss before tax	(11,959,043)	(7,357,966)
Income tax benefit on loss at Australian tax rate of 30% (2013: 30%)	3,587,713	2,207,389
Reversal of prior period impairment of investment in associate	180,584	78,185
Share of loss of equity accounted investee	(252,563)	(127,874)
Capital raising	41,521	89,439
Provision for loan receivable	(1,472,375)	-
Capitalised development expenditure	2,986,678	350,809
Movement in other temporary differences	(47,010)	(63,499)
	5,024,549	2,534,449
(Under)/over provided in prior years	310,991	29,302
Current year benefits/(losses) for which no deferred tax asset was recognised	(5,335,540)	(2,563,750)
Change in previously unrecognised temporary differences, including losses	-	-
<b>Income tax expense</b>	<b>-</b>	<b>-</b>

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**Deferred tax assets and liabilities**

Consolidated	Assets		Liabilities	
	2014 \$	2013 \$	2014 \$	2013 \$
Accrued income	-	-	(14,808)	(74,653)
Capitalised exploration and evaluation expenditure	-	-	-	-
Capitalise development expenditure	-	-	(3,337,487)	(350,809)
Employee benefits	20,627	28,567	-	-
Other accruals and provisions	529,601	390,846	-	-
Capital raising costs	22,637	34,804	-	-
Tax losses	30,553,583	25,218,043	-	-
<b>Deferred tax assets/(liabilities)</b>	<b>31,126,448</b>	<b>25,672,260</b>	<b>(3,352,295)</b>	<b>(425,462)</b>
Set off of deferred tax liabilities	(3,352,296)	(425,462)	<b>3,352,295</b>	425,462
<b>Net deferred tax assets/(liabilities)</b>	<b>27,774,153</b>	<b>25,246,778</b>	-	-
Net deferred tax assets not recognised	27,774,153	25,246,778	-	-
<b>Net deferred tax assets/(liabilities)</b>	-	-	-	-

	Consolidated	
	2014 \$	2013 \$
<b>Unused tax losses for which no deferred tax asset has been recognised</b>	<b>101,845,275</b>	<b>84,060,145</b>
<b>Potential tax benefit @ 30%</b>	<b>30,583,583</b>	<b>25,218,043</b>

All unused tax losses were incurred by Australian entities. Merlin Diamonds Limited and its wholly-owned Australian-controlled entities have not implemented tax consolidation legislation. The availability of tax losses are however subject to applicable tax legislation which could result in the potential benefit not being realised.

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

**8. Loss per share**

	2014	2013
Basic loss per share (cents)	(5.52)	(4.19)
Diluted loss per share (cents)	(5.52)	(4.19)

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

	2014 \$	2013 \$
Loss attributable to ordinary shareholders (basic)	(11,959,043)	(7,357,966)
Loss attributable to ordinary shareholders (diluted)	(11,959,043)	(7,357,966)



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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:

	2014 Shares	2013 Shares
<b>Weighted average number of shares</b>		
Basic loss per ordinary share denominator	216,480,396	175,783,427
Effect of share options on issue	-	-
Diluted loss per ordinary share denominator	216,480,396	175,783,427

For the years ended 30 June 2013 and 30 June 2014, 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.

**9. Trade and other receivables**

	Consolidated 2014 \$	2013 \$
<b>Current</b>		
Receivables due from associate	-	603,741
Receivables due from other entity (note 25)	4,907,915	407
Impairment provision	(4,907,915)	-
Other receivables	71,051	337,467
Other receivables - employee share options scheme	538,454	-
Prepayments	45,112	143,317
<b>Total current receivables</b>	<b>654,617</b>	<b>1,084,932</b>
<b>Non-current</b>		
Security deposits	1,176,730	780,137
Receivables due from other entity	-	6,511,675
<b>Total non-current receivables</b>	<b>1,176,730</b>	<b>7,291,812</b>

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

**10. Inventory**

	Consolidated 2014 \$	2013 \$
Fuel stores – at cost	6,321	21,339
	<b>6,321</b>	<b>21,339</b>

**11. Investment in equity accounted investee**

The Group's share of loss in its equity accounted investee for the year was \$841,877 (2013: \$408,678). The carrying amount of the investee at 30 June 2014 was \$196,306 (2013: \$436,235).

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

	2014 \$	2013 \$
Total assets	1,012,448	4,127,617
Total liabilities	215,577	779,604
Loss	(2,551,142)	(1,288,929)
Percentage ownership	33%	33%

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	2014 \$	2013 \$
Opening carrying amount	436,235	554,526
Acquisitions	-	47,340
Share of net loss	(841,877)	(408,678)
	(405,642)	193,188
Reversal of impairment in prior periods	601,948	243,047
Closing carrying amount	196,306	436,235

The Group's equity accounted investee, Top End Minerals Limited, is listed on the Australian Securities Exchange (ASX). Based on its closing price of \$0.011 at reporting date, the fair value of the Group's investment is \$196,306.

**12. Plant and equipment**

	Field and plant equipment \$	Office equipment \$	Vehicles \$	Leased Vehicles \$	Work in progress \$	Total \$
<b>Cost</b>						
Balance at 1 July 2012	5,559,262	90,110	720,411	180,215	20,032	6,570,030
Additions	54,360	105,434	-	-	4,570,447	4,730,241
Disposals	(30,114)	(16,230)	(110,417)	-	-	(156,761)
Transfers and other movements	-	-	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>5,583,508</b>	<b>179,314</b>	<b>609,994</b>	<b>180,215</b>	<b>4,590,479</b>	<b>11,143,510</b>
Balance at 1 July 2013	5,583,508	179,314	609,994	180,215	4,590,479	11,143,510
Additions	933,047	39,141	133,154	76,632	115,365	1,297,339
Disposals	(12,326)	(27,088)	(498,955)	-	-	(538,369)
Transfers to development						
Expenditure	-	-	-	-	(1,185,265)	(1,185,265)
Transfers and other movements	2,947,471	217,463	183,653		(3,350,484)	(1,897)
<b>Balance at 30 June 2014</b>	<b>9,451,700</b>	<b>408,830</b>	<b>427,846</b>	<b>256,847</b>	<b>170,095</b>	<b>10,715,318</b>
<b>Accumulated depreciation</b>						
Balance at 1 July 2012	3,724,062	81,406	708,166	75,049	-	4,588,683
Depreciation for the year	599,753	6,848	5,700	36,043	-	648,344
Disposals	(23,029)	(16,043)	(110,417)	-	-	(149,489)
<b>Balance at 30 June 2013</b>	<b>4,300,786</b>	<b>72,211</b>	<b>603,449</b>	<b>111,092</b>	<b>-</b>	<b>5,087,538</b>
Balance at 1 July 2013	4,300,786	72,211	603,449	111,092	-	5,087,538
Depreciation for the year	778,579	112,553	32,713	37,186	-	961,031
Disposals	(10,501)	(26,848)	(267,706)	-	-	(305,055)
Transfers and other movements	-	(2,291)	(113)	(184)	-	(2,588)
<b>Balance at 30 June 2014</b>	<b>5,068,864</b>	<b>155,625</b>	<b>368,343</b>	<b>148,094</b>	<b>-</b>	<b>5,740,926</b>

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	Field and plant equipment \$	Office equipment \$	Vehicles \$	Leased Vehicles \$	Work in progress \$	Total \$
<b>Carrying amounts</b>						
At 1 July 2012	1,835,200	8,704	12,245	105,166	20,032	1,981,347
At 30 June 2013	<b>1,282,722</b>	<b>107,103</b>	<b>6,545</b>	<b>69,123</b>	<b>4,590,479</b>	<b>6,055,972</b>
At 1 July 2013	1,282,722	107,103	6,545	69,123	4,590,479	6,055,972
<b>At 30 June 2014</b>	<b>4,382,836</b>	<b>253,205</b>	<b>59,503</b>	<b>108,753</b>	<b>170,095</b>	<b>4,974,392</b>

**13. Exploration and evaluation expenditure**

	Consolidated	
	2014 \$	2013 \$
<b>Balance at 1 July</b>	-	-
Expenditure incurred	1,230,695	3,405,128
Amount written off	(1,230,695)	(3,405,128)
<b>Balance at 30 June</b>	-	-

**14. Development expenditure**

	Consolidated	
	2014 \$	2013 \$
Balance at beginning of year	1,169,363	-
Expenditure incurred	8,770,329	1,169,363
Transfers from work in progress (note 13)	1,185,268	-
Amount written off	-	-
<b>Carrying amount at end of year</b>	<b>11,124,957</b>	<b>1,169,363</b>

**15. Trade and other payables**

	Note	Consolidated	
		2014 \$	2013 \$
Trade payables		4,233,020	754,093
Payables due to other entity	25	825,506	-
Accruals		308,713	54,008
Accruals - employee share options scheme		538,454	-
<b>Total trade and other payables</b>		<b>5,905,693</b>	<b>808,101</b>

**16. Borrowings**

	Note	Consolidated	
		2014 \$	2013 \$
<b>Current</b>			
Loans due to other persons	25	670,784	-
Loans due to director	25	1,105,669	-
Loans - other		1,300,000	-
Convertible notes payable		-	477,852
<b>Total borrowings</b>		<b>3,076,453</b>	<b>477,852</b>

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**Convertible notes**

On 7 June 2013 the consolidated entity issued 8,000,000 6.5% convertible notes, with a face value of \$1.00 each, for total proceeds of \$8,000,000 and an expiration date of 12 months from the date of issue. On 24 May 2013 the parent entity issued 36,363,636 ordinary shares on conversion of the convertible notes at conversion price of 22 cents.

**Loans - Other**

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

**17. Provisions**

	Employee Entitlements \$	Rehabilitation \$	Lease Makegood \$	Total \$
Balance at 1 July 2013	95,224	1,210,138	-	1,305,362
Provisions used during the year	(129,337)	-	-	(129,337)
Provisions made during the year/revised	103,868	(95,069)	22,808	31,607
<b>Balance at 30 June 2014</b>	<b>69,755</b>	<b>1,115,069</b>	<b>22,808</b>	<b>1,207,632</b>
At 30 June 2013				
Current	63,386	-	-	63,386
Non-current	31,838	1,210,138	-	1,241,970
<b>Total provisions</b>	<b>95,224</b>	<b>1,210,138</b>	<b>-</b>	<b>1,305,362</b>
At 30 June 2014				
Current	22,826	-	-	22,826
Non-current	46,929	1,115,069	22,808	1,184,806
<b>Total provisions</b>	<b>69,755</b>	<b>1,115,069</b>	<b>22,808</b>	<b>1,207,632</b>

**18. Capital and reserves**

**Ordinary share capital**

	2014 No. shares	2013 No. shares	2014 \$	2013 \$
Balance at beginning of year	175,783,427	132,783,427	127,888,703	111,357,499
Share Placement 31 December 2012 @ 21 cents per share	-	9,000,000	-	1,890,000
Share Placement 25 January 2013 @ 21 cents per share	-	9,000,000	-	1,890,000
Share Placement 4 March 2013 @ 21 cents per share	-	25,000,000	-	5,250,000
Convertible note equity component	-	-	-	7,526,956
Convertible note converted 17 September 2013 @ 22 cents per share	36,363,636	-	473,044	-
Share Placement 27 February 2014 @ 7.5 cents per share	13,333,333	-	1,000,000	-
Share Placement 10 April 2014 @ 7.5 cents per share	36,000,000	-	2,700,000	-
Transaction costs arising on share issues	-	-	(27,380)	(25,752)

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	2014 No. shares	2013 No. shares	2014 \$	2013 \$
Balance at end of year	261,480,396	175,783,427	132,034,367	127,888,703

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.

**19. Employee Share Options**

On 17 September, 2013, the Company offered 7,925,000 options under the Merlin Diamonds Limited 2013 Incentive Option Scheme and 6,975,000 were taken up. The options have a life of 5 years, an exercise price of 15 cents and vest 1/3 after 12 months, 1/3 after 24 months and 1/3 after 36 months of the grant date. The Company has established the Incentive Option Scheme whereby, at the discretion of Directors, options may be granted over the ordinary shares of the Company for the benefit of Directors, Executives and certain employees of the Company. The options rights were 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 20.

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.

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

	For the year ended June 30, 2014	
	Number of options	Weighted average exercise price \$
Balance at beginning of year	-	-
Granted during the year	6,975,000	0.15
Expired during the year	-	0.15
Forfeited during the year	-	0.15
Balance at end of year	6,975,000	0.15
Exercisable at end of year	-	-

During the year ended June 30, 2014 the Company recognised a net expense of \$538,453 within the profit and loss component of the statement of profit or loss and other comprehensive income.

**(b) Options outstanding at the end of the year ended June 30, 2014**

The share options outstanding at June 30, 2014 had a weighted average exercise price of \$0.15 and a weighted average remaining contractual life of 4.21 years.

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

During the year ended June 30, 2014 the Company issued 6,975,000 options. It is a requirement that the employee receiving the options be still be employed by the Company at the end of each vesting period in order to exercise the options.

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

During the year ended June 30, 2014 no options were forfeited.

**20. Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	209,897	1,925,680
Deposits at call	-	-
<b>Cash and cash equivalents</b>	<b>209,897</b>	<b>1,925,680</b>
<b>Cash and cash equivalents in the Statement of Cash Flows</b>	<b>209,897</b>	<b>1,925,680</b>

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

**Reconciliation of cash flows from operating activities**

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Loss for the year	(11,959,043)	(7,357,966)
<i>Adjustments for</i>		
Depreciation	302,559	306,062
(Reversal of prior period impairment) of investment in associate	(601,948)	(243,047)
Share of loss in associate	841,877	408,678
Impairment of receivable other entity	4,907,915	-
	(6,508,640)	(6,886,273)
Change in trade and other receivables	(430,315)	322,585
Change in trade and other payables	28,140	(792,119)
<b>Net cash used in operating activities</b>	<b>(6,910,815)</b>	<b>(7,355,807)</b>

**21. Contingencies**

**Contingent liabilities**

***Merlin Diamond Mine Acquisition***

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

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**22. Commitments**

**Finance lease commitments**

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

	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2014 \$	2014 \$	2014 \$	2013 \$	2013 \$	2013 \$
Due within one year	8,421	1,919	6,502	-	-	-
Due later than one year and not later than five years	28,044	2,821	25,223	-	-	-
Due later than five years	-	-	-	-	-	-
	36,465	4,740	31,725	-	-	-

**Operating lease commitments**

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

	<b>Consolidated</b>	
	<b>2014</b> \$	<b>2013</b> \$
Due within one year	276,928	308,069
Due later than one year and not later than five years	149,277	484,098
Due later than five years	-	-
	<b>426,205</b>	<b>792,167</b>

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

**Exploration expenditure**

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

	<b>Consolidated</b>	
	<b>2014</b> \$	<b>2013</b> \$
Due within one year	935,489	3,349,743
Due later than one year and not later than five years	2,028,532	2,606,748
Due later than five years	881,391	1,047,603
	<b>3,845,412</b>	<b>7,004,094</b>

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Pursuant to the Mineral Rights Deed with Top End Minerals Limited, \$236,088 (2013: \$582,053) of the committed expenditure is payable by Top End Minerals Limited. The Group's net annual expenditure commitments on tenements held are as follows:

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Due within one year	721,666	816,792
Due later than one year and not later than five years	2,006,267	2,557,646
Due later than five years	881,391	1,047,603
	<b>3,609,324</b>	<b>4,422,041</b>

**23. Group entities**

**Parent company**

The parent company of the Group is Merlin Diamonds Limited.

	<b>Ownership interest</b>	
	<b>2014</b>	<b>2013</b>
	<b>%</b>	<b>%</b>
<b>Parent entity</b>		
Merlin Diamonds Limited		
<b>Subsidiaries</b>		
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
<b>Associate</b>		
Top End Minerals Limited	33.07	33.07

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

**24. Financial instruments**

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

**Market risk**

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

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



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**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:

	<b>Consolidated Carrying amount</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Variable rate instruments</b>		
Cash and cash equivalents	209,897	1,925,680
Security deposits*	400,159	436,530
Receivables due from other entity	-	6,511,675
	<b>610,056</b>	<b>8,573,885</b>

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

<b>Consolidated</b>	<b>Carrying amount \$</b>	<b>Profit or loss</b>		<b>Equity</b>	
		<b>100 bp increase \$</b>	<b>100 bp decrease \$</b>	<b>100 bp increase \$</b>	<b>100 bp decrease \$</b>
<b>30 June 2014</b>					
<b>Variable rate instruments</b>					
Cash and cash equivalents	209,897	2,099	(2,099)	2,099	(2,099)
Security deposits*	400,159	4,002	(4,002)	4,002	(4,002)
Receivables due from other entity	-				
	<b>610,056</b>	<b>6,101</b>	<b>(6,101)</b>	<b>6,101</b>	<b>(6,101)</b>
<b>30 June 2013</b>					
<b>Variable rate instruments</b>					
Cash and cash equivalents	1,925,680	19,257	(19,257)	19,257	(19,257)
Security deposits*	436,530	4,365	(4,365)	4,365	(4,365)
Receivables due from other entity	6,511,675	65,117	(65,117)	65,117	(65,117)
	<b>8,873,885</b>	<b>88,739</b>	<b>(88,739)</b>	<b>88,739</b>	<b>(88,739)</b>

\* Excludes \$776,571 of non-interest bearing security deposits held with the Department of Mines at 30 June 2014 (2013: \$343,606).

**Credit risk**

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

Credit risk is managed on a group basis. The Group has no significant concentration of credit risk other than receivables due from an other entity which the Company has fully provided for. Credit risk

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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:

	<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	209,897	1,925,680
Receivables	71,051	7,453,289
Security deposits	1,176,730	780,136
	<b>1,457,678</b>	<b>10,159,105</b>

*Impairment loss*

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

	<b>At 30 June 2014</b>		<b>At 30 June 2013</b>	
	<b>Gross</b>	<b>Impairment</b>	<b>Gross</b>	<b>Impairment</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current	71,051	-	2,448,093	-
31 – 60 days	-	-	2,970,726	-
61 – 90 days	-	-	272,420	-
91 days and over	4,907,915	(4,907,915)	1,762,050	-
	<b>4,978,966</b>	<b>(4,907,915)</b>	<b>7,453,289</b>	-

**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:

<b>Consolidated</b>	<b>Carrying amount</b>	<b>Total contractual cash flows</b>	<b>6 months or less</b>	<b>7 to 12 months</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>30 June 2014</b>				
<b>Financial liabilities</b>				
Trade and other payables	5,905,693	5,905,693	5,905,693	-
Borrowings	1,300,000	1,300,000	1,300,000	-
	<b>7,205,693</b>	<b>7,205,693</b>	<b>7,205,693</b>	-
<b>30 June 2013</b>				
<b>Financial liabilities</b>				
Trade and other payables	808,101	808,101	808,101	-

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<b>Consolidated</b>	<b>Carrying amount \$</b>	<b>Total contractual cash flows \$</b>	<b>6 months or less \$</b>	<b>7 to 12 months \$</b>
Borrowings	477,852	520,000	35,171	482,829
	<b>1,285,953</b>	<b>1,328,101</b>	<b>843,272</b>	<b>482,829</b>

**Fair value**

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

**Capital management**

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

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

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

**25. Related party transactions**

**Group**

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

The percentage ownership of ordinary shares in subsidiaries and associate are disclosed in note 23 to the financial statements.

**Key management personnel**

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

	<b>2014 \$</b>	<b>2013 \$</b>
Short-term employee benefits	1,171,289	1,028,363
Post-employment benefits	85,706	89,385
Employee share options	93,820	-
	<b>1,350,815</b>	<b>1,117,748</b>

**Transactions with related parties**

Transactions between the Company, related parties and other entities in the Group during the year ended 30 June 2013 and 2014 consisted of loans advanced by and repaid to the Company, and services provided to Top End Minerals Limited pursuant to the Administration and Technical Services Agreement between the Company and Top End Minerals Limited. The outstanding balance was paid during the year ended June 30 2014 and there were no further transactions under the agreement. The amount payable by Top End Minerals Limited at 30 June 2014 was \$nil (2013: \$603,741).

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**Transactions with other persons**

Transactions between the Company, related parties and other entities and other persons, Mr MZ Gutnick during the year ended 30 June 2014 consisted of loans advanced to and repaid by the Company.

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2014	2013	2014	2013
	\$	\$	\$	\$
<i>Payables to</i>				
Advance from MZ Gutnick	1,086,550	-	1,086,550	-
Repayment to MZ Gutnick	(415,766)	-	(415,766)	-
	<b>670,784</b>	<b>-</b>	<b>670,784</b>	<b>-</b>

**Transactions with other entities**

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

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

	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2014	2013	2014	2013
	\$	\$	\$	\$
<i>Receivable/(payable) from/(to) other entity</i>				
Purchase of plant and equipment	(270,974)	-	(270,974)	-
Milestone payment on the commissioning of mine	(2,000,000)	-	-	-
Milestone payment CPI adjustment	(550,868)	-	(550,868)	-
Shared facility costs	(3,663)	407	(3,663)	407
	<b>(2,825,505)</b>	<b>407</b>	<b>(825,505)</b>	<b>407</b>

**Terms and Conditions**

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

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

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	Transaction value for the year ended 30 June		Balance outstanding at 30 June	
	2014 \$	2013 \$	2014 \$	2013 \$
<i>Receivable/(payable) from/(to) other entity</i>				
Advance to other entity	393,614	5,719,079	4,907,915	6,459,079
Repayment by other entity	(2,442,300)	-	-	-
Interest payable by other entity	444,926	205,368	-	224,421
Management services paid	6,024,582	4,049,237	-	-
Management services rendered	(6,024,582)	(4,485,968)	-	(171,825)
Impairment of receivable	(4,907,915)	-	(4,907,915)	-
	<b>(6,511,675)</b>	<b>5,487,716</b>	<b>-</b>	<b>6,511,675</b>

All transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The interest rate charged during the year ranged from 9.34% to 9.59% (2013: 9.59% to 10.24%).

**26. Auditors remuneration**

	Consolidated	
	2014 \$	2013 \$
<b>Audit services</b>		
<i>BDO<sup>1</sup></i>		
Audit and review of financial reports	58,013	49,000
Audit of royalty returns	-	3,000
<b>Other services</b>		
<i>BDO<sup>1</sup></i>		
Taxation compliance services	16,500	35,709
	<b>74,513</b>	<b>87,709</b>

<sup>1</sup>BDO East Coast Partnership.

**27. Parent entity disclosures**

As at, and throughout, the financial year ending 30 June 2014, the parent company of the Group was Merlin Diamonds Limited.

	Company	
	2014 \$	2013 \$
<b>Result of the parent entity</b>		
Loss for the year	(12,994,483)	(6,909,546)
Other comprehensive income	-	-
Total comprehensive loss for the year	(12,994,483)	(6,909,546)
<b>Financial position of the parent entity at year end</b>		
Current assets	817,610	2,888,136
Total assets	16,384,366	17,062,059
Current liabilities	5,061,153	813,231

Merlin Diamonds Limited  
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	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Total liabilities	8,262,649	2,095,569
<b>Total equity of the parent entity comprising of:</b>		
Issued capital	132,034,366	127,888,703
Reserves	538,453	-
Accumulated losses	(124,451,102)	(112,922,213)
<b>Total equity</b>	<b>8,121,717</b>	<b>14,966,490</b>

**Parent entity contingencies**

***Financial Support – controlled entities***

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

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

**Parent entity commitments**

**Operating lease commitments**

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

	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Due within one year	276,928	308,069
Due later than one year and not later than five years	149,277	484,098
Due later than five years	-	-
	<b>426,205</b>	<b>792,167</b>

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

**Exploration expenditure**

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

	<b>Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Due within one year	721,665	307,626
Due later than one year and not later than five years	2,006,267	1,897,547
Due later than five years	881,391	709,977
	<b>3,609,323</b>	<b>2,915,150</b>

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**28. Subsequent events**

Other than the matters outlined elsewhere in these financial statements, no matters or circumstance have arisen since 30 June 2014 that have a significant effect on the Company.

On 30 September 2014, the Company announced a new reserve estimate for its Merlin diamond project.

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 22 to 54 and the Remuneration Report in the Directors Report set out on pages 14 to 19 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 2014.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 30<sup>th</sup> day of September 2014



J I Gutnick  
Director





Tel: +61 3 9603 1700  
Fax: +61 3 9602 3870  
www.bdo.com.au

Level 14, 140 William St  
Melbourne VIC 3000  
GPO Box 5099 Melbourne VIC 3001  
Australia

## INDEPENDENT AUDITOR'S REPORT

To the members of Merlin Diamonds Limited

### Report on the Financial Report

We have audited the accompanying financial report of Merlin Diamonds Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

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

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

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

#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Merlin Diamonds Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## Opinion

In our opinion:

- (a) the financial report of Merlin Diamonds Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

## Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(a) in the financial report, which indicates that the ability of the company to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, successful development and subsequent exploitation of the company's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 19 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Merlin Diamonds Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

David Garvey  
Partner

Melbourne, 30 September 2014

## Merlin Diamonds Limited Corporate Governance

The main corporate governance practices that the Board of Merlin Diamonds Limited had in place during the year were:

### 1. Board of Directors

#### i. Board Responsibilities

The Board's role is to maximize wealth creation and shareholder value in the Company. It assumes responsibility for overseeing the affairs of the Company by ensuring that they are carried out in a professional and ethical manner and that business risks are effectively managed. The primary responsibilities of the Board include the following:

- To oversee the Company, including its control and accountability systems
- To appoint and remove the Chief Executive Officer (or equivalent)
- To ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Company Secretary
- To have input into and final approval of management's development of corporate strategy and performance objectives
- To review and ratify systems of risk management and internal compliance and control, codes of conduct, legal compliance and any other regulatory compliance
- To monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available
- To approve and monitor the progress of major capital expenditure, capital management, and acquisitions and divestitures
- To approve and monitor financial and other reporting to shareholders and the market
- To monitor the Board composition, Director selection, Board processes and performance and ensure Directors have an understanding of the Company's business
- To monitor and influence the key standards of the Company including ethical standards, reputation and culture
- To review and approve executive remuneration
- To approve annual budgets

#### ii. Board Composition

While the Company's Constitution fixes the maximum number of Directors at twelve, the Board currently comprises one Executive Director and two Non-Executive Directors. The Company did not have a majority of independent Directors until 9 May 2014, when Mr Michael resigned as a Director. In considering the best interests of the Company and its shareholders, the Board believes that the background and experience of the Chairman should not preclude him from the office of Chairman of the Board on the grounds of him being Managing Director. The Board believes the experience in the industry that the Company operates in that Mr JI Gutnick brings to the Company is invaluable and is in the best interests of all shareholders. Mr Michael was deemed to be an Executive Director and the Board believes that his background and experience was important to the Company. He was a Non-Executive Director until 31 May 2013, when he took the position of Executive Director, however, he resigned as a Director on 9 May 2014. The Board considers Mr H Herzog and Dr DS Tyrwhitt to be independent.

To ensure that it has the right mix of management skills and technical expertise to meet the challenges of its business, the Board regularly reviews its composition. The Board believes that at the current stage of the Company's development, the composition is adequate. The Board has adopted a policy of undertaking appropriate checks before appointing a new Director, or putting forward to shareholders a candidate for Director. It also provides full details of the qualifications and experience of candidate Directors in the notice of annual general meeting or general meeting, whichever is the case. However, it continues to assess the need to enhance the membership of the Board and is cognisant of the ASX Corporate Governance Council definitions and recommendations.

**iii. Appointment/Retirement of Directors**

The Company's Constitution requires that all Directors other than the Managing Director submit themselves for re-election every three years with not less than one third of the Board retiring by rotation. Directors appointed during the period since the last Annual General Meeting of the Company must submit themselves for election at the next Annual General Meeting. Dr D Tyrwhitt is required to retire by rotation at the 2014 Annual General Meeting and may seek re-election.

**iv. Board Meetings**

The full Board meets formally to conduct appropriate business. The Board uses resolutions in writing signed by all Directors to deal with matters requiring decisions between meetings.

**v. Directors' Remuneration**

Total remuneration for the Managing Director and Executive Director includes an annual salary and other entitlements. Attendance at and participation in Board and Committee meetings are considered among the duties of the Executive Directors. Non-Executive Directors receive fees for attending Board and Committee meetings. Pro-rata fees are paid to Non-Executive Directors who serve for less than a full year. None of the other Directors or the Company Secretary has letters of appointment.

**vi. External Advice to Directors**

The Company recognises that in the exercise of their responsibilities there may be occasions when Directors may wish to seek independent professional advice. With the prior consent of the Chairman, advice can be obtained at the Company's expense and is to be made available to the whole Board.

**vii. Performance Evaluation of Board, its Members and Executives**

During the year, the Board completed a formal performance evaluation of the Board, its members and the Executives.

**viii. Induction and Professional Development of Directors**

The Company has a program to induct new Directors and provides opportunities for professional development for all Directors in order for the Directors to perform their roles as Directors effectively.

**2. Board Committees**

The Board has Committees to address the areas of remuneration and audit.

**i. Remuneration Committee**

The Company does not have a Remuneration Committee. All matters that would usually fall to a Remuneration Committee are handled by the full Board. The Board considers that it is appropriate for the Company at this time not to have a Remuneration Committee and for remuneration issues to be handled by the full Board, given the size of the Board. As the Remuneration Committee functions are carried out by the Board, the Company does not comply with the Remuneration Committee membership criteria set out in the CGC Principles and Recommendations. The Company uses short-term and long-term incentives as part of an executive's remuneration package. The Board meets to review remuneration policies and practices of the Company, to ensure that they meet current market conditions. The Board draws on the experience of Senior Management and where appropriate, seeks the advice of external consultants. The Remuneration Committee has a formal charter and this is followed by the Board in its deliberations.



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**ii. Audit Committee**

The Company does not have an Audit Committee. All matters that would usually fall to an Audit Committee are handled by the full Board. The Board considers that it is appropriate for the Company at this time not to have an Audit Committee and for audit issues to be handled by the full Board. The Company has adopted a formal Audit Committee Charter and this is followed by the Board in its deliberations. The Board monitors internal control policies and procedures designed to safeguard the Company's assets and to maintain the integrity of financial reporting. As the Audit Committee functions are carried out by the Board, the Company does not comply with the Audit Committee membership criteria set out in the CGC Principles and Recommendations.

**iii. Nomination Committee**

The Company does not have a Nomination Committee. The Board believes that with only three Directors on the Board, the Board itself is the appropriate forum to deal with this function. In considering the nomination of new board members, the board consider the skill set and experience of existing board members and the skills required for a balanced board.

**3. Company Secretary**

The Company Secretary is also a Director of the Company and as a result, the Company may not comply with the Corporate Governance Principle that the Company Secretary should be directly accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board. However the Directors believe that the Director and Company Secretary does guide the Board on the proper functioning of the Board.

**4. Role of Management**

Day to day management of the Company's activities and the implementation of Board strategy, policy and decisions is delegated to management. This includes the following:

- To develop and recommend internal control and accountability systems for the Company and if approved, ensure compliance with such systems.
- To prepare mission systems, corporate strategy and performance objectives for approval by the Board of Directors.
- To prepare systems of risk management and internal compliance and controls, codes of conduct, legal compliance and any other regulatory compliance and if approved, ensure compliance with such systems.
- To monitor employees' performance, recommend appropriate resources and review and approve remuneration.
- To prepare all required financial reports, tax returns, budgets and any other appropriate financial reports, meet all statutory deadlines, monitor performance against budgets.
- Prepare recommendations on acquisitions and divestments of assets.
- To implement decisions of the Board of Directors on key standards of the Company covering such areas as ethical standards, reputation and culture of the Company and influence and provide guidance for employees on these areas.
- To protect the assets of the Company.

**5. Diversity**

The Company has established a formal written policy on diversity which is posted on its website. Diversity includes, but is not limited to, gender, age, ethnicity and cultural background. From a board perspective, the Company, with its current board membership, already meets a number of the diversity guidelines. As noted elsewhere in the Remuneration Report and this Corporate Governance section, the Company is managed by AXIS Consultants Pty Ltd pursuant to a Service Agreement and thus does not have any employees. Accordingly, other than the membership of the board, and senior

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management (who are employed by AXIS and supplied through the Service Agreement), diversity is not relevant to the Company.

**6. Risk Management**

The Company continues to monitor its operations to identify the greatest areas of potential risk to minimise any adverse effects on the Company's strategic, operational and financial activities.

**i. Environment**

Details of the environmental policy and other related matters are provided in the Environment section of the Directors' Report.

**ii. Occupational Health and Safety**

The Company is committed to providing a safe and healthy working environment for all staff. It considers that safety is a collective responsibility and ensures that regular training in safe working methods is undertaken and encourages participation and involvement in the development of workplace safety programs. Individual employees and employees of contractors are required to practice safe working habits, to take all reasonable care to prevent injury to themselves and their colleagues and to report all hazards and accidents.

New staff and contractors (where appropriate) are required to undergo an induction program to familiarise themselves with policies, procedures and work practices prior to commencing work. All staff are covered against injury under the various Workers' Compensation Acts.

**iii. Financial Reporting**

The Managing Director and Chief Financial Officer and Company Secretary sign off to the Board of Directors in respect to the annual financial statements and risk management policies as required by law and the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations".

**iv. Internal Audit**

The Company does not have an internal audit function as the Directors do not believe it is cost effective given the size of the Company. The Board monitors internal control policies and procedures designed to safeguard the Company's assets and to maintain the integrity of financial reporting.

**7. Code of Conduct**

**i. Ethical Standards**

The Company operates under a code of conduct that sets out the ethical standards under which the Company operates when dealing with internal and external parties. This code requires parties (including Directors and executives) to act with integrity, fairness and honesty in all dealings and to treat other parties with dignity at all times. They are required to:

- not discriminate against any staff member or potential employee;
- carry out their duties in respect to the law at all times;
- to use the Company's assets responsibly;
- to respect the confidentiality of the Company's business dealings; and
- take responsibility for their own actions and for the consequences surrounding their own actions.

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Corporate Governance

**ii. Share Trading**

In July 2010, the Company amended its policy following the release of changes to the ASX Corporate Governance Guidelines. It is the Company's policy to encourage Directors, employees and related parties to own Shares in the Company. The trading in shares policy strongly reinforces the obligations of Directors and employees, both of the Company and AXIS Consultants Pty Ltd, under the Corporations Act 2001 and the Australian Securities Exchange Listing Rules in relation to trading in Company shares. The acquisition and sale of Company shares by Directors and employees is prohibited in periods of fourteen (14) days prior to the announcement of the Company's quarterly reports, and thirty (30) days prior to the announcement of the Company's half yearly and full year reports to the Australian Securities Exchange. Directors, employees and related parties can seek permission from the Chairman to purchase or sell shares outside these periods. Directors and Executives can only seek permission to trade in shares in the blackout period in cases of extreme financial hardship. In the case of the Chairman, he must seek permission from a Director or the Company Secretary. The policy also sets out that there should be no speculative trading. Directors and employees are required to report share trading to the Company Secretary.

**8. Continuous Disclosure Compliance**

The Company's continuous disclosure compliance procedure enables it to meet its obligations and to ensure that all matters, which may require announcement to the Australian Securities Exchange, are brought to the attention of Directors immediately.

**9. Communicating with Shareholders**

The Board ensures that shareholders are kept informed of all major developments that affect their shareholding or the Company's state of affairs through quarterly, half-yearly, annual and ad hoc reports. Shareholders may obtain copies of the announcements and reports that the Company makes to the ASX via its website at [www.merlindiamonds.com](http://www.merlindiamonds.com). All shareholders are encouraged to attend the Annual General Meeting to meet the Chairman and Directors and to receive the most updated report on Company activities. The auditors of the Company attend the annual general meeting for the purpose of answering any questions on the annual financial statements and audit thereof, properly brought before the meeting. The Company maintains a website at <http://www.med.com.au> to provide shareholders with up to date information on the Company's activities. Shareholders may also communicate with the Company through its e-mail address [info@merlindiamonds.com.au](mailto:info@merlindiamonds.com.au).

The Company's share registrar is Link Market Services Limited and shareholders may contact Link on 1300 554 474 or by email to [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au). Shareholders should contact Link directly or via Link's website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) if they wish to receive notices of shareholders meetings electronically.

The Company does not web-cast shareholder meetings and does not believe that at this stage the cost-benefit of web casting is worthwhile to a Company of its size.

This corporate governance statement was approved by the Board of Directors at a meeting held on 29 September 2014.

Merlin Diamonds Limited  
Australian Securities Exchange Information

As at 23<sup>rd</sup> September 2014, the following information applied:

**1. Substantial Shareholders**

Substantial shareholders disclosed in substantial shareholder notices to the Company:

<b>Name</b>	<b>Number of Fully Paid Ordinary Shares held</b>
ISR Investments Ltd	39,763,636
Dr Vigneswaran T Subramaniam	26,666,667
Newton Centre Development Limited	24,000,000
Tan Boon Kiat	22,000,000
Lim Kuan Yew	21,600,000
Blumont Group Ltd.	16,000,000

**2. Fully Paid Ordinary Shares**

The number of holders of fully paid ordinary shares in the Company is 5,675. 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:

<b>Category</b>	<b>Number of Shareholders</b>
Holding between 1-1,000 Shares	3,345
Holding between 1,001 - 5,000 Shares	1,387
Holding between 5,001 – 10,000 Shares	408
Holding between 10,001-100,000 Shares	459
Holding more than 100,001 Shares	76

The number of holders with less than a marketable parcel of fully paid ordinary shares is 4,928. 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:

<b>Name</b>	<b>Number of Fully Paid Ordinary Shares held</b>	<b>Percentage interest</b>
ISR Investments Ltd	39,763,636	15.21%
Dr Vigneswaran T Subramaniam	26,666,667	10.20%
Newton Centre Development Limited	24,000,000	9.18%
Tan Boon Kiat	22,000,000	8.41%
Lim Kuan Yew	21,600,000	8.26%
Blumont Group Ltd.	16,000,000	6.12%
HSBC Custody Nominees (Australia) Limited - A/C 3	15,425,573	5.90%
Goh Hin Calm	13,000,000	4.97%
CS Fourth Nominees Pty Ltd	9,737,182	3.72%
Edwin Sugiarto	9,000,000	3.44%
Vernon Khoo Tiam Hock	9,000,000	3.44%
Aethia Capital Pte Ltd	6,666,666	2.55%
Citicorp Nominees Pty Limited	3,912,266	1.50%
Morgan Stanley Australia Securities (Nominee) Pty Limited	3,149,902	1.20%
Yandal Investments Pty Ltd	1,471,492	0.56%
ABN Amro Clearing Sydney Nominees Pty Ltd	1,249,252	0.48%
Dolahenty Pty Ltd	1,150,000	0.44%
Elmenson Pty Ltd	1,121,427	0.43%
Bonos Pty Ltd	900,000	0.34%
SSI Nominees Pty Limited	741,500	0.28%



Merlin Diamonds Limited  
Tenement List

PROJECT	TENEMENT	STATUS	AREA KM <sup>2</sup>	MED INTEREST
<b>WESTERN AUSTRALIA</b>				
<b>ASHMORE</b>	M80/492	Granted	7.49	
<b>FORREST RIVER</b>	M80/526	Granted	4.49	
<b>SEPPELT</b>	M80/532	Granted	5.45	
<b>NORTHERN TERRITORY</b>				
<b>MERLIN</b>	MLN1154	Granted	23.50	
	EL27175	Granted	28.98	
	EL26943	Granted	103.04	
	EL26944	Granted	206.08	
	EL10189	Granted	206.08	
	EL25122	Granted	22.88	
	EL25580	Granted	48.3	
	EL25676	Granted	180.32	
	EL27750	Granted	112.70	
	EL27895	Granted	257.6	
	EL24082	Granted	67.62	
	EL24512	Granted	930.58	
	ML29899	Application	0.147	
	ML29900	Application	0.226	
	EL28914	Application	3.22	
	EL28915	Application	6.44	
	EL28916	Application	6.44	
	EL28917	Application	9.66	
	EL28918	Application	6.44	
	EL28919	Application	6.44	
	EL28920	Application	12.88	
	EL28921	Application	6.44	
	EL28922	Application	9.66	
	EL28923	Application	12.88	
	EL28924	Application	3.22	
	EL28925	Application	6.44	
	EL28926	Application	12.88	
	EL28927	Application	3.22	
	EL28928	Application	12.88	
	EL28929	Application	12.88	
	EL28930	Application	3.22	
	EL28931	Application	6.44	
	EL28932	Application	6.44	
<b>ARNHEM LAND</b>	EL25976	Granted	70.84	
North Australian Diamonds has 100% interest for diamonds only	EL26087	Granted	325.22	
	EL26206	Granted	106.26	
	EL3335	Application	515.2	
	EL3341	Application	724.5	
	EL6531	Application	1610	
	EL6532	Application	1610	
	EL29398	Application	19.32	
	EL29399	Application	1081.92	
	EL29400	Application	12.88	
	EL29401	Application	6.44	
	EL29402	Application	19.32	
	EL29403	Application	70.84	
	EL29407	Application	6.44	

Merlin Diamonds Limited  
Tenement List

PROJECT	TENEMENT	STATUS	AREA KM <sup>2</sup>	MED INTEREST
	EL29408	Application	186.76	
	EL29409	Application	12.88	
	EL29410	Application	6.44	
	EL29411	Application	12.88	
	EL29412	Application	19.32	
	EL29413	Application	80.5	
	EL29414	Application	22.54	
	EL8681	Application	795.34	
	EL8682	Application	772.8	
	EL10003	Application	402.5	
	EL10230	Application	115.92	
	EL10231	Application	157.78	
	EL10232	Application	470.12	
	EL22262	Application	241.5	
	EL24501	Application	1014.3	
	EL24701	Application	663.32	
	EL24702	Application	1577.8	
	EL24703	Application	785.68	
	EL24853	Application	1400.7	
	EL24854	Application	360.64	
	EL24881	Application	882.28	
	EL24916	Application	766.36	
	EL25970	Application	38.64	
	EL25973	Application	135.24	
	EL25974	Application	9.66	
	EL25975	Application	25.76	
	EL28066	Application	67.62	
	EL28067	Application	251.16	
	EL28068	Application	144.9	
	EL28069	Application	51.52	
	EL28070	Application	470.12	
	EL28071	Application	608.58	
	EL28165	Application	54.74	
	EL25319	Application	1610	
	EL25320	Application	402.50	

Merlin Diamonds Limited  
Corporate Information

**Directors**

Joseph Gutnick  
Henry Herzog  
David Tyrwhitt

**Company Secretary**

Peter Lee

**Registered Office and Domicile**

Level 8, 580 St. Kilda Road  
Melbourne Victoria 3004  
Australia

Telephone: +61 3 8532 2858

Facsimile: +61 3 8532 2805

E-mail: [info@merlindiamonds.com.au](mailto:info@merlindiamonds.com.au)

Internet: <http://www.merlindiamonds.com.au>

**Legal Form**

A public company limited by shares

**Country of Incorporation**

Australia

**Share Registry**

Link Market Services Limited  
Level 9, 333 Collins Street  
Melbourne Victoria 3000  
Australia

Telephone: 1300 554 474 or + 61 3 9615 9999

Facsimile: +61 3 8614 2903

**Shareholder Information**

Manager Investor Relations

Telephone: +61 3 8532 2858

Facsimile: +61 3 8532 2805

E-mail: [info@merlindiamonds.com.au](mailto:info@merlindiamonds.com.au)

Internet: <http://www.merlindiamonds.com.au>

**Auditors**

BDO

Level 14, 140 William Street  
Melbourne Victoria 3000  
Australia

**Australian Securities Exchange Listing Code**

MED

**Bankers**

Westpac  
Level 6, 360 Collins Street  
Melbourne Victoria 3000  
Australia