

**Merlin Diamonds Limited**

ACN 009 153 119

**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED  
31 DECEMBER 2017**

Merlin Diamonds Limited  
Table of Contents

	<b>Page</b>
Chairman's Report	2
Directors' Report	4
Auditor's Independence Declaration	5
Consolidated Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Interim Financial Statements	10
Directors' Declaration	17
Independent Auditor's Review Report	18

# Merlin Diamonds Limited

## Chairman's Report

Dear Shareholder

The Company's key project is our Merlin Diamond Mine Project located in the Northern Territory of Australia.

### **Merlin Diamond Mine Project**

#### **Background**

The Merlin diamond mine project is located some 100km south of the settlement of Borroloola in the Northern Territory and comprises 13 kimberlite pipes. Since 1998, nine of the Merlin pipes have been subject to open-pit mining over a 5 year period. These previous mining operations produced 507,000 carats of high quality diamonds. This included Australia's largest diamond at 104.73cts. In 2004, North Australian Diamonds Ltd acquired the project from the Rio Tinto parties and current management took control in 2008.

In October 2016, the Company re-commenced operations at the merlin diamond mine.'

Some highlights of the mining operations at the Merlin diamond mine since 1 August 2017 include:

#### **Merlin Diamond Mine Operations**

- The Tomra XRT machine was installed on site, commissioned and processing commenced in late December 2017.
- Gwain and Ector pits being dewatered with focus on Gwain after wet season because of its high grade and significant profitability.
- Plans to purchase a new scrubber/trommel for the beginning of full mining operations at Gwain are in process
- Largest diamond recovered during quarter was an 18.75 flawless cognac diamond (see attached picture)
- Installed wet screen to assist in processing significant amounts of stockpiles which remained from Rio Tinto's previous production at Merlin.
- Mobile screening plant acquired to separate ore in different fractions.
- Machinery for use in the mining and processing operations has been delivered to site.

MZ Gutnick  
Executive Chairman and Managing Director

*The information in this report that relates to exploration results is based on information compiled by Dr DS Tyrwhitt who is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr DS Tyrwhitt is a consulting geologist employed by DS Tyrwhitt & Associates Pty Ltd. Dr DS Tyrwhitt has 50 years' experience in the industry and has more than 5 years' experience which is relevant to the style of mineralisation being reported upon to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr Tyrwhitt consents to the inclusion in the report of the matters based on the information in the form and context to which it appears.*

# Merlin Diamonds Limited

## Directors' Report

The Directors present their report on Merlin Diamonds Limited (the 'Company') for the half year ended 31 December 2017.

### Directors

The Directors of the Company at any time during or since the end of the interim period are:

MZ Gutnick	Executive Chairman and Managing Director
H Herzog	Non-Executive Director
D S Tyrwhitt	Non-Executive Director

### Review and Results of Operations

During the six month period ending 31 December 2017, the Company progressed recommencement of the operations at the Merlin diamond mine which was the priority during the period.

The results of operations for the six months ended 31 December 2017 was a loss of \$9,184,151 (2016: \$15,692,141). Employee benefits expense for the half year was \$594,226 (2016: \$760,904); consultancy fees of \$151,201 (2016: \$737,384) reduced significantly whilst the delivery of the Tomra to the mine site was awaited whereas the 2016 amount related to the planning and commencement phase of the diamond operations; lease rental expenses of \$82,979 (2016: \$80,676), professional fees increased to \$94,557 (2016: \$87,822), depreciation was \$449 (2016: \$210), travel costs increased to \$128,149 (2016: \$95,903) which related to travel to the mine site, impairment of other receivable was \$655,490 (2016:\$ 2,416,099), an increase in other expenses to \$374,169 (2016:\$ 335,958), a loss was incurred on the revaluation of derivative liability - convertible notes of \$1,692,854 (2016: \$458,668) as a result of the movement in the share price, fair value loss was incurred on conversion of notes of \$456,158 (2016:\$ 235,822), exploration expensed amounted to \$510,821 (2016: \$707,181) and development expenditure incurred on previous trial mining activities was written off \$4,699,117 (2016:\$ 10,011,091). Revenue for the six months ended 31 December 2017 was \$553,360 (2016: \$431,884) from interest generated on loans to other entities.

At 31 December 2017, the Company had cash and cash equivalents of \$2,007,525 (2017: \$16,402).

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 15th day of March 2018

MZ Gutnick  
Chairman and Managing Director

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

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Merlin Diamonds Limited for the half-year ended 31 December 2017. I declare that, to the best of my knowledge and belief, there have been:

- a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



B L Taylor  
Partner – Audit & Assurance

Melbourne, 15 March 2018

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Merlin Diamonds Limited  
Statement of Profit or Loss and Other Comprehensive Income  
for the half year ended 31 December 2017

	<b>Note</b>	<b>31 December 2017</b>	<b>31 December 2016</b>
		<b>\$</b>	<b>\$</b>
Revenue	2	553,360	431,884
Other income	3	32,509	48,679
Employee benefits expense		(594,226)	(760,904)
Consultancy fees		(151,201)	(737,384)
Insurance expenses		(31,154)	(50,425)
Lease rental expenses		(82,979)	(80,676)
Professional fees		(94,557)	(87,822)
Travel expenses		(128,149)	(95,903)
Depreciation expenses		(449)	(210)
Exploration expensed		(510,821)	(707,181)
Development expenditure written off	5	(4,699,117)	(10,011,091)
Impairment of other receivable		(655,490)	(2,416,099)
Loss on conversion - notes		(456,158)	(235,822)
Fair value loss on derivative liability – convertible note	7	(1,692,854)	(458,668)
Other expenses		(374,169)	(335,958)
Finance expense	4	(298,696)	(194,561)
<b>Loss from continuing operations</b>		<b>(9,184,151)</b>	<b>(15,692,141)</b>
Income tax expense		-	-
<b>Loss for the period</b>		<b>(9,184,151)</b>	<b>(15,692,141)</b>
<i>Items to be subsequently reclassified to profit and loss</i>			
Other comprehensive income/(loss) for the year, net of income tax		-	-
<b>Total comprehensive loss for the period</b>		<b>(9,184,151)</b>	<b>(15,692,141)</b>
<b>Loss attributable to members of Merlin Diamonds Limited</b>		<b>(9,184,151)</b>	<b>(15,692,141)</b>
<b>Total comprehensive loss attributable to members of Merlin Diamonds Limited</b>		<b>(9,184,151)</b>	<b>(15,692,141)</b>
<b>Basic loss per share (cents per share)</b>		<b>(0.53)</b>	<b>(2.84)</b>
<b>Diluted loss per share (cents per share)</b>		<b>(0.53)</b>	<b>(2.84)</b>

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

Merlin Diamonds Limited  
Statement of Financial Position  
as at 31 December 2017

		Consolidated	
	Note	31 December 2017 \$	30 June 2017 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,007,525	16,402
Trade and other receivables		260,871	219,999
Inventories		949,377	1,469,559
<b>Total current assets</b>		<b>3,217,773</b>	<b>1,705,960</b>
<b>Non-current assets</b>			
Other receivables		778,548	778,548
Plant and equipment		2,393,671	1,239,473
Development expenditure	5	1,796,942	4,961,318
<b>Total non-current assets</b>		<b>4,969,161</b>	<b>6,979,339</b>
<b>Total assets</b>		<b>8,186,934</b>	<b>8,685,299</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		4,140,090	4,669,055
Loans and borrowings	8	450,000	211,833
Convertible notes	6	645,000	-
Derivative liability at fair value	7	2,771,088	1,480,319
Provisions		70,189	113,999
<b>Total current liabilities</b>		<b>8,076,367</b>	<b>6,475,206</b>
<b>Non-current liabilities</b>			
Convertible notes	6	1,862,914	2,184,389
Provisions		1,657,723	1,622,377
<b>Total non-current liabilities</b>		<b>3,520,637</b>	<b>3,806,766</b>
<b>Total liabilities</b>		<b>11,597,004</b>	<b>10,281,972</b>
<b>Net (liabilities)/assets</b>		<b>(3,410,070)</b>	<b>(1,596,673)</b>
<b>Equity</b>			
Issued capital	9	163,553,532	156,182,778
Reserves		622,160	622,160
Accumulated losses		(167,585,762)	(158,401,611)
<b>Total (deficiency)/equity</b>		<b>(3,410,070)</b>	<b>(1,596,673)</b>

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

Merlin Diamonds Limited  
Statement of Changes in Equity  
for the half year ended 31 December 2017

Consolidated	Issued capital \$	Equity settled incentive options reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 July 2016</b>	<b>143,818,724</b>	<b>622,160</b>	<b>(137,632,844)</b>	<b>6,808,040</b>
Loss for the period	-	-	(15,692,141)	(15,692,141)
Other comprehensive loss for the period, net of tax	-	-	-	-
<b>Total comprehensive loss for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>(15,692,141)</b>	<b>(15,692,141)</b>
Transactions with owners, recorded directly in equity				
Issue of shares	5,963,648	-	-	5,963,648
Transaction costs arising on share issues	(121,341)	-	-	(121,341)
<b>Total transactions with owners</b>	<b>5,842,307</b>	<b>-</b>	<b>-</b>	<b>5,842,307</b>
<b>Balance at 31 December 2016</b>	<b>149,661,031</b>	<b>622,160</b>	<b>(153,262,217)</b>	<b>(2,979,026)</b>
<b>Balance at 1 July 2017</b>	<b>156,182,778</b>	<b>662,160</b>	<b>(158,401,611)</b>	<b>(1,596,673)</b>
Loss for the period	-	-	(9,184,151)	(9,184,151)
Other comprehensive loss for the period, net of tax	-	-	-	-
<b>Total comprehensive loss for the period, net of tax</b>	<b>-</b>	<b>-</b>	<b>(9,184,151)</b>	<b>(9,184,151)</b>
Transactions with owners, recorded directly in equity				
Issue of shares	7,411,533			7,411,533
Transaction costs arising on share issues	(40,779)			(40,779)
<b>Total transactions with owners</b>	<b>7,370,754</b>			<b>7,370,754</b>
<b>Balance at 31 December 2017</b>	<b>163,553,532</b>	<b>662,160</b>	<b>(167,585,762)</b>	<b>(3,410,070)</b>

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

Merlin Diamonds Limited  
Statement of Cash Flows  
for the half year ended 31 December 2017

	31 December 2017	31 December 2016
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of GST)		-
Payments to suppliers and employees (inclusive of GST)	(1,218,292)	(1,673,191)
Payments for exploration expenditure	(342,745)	(241,954)
Interest received	25	416
<b>Net cash used in operating activities</b>	<b>(1,561,012)</b>	<b>(1,914,729)</b>
<b>Cash flows from investing activities</b>		
Payments for acquisition of plant and equipment	(1,380,387)	(174,799)
Payments for development expenditure	(1,503,292)	(2,830,369)
Payment of security deposits	-	(313,909)
Payment to other entity	(1,090,900)	(2,604,404)
Repayment by other entity	988,745	620,000
<b>Net cash used in investing activities</b>	<b>(2,985,834)</b>	<b>(5,303,481)</b>
<b>Cash flows from financing activities</b>		
Borrowings from others	8 450,000	745,236
Repayment to others	(140,000)	-
Proceeds from issue of equity securities	3,936,070	3,572,728
Proceeds from issue of convertible note	2,601,112	1,325,866
Loans from Director	723,500	(59,154)
Repayment of loan to Director	(999,342)	-
Equity securities issue transaction costs	(33,371)	(66,426)
<b>Net cash provided by financing activities</b>	<b>6,537,969</b>	<b>5,518,250</b>
Net decrease in cash and cash equivalents	1,991,123	(1,699,960)
Cash and cash equivalents at 1 July	16,402	1,906,830
<b>Cash and cash equivalents at 31 December</b>	<b>2,007,525</b>	<b>206,870</b>

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

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

**1. Basis of preparation**

Merlin Diamonds Limited (the 'Company'), is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the half year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). These interim financial statements were approved by the directors on 15 March 2018.

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards (AASBs) including AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

Except as described below, these interim financial statements have been prepared by a for profit entity on the basis of accounting policies and methods of computation consistent with those applied in the 30 June 2017 annual financial statements contained within the Annual Report of the Group.

The half year financial report does not include notes of the type normally included in the annual financial report and shall be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

*Going Concern*

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

The Company has incurred a loss of \$9,184,151 in the half- year to 31 December 2017, had net cash operating outflow of \$1,561,012 for the half-year ended 31 December 2017 and has negative working capital of \$4,858,594 at 31 December 2017. In order to continue as a going concern, the Company will be required to raise further capital to meet its commitments, resume mining operations at commercial levels, and have the continued support of creditors. These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Directors believe the going concern basis to be appropriate for the reasons set out below. In considering whether the Company is a going concern, the Directors note that since balance date the Company has raised funds through the issue of shares, has received the proceeds from the sale of part of the diamond stock and the proceeds from the sale of further diamonds are expected to be received shortly, convertible notes of \$1,639,770 included in current liabilities have been converted into equity since balance date, the Company has capacity under ASX Listing Rules to raise further funds through the placement of securities, mining operations and mining operations re-commenced in December 2017. The Directors are confident of meeting the Company's capital raising plans due to the success the Company has previously had in raising capital. The Directors have continued to manage creditors. The Directors believe the going concern basis to be appropriate for the reasons referred to previously. Based on the forecasted cashflows of the Company, the Directors are satisfied that adequate plans are in place and that the Company will be able to raise sufficient cash for a minimum of 12 months from the date of signature of the financial report.

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

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

amounts or classification of liabilities and appropriate disclosures that may be necessary should the Company be unable to continue as a going concern.

*Historical cost convention:*

The half-year financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

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

Management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The Group makes certain estimates and assumptions concerning the future. Estimates and assumptions have been utilised for the impairment testing of exploration assets. Actual results may differ from estimates. By their nature, these estimates incorporate inherent risks as they are based on future events which could have a material impact on the value of assets and liabilities in this financial year.

**(a) Change in accounting policy**

*New, revised or amending Accounting Standards and Interpretations adopted*

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2018 annual report as a consequence of these amendments.

*Impact of standards issued but not yet applied by the entity*

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The Group has reviewed the impact of these Standards and Interpretations and are continuing to assess where they will have a significant effect on the financial position or performance of the Group.

The Group has not elected to early adopt any new standards or amendments

**2. Revenue**

	<b>Consolidated</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	\$	\$
Interest income	25	189
Interest income – other entity	553,335	431,695
<b>Total revenue</b>	<b>553,360</b>	<b>431,884</b>

**3. Other income**

	<b>Consolidated</b>	
	<b>31 December 2017</b>	<b>31 December 2016</b>
	\$	\$
Fuel tax credits	32,509	48,679

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

**4. Finance expense**

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Bank charges	(487)	(192)
Borrowing costs	(41,907)	(6,042)
Note interest	11,808	(49,899)
Convertible note interest	(268,110)	(138,428)
<b>Total finance expense</b>	<b>(298,696)</b>	<b>(194,561)</b>

**5. Development expenditure**

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
Balance at beginning of period	4,961,318	10,011,091
Expenditure incurred during the period	1,534,741	8,750,737
Transfer to inventory	-	(3,208,845)
Amount written off	(4,699,177)	(10,591,665)
<b>Carrying amount at end of period</b>	<b>1,796,942</b>	<b>4,961,318</b>

**6. Convertible notes**

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
<b>Current</b>		
Convertible notes	645,000	-
	<b>645,000</b>	-
<b>Non-current</b>		
Convertible notes	1,862,914	2,184,389
	<b>1,862,914</b>	<b>2,184,389</b>

**Convertible Notes**

**Current**

The Consolidated Entity has issued 10% convertible notes, with a face value of \$1.00 each with an expiration date of 3 months from the date of issue. Interest is required to be paid at maturity or conversion whichever is earlier, at a rate of 10% per annum based on the face value. The accrued interest at 31 December 2017 is \$5,349. The notes are convertible into fully paid ordinary shares of the parent entity at conversion price of 0.5 cents. The convertible notes have been bought to account at face value due to the short term of the convertible notes

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

**Non-current**

The Consolidated Entity has issued 10% convertible notes, with a face value of \$1.00 each with an expiration date of 36 months from the date of issue. Interest is required to be paid half yearly in arrears at a rate of 10% per annum based on the face value. The accrued interest at 31 December 2017 is \$261,993. The notes are convertible into fully paid ordinary shares of the parent entity at conversion price of 0.5 cents. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. The convertible notes are secured. The convertible notes have been valued by an independent third party based on the estimated conversion date, conversion price, expected dividends, expected volatility and the estimated risk free interest rate.

**7. Derivative Liability at fair value**

	Note	Consolidated	
		31 December 2017	30 June 2017
		\$	\$
<b>Current</b>			
Carrying amount at 1 July		1,480,319	91,000
Recognition of derivative from convertible notes		744,871	4,981,069
Fair value movement		1,692,854	(3,811,488)
Convertible notes converted to shares		(1,146,956)	(216,738)
		<b>2,771,088</b>	<b>1,480,319</b>

Due to the terms of the convertible notes there is an embedded derivative liability. The derivative liability is measured at fair value on date of issue and remeasured at fair value at subsequent reporting periods, with a gain/loss in the Statement of Profit or Loss and Other Comprehensive Income. The value of the derivative fluctuates with the Company's underlying share price and the time to expiry. The change in the value of the derivatives between inception and 31 December 2017 is due to the difference in the share price between inception and 31 December 2017.

The derivative liability is measured at fair market value and is a Level 2. The fair value of the Level 2 embedded derivative has been estimated using the forward pricing model. The options were valued using an amended trinomial methodology.

A fair value loss was recorded of \$1,692,854 (2016: \$458,668) based on a valuation of the notes. The carrying value of the convertible notes at 31 December 2017 approximates their fair value at that date.

**8. Borrowings**

	Note	Consolidated	
		31 December 2017	30 June 2017
		\$	\$
<b>Current</b>			
Loans due to other entity		-	80,000
Loans - other		450,000	131,833
		<b>450,000</b>	<b>211,883</b>
<b>Loans - other</b>			

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

The loans – other at 31 December 2017 were funds received for a share issue which had not been completed at balance date. The shares were issued in early January 2018.

The loans - other at 31 December 2016 were secured notes, with interest to be charged at the rate of 10%, payable on repayment of the notes and there were no fixed terms for repayment of the notes between parties. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The notes require shareholder approval to be re-classified as convertible notes, and if shareholder approval is obtained, are convertible into fully paid ordinary shares of the parent entity at conversion price of 1.3 cents. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. The notes are secured. The accrued interest at 31 December 2016 was \$49,899.

**9. Capital and reserves**

	<b>31 December 2017 No. Shares</b>	<b>30 June 2017 No. Shares</b>	<b>31 December 2017 \$</b>	<b>30 June 2017 \$</b>
Balance at beginning of year	<b>1,360,252,384</b>	<b>451,257,719</b>	<b>156,182,778</b>	<b>143,818,724</b>
Conversion of convertible note 12 July 2017 @ 0.10 cents per share	145,000,000	-	1,450,000	-
Conversion of convertible note 10 August 2017 @ 0.06 cents per share	16,666,666	-	83,333	-
Conversion of convertible note 10 August 2017 @ 0.05 cents per share	138,801,499	-	694,008	-
Conversion of convertible notes 15 August 2017 @ 0.07 cents per share	33,828,355	-	236,799	-
Conversion of convertible notes 17 August 2017 @ 0.07 cents per share	4,441,714	-	31,092	-
Conversion of convertible notes 18 August 2017 @ 0.07 cents per share	4,421,531	-	30,951	-
Conversion of convertible notes 06 September 2017 @ 0.08 cents per share	24,192,816	-	193,544	-
Consulting and promotional fees 14 September 2017 @ 0.07 cents per share	1,102,429	-	8,819	-
Consulting and promotional fees 4 October 2017 @ 0.07 cents per share	6,600,000	-	46,200	-
Conversion of convertible notes 25 October 2017 @ 0.05 cents per share	42,400,000	-	254,399	-
Conversion of convertible	43,030,185	-	215,152	-

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

notes 05 November 2017 @ 0.05 cents per share				
Exercise of options 9	302,281	-	3,930	-
November 2017 @ 0.013 cents per share				
Share placement 1 December 2017 @ 0.05 cents per share	313,321,253	-	1,566,606	-
Share placement 20 December 2017 @ 0.05 cents per share	474,500,000	-	2,372,500	-
Consulting and promotional fees 20 December 2017 @ 0.08 cents per share	9,900,000	-	79,200	-
Consulting and promotional fees 20 December 2017 @ 0.05 cents per share	15,000,000	-	75,000	-
Consulting and promotional fees 20 December 2017 @ 0.07 cents per share	10,000,000	-	70,000	-
Conversion of convertible note 31 August 2016 @ 1.5 cents per share	-	50,000,000	-	1,000,000
Consulting fees 31 August 2016 @ 1.5 cents per share	-	2,000,000	-	30,000
Consulting fees 31 August 2016 @ 2.0 cents per share	-	4,317,090	-	87,084
Conversion of convertible note 2 September 2016 @ 1.9 cents per share	-	26,136,933	-	496,602
Consulting and promotional fees 2 September 2016 @ 1.5 cents per share	-	12,100,000	-	181,500
Consulting and promotional fees 20 October 2016 @ 2.2 cents per share	-	4,166,667	-	91,667
Conversion of convertible notes 8 November 2016 @ 1.9 cents per share	-	6,666,666	-	126,667
Conversion of convertible notes 17 November 2016 @ 1.8 cents per share	-	50,608,935	-	910,961
Conversion of convertible notes 18 November 2016 @ 1.8 cents per share	-	32,666,667	-	588,000
Conversion of convertible notes 22 November 2016 @ 1.8 cents per share	-	11,760,274	-	210,000
Conversion of convertible notes 29 November 2016 @ 1.8 cents per share	-	3,333,333	-	60,000
Share placement 15 December 2016 @ 1.3 cents per share	-	102,423,076	-	1,331,500
Conversion of convertible notes 21 December 2016 @ 1.6 cents per share	-	6,666,666	-	106,667
Consulting and promotional	-	24,000,000	-	312,000

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

fees 21 December 2016 @ 1.3 cents per share				
Share placement 21 December 2016 @ 1.3 cents per share	-	15,384,615	-	200,000
Consulting and promotional fees 21 December 2016 @ 1.6 cents per share	-	1,562,500	-	25,000
Consulting and promotional fees 21 December 2016 @ 1.8 cents per share	-	2,000,000	-	36,000
Consulting and promotional fees 21 December 2016 @ 1.9 cents per share	-	10,000,000	-	170,000
Conversion of convertible notes 24 January 2017 @ 1.5 cents per share	-	22,307,692	-	338,931
Conversion of convertible notes 8 February 2017 @ 1.5 cents per share		1,666,675	-	25,000
Conversion of convertible notes 9 February 2017 @ 1.7 cents per share	-	10,769,229	-	181,677
Issue of shares 23 March 2017 @ 1.3 cents per share	-	157,994,229	-	2,053,923
Issue of shares 30 March 2017 @ 1.3 cents per share	-	267,903,139	-	3,482,741
Issue of shares as underwriting fee 3 April 2017 @ 1.3 cents per share	-	20,000,000	-	280,000
Conversion of convertible notes 18 April 2017 @ 1.5 cents per share	-	9,927,290	-	148,910
Conversion of convertible notes 14 June 2017 @ 1.2 cents per share	-	20,000,000	-	240,000
Issue of shares for exploration, development and mining activities 26 June 2017 @ 1.5 cents	-	14,548,471	-	221,228
Consulting and promotional fees 26 June 2017 @ 1.1 cents per share	-	17,500,000	-	192,500
Issue of shares for interest on convertible notes 26 June 2017 @ 1.5 cents per share	-	576,394	-	8,646
Issue of shares on exercise of options 26 June 2017	-	8,125	-	106
Share placement 13 July 2015 @ 6.5 cents per share	-	1,538,461	-	100,000
Share placement 24 September 2015 @ 6.5 cents per share	-	7,692,304	-	500,000
Consulting and promotional fees 11 May 2016 @ 2.2 cents per share	-	10,692,204	-	235,228

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

Transaction costs arising on share issues	-	-	(40,780)	(773,256)
Balance at end of year	<b>2,643,761,122</b>	<b>1,360,252,385</b>	<b>163,553,532</b>	<b>156,182,778</b>

**10. Employee Share Options**

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

	<b>For the half year ended December 31, 2017</b>	
	<b>Number of options</b>	<b>Weighted average exercise price \$</b>
Balance at beginning of period	23,000,000	0.15
Granted during the period	-	-
Expired during the period	-	-
Forfeited during the period	-	-
<b>Balance at end of period</b>	<b>23,000,000</b>	<b>0.15</b>
Exercisable at end of period	23,000,000	

During the half year period ended 31 December 2017 the Company recognised a net expense of \$nil (2016: \$nil) within the profit and loss component of the statement of comprehensive income.

**b. Options outstanding at the end of the half year ended December 31, 2017**

The share options outstanding at December 31, 2017 had a weighted average exercise price of \$0.15 and a weighted average remaining contractual life of 1.91 years.

**c. Options issued during the period**

During the half year ended 31 December 2017 no options were issued by the Company. It is a requirement that the employee receiving the options be still be employed by the Company at the end of each vesting period in order to exercise the options.

**d. Options forfeited during the period**

During the half year ended 31 December 2017, no options (2016: nil) were forfeited by employees.

**11. Segment reporting**

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

Management has determined the operating segment based upon reports reviewed by the Board and executive management that are used to make strategic decisions. Management and the Board consider the business only from a diamond exploration and development perspective and therefore only review 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

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

separate segment reporting purposes. There are no sales or material non-current assets other than those listed in Australia.

**12. Contingent liabilities**

There is no material change to contingent liabilities that the Company has become aware of since 30 June 2017.

**13. Subsequent events**

Other than the matters outlined elsewhere in these financial statements, no matters or circumstance have arisen since 31 December 2017 that have a significant effect on the Company.

Since balance date, the Company has issued 100,000,000 shares following a placement amounting to \$450,000, issued shares from the entitlements shortfall amounting to \$92,344 and issued a further 327,954,021 shares following the conversion of convertible notes and accompanying interest with a value of \$1,639,770.

Merlin Diamonds Limited  
Notes to and forming part of the Financial Statements  
for the half year ended 31 December 2017

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

1. the financial statements and notes, set out on pages 5 to 17 are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance, for the half year ended on that date; and
  - (b) complying with the Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

Dated at Melbourne this 15th day of March 2018.

MZ Gutnick  
Chairman and Managing Director

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

### Report on the Half Year Financial Report

#### Qualified Conclusion

We have reviewed the accompanying half year financial report of Merlin Diamonds Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, except for the effects of the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the half year financial report of Merlin Diamonds Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial reporting*.

#### Basis for Qualified Conclusion

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

Included within other non-current receivables the Company has reported a loan receivable from AXIS Consultants Pty Ltd amounting to \$12,813,523 (June 2017: \$12,158,032) which has been fully provided for. We have been unable to obtain sufficient appropriate evidence in respect to the collectability or otherwise of this amount.

Included within Note 5 of the half year financial report, the Company has reported capitalised development expenditure in relation to its mine properties amounting to \$1,796,942 (June 2017: \$4,961,318). We have been unable to obtain sufficient appropriate evidence in respect to the forecasts relating to future production levels, revenues and costs contained within the Director's impairment assessment. These uncertainties may require an impairment of the capitalised development expenditure, should management be unable to achieve these targets.

Included within inventories, the Company has reported diamond stock at an estimated realisable value of \$570,730 (June 2017: \$1,279,252). We have been unable to obtain sufficient appropriate evidence in respect to the expected sale price of a material proportion of this diamond stock supporting its estimated realisable value as shown in the financial report. These uncertainties may require a further adjustment to the value of the diamond stock, should management achieve sales at materially different prices to those estimated.

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### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 in the half year financial report, which notes net operating cash outflows of \$1,561,012 and a negative working capital position of \$4,858,594 for the half year ended 31 December 2017. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the half year financial report. Our conclusion is not modified in respect of this matter.

### **Directors' Responsibility for the Half Year Financial Report**

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Merlin Diamonds Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



B L Taylor  
Partner - Audit & Assurance

Melbourne, 15 March 2018