



27 October 2017

The Manager
ASX Announcements

Merlin Diamonds Limited – Notice under section 708AA(2)(f) of the *Corporations Act 2001*

This notice is given by Merlin Diamonds Limited ACN 009 153 119 (ASX: MED) (**Company**) under section 708AA(2)(f) of the *Corporations Act 2001* (**Act**).

The Company has announced a 2 for 5 non-renounceable rights issue at a price of \$0.005 per share to raise approximately \$3.47m before expenses (**Offer**). The Offer will comprise two fully paid ordinary shares (**New Share**) for every five shares held as at 5.00 pm on 13 November 2017 (**Record Date**) by shareholders with a registered address in Australia or New Zealand (**Entitlements**).

The Offer is not underwritten.

For the purpose of section 708AA(7) of the Act, the Company advises that:

- (a) the New Shares issued pursuant to the Offer will be offered for issue without disclosure under Part 6D.2 of the Act;
- (b) this notice is given under section 708AA(2)(f) of the Act as modified by *ASIC Instrument 2016/84*;
- (c) as at the date of this notice, the Company has complied with:
 - (i) the provisions of Chapter 2M as they apply to the Company; and
 - (ii) section 674 of the Act;
- (d) as at the date of this notice, there is no excluded information of the type referred to in sections 708AA(8) and 708AA(9) of the Act that is required to be included in this notice; and
- (e) the issue of New Shares pursuant to the Offer is not expected to have any material effect or consequence on the control of the Company. The potential for an effect in control is dependent on a number of factors including investor demand. Given the structure of the Offer as a pro rata offer, the potential effect that the issue of the New Shares will have on the control of the Company is as follows:
 - (i) if all eligible shareholders take up their Entitlement to New Shares, the Offer will have no effect on the control of the Company as all shareholders would continue to hold the same percentage interest in the Company;

- (ii) to the extent that any eligible shareholder fails to take up their Entitlement for New Shares under the Offer, that shareholder's percentage holding in the Company will be diluted by those other eligible shareholders who take up some or all of their Entitlement; and
- (iii) the Offer is not underwritten, and the Directors reserve the right to allocate and place any shortfall within 2 months after the first offer of securities is made under the Offer to those persons determined by the Directors. The Directors have resolved that no shortfall will be allocated and placed to a shareholder if to do so would result in that shareholder or someone else's voting power in the Company increasing from 20% or below to more than 20%, or from a starting point that is above 20% and below 90% other than as permitted under the Act.

Taking into account the current shareholding structure of the Company, in the most likely case where some but not all shareholders take up their Entitlements, the Directors consider that the only shareholder that could increase its voting power to more than 20% is the Gutnick Group. For the purpose of this document, "Gutnick Group" means a group containing the following shareholders:

Registered shareholder	Current shareholding (%)
Mazil Pty Ltd	1.82
Great Central Gold Limited	0.82
Trinity Management Group Pty Ltd	1.01
Chabad Properties Pty Ltd ATF Machon Chaim College Fund	12.38
Hoydu International Enterprises Pty Ltd ATF Hoydu Family Trust No 2	1.41
Atlantic Holdings (Aust) Pty Ltd	0.17
Morzev Pty Ltd	0.0001
Edesnor Holdings Pty Ltd ATF Prolific Enterprises Trust	2.39

Possible scenarios resulting in the Gutnick Group increasing its shareholding in the Company are as follows:

	Current shareholding	Current %	Final shareholding	Final %
Current position	355,476,932	19.996%	Not applicable	Not applicable
No Shareholders take up their Entitlements, and Gutnick Group takes up shares pursuant to its Entitlement			497,667,705	25.92

Shareholders take up 25% of their Entitlements and Gutnick Group takes up shares pursuant to its Entitlement			497,667,705	24.32
Shareholders take up 50% of their Entitlements and Gutnick Group takes up shares pursuant to its Entitlement			497,667,705	22.90
Shareholders take up 75% of their Entitlements and Gutnick Group takes up shares pursuant to its Entitlement			497,667,705	21.63
Shareholders take up 100% of their Entitlements and Gutnick Group takes up shares pursuant to its Entitlement			497,667,705	20.50

Under the Act, persons are not permitted to increase their voting power (the percentage of voting power in the Company attaching to their shareholdings plus the shareholdings of their associates) in public companies such as MED above 20% except in specified circumstances. Increases in shareholdings above 20% as a result of taking up pro rata entitlements in an issue such as the Rights Issue are one of the exceptions to this rule (section 611 item 10 of the Act). Accordingly, Gutnick Group would not be prohibited under the Act from increasing its shareholdings as described above. The exemption in section 611 item 10 of the Act does not apply to acquisitions of shortfall as contemplated in paragraph (iii) above, and there are no other relevant exemptions, so the Directors would not allocate and place shortfall to Gutnick Group (or any shareholder in the group) if to do so would result an increase in voting power to more than 20%.



PETER LEE
Company Secretary