

Merlin Diamonds Limited

ABN 86 009 153 119

Offer Document

For

A non-renounceable pro rata offer of New Shares at an issue price of \$0.005 per New Share on the basis of two (2) New Share for every five (5) Shares held on the Record Date to Eligible Shareholders.

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its content or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser without delay.

This Offer opens on 16 November 2017 and closes at 5:00pm AEDT on 28 November 2017

Valid acceptances must be received before that time

These opening and closing dates are indicative only. Subject to the Listing Rules and any applicable law, the Directors reserve the right to vary these dates, including the Closing Date, at their discretion.

Please read the instructions in this document and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your entitlement.

IMPORTANT INFORMATION

INDICATIVE TIMETABLE PRO-RATA NON-RENOUCEABLE ENTITLEMENT ISSUE

Event	Date
Offer Document lodgement date	27 October 2017
Dispatch of notices to Eligible Shareholders informing them of the Offer and details of Appendix 3B	9 November 2017
Shares trade "Ex"	10 November 2017
Record Date (date for determining entitlements of Eligible Shareholders to participate in the Offer) (7pm AEDT)	13 November 2017
Offer opens – Offer Document dispatched to Eligible Shareholders (expected date of dispatch of Offer Document and Entitlement and Acceptance Forms)	16 November 2017
Last day to extend Offer closing date	23 November 2017
Closing Date (5pm AEDT)	28 November 2017
Shares quoted on a deferred settlement basis	29 November 2017
Merlin notifies ASX of under subscriptions	1 December 2017
Issue of New Shares	1 December 2017
Dispatch of Holding Statements & Deferred Settlement ends. Last day for advising ASX of all information required by Appendix 3B	4 December 2017
Trading of New Shares to commence on ASX	4 December 2017
Latest date for Directors to place any shortfall	16 January 2018

These dates are indicative only. Subject to the Listing Rules and any applicable law, the Directors reserve the right to vary these dates, including extending the Closing Date by giving at least 3 Business Days' notice to ASX prior to the Closing Date and the date that the New Shares are expected to commence trading on ASX. Should this occur, the extension will have a consequential effect on the above timetable.

OFFER DOCUMENT

This Offer Document is dated 27 October 2017 and was lodged with ASX on that date.

This Offer Document is not a prospectus under the Corporations Act and has not been lodged with Australian Securities and Investments Commission (ASIC). Neither ASIC nor the ASX takes responsibility for the contents of this Offer Document or the merits of the investment to which the Offer Document relates.

This offer Document has been prepared in accordance with section 708AA of the Corporations Act (as modified by ASIC Instrument 2016/84). In preparing this Offer Document regard has been had to the fact that the Company is a disclosing entity for the purposes of Corporations Act and certain matters may reasonably be expected to have been known to investors and professional advisers who investors may consult. Eligible Shareholders should rely on their own knowledge of the Company, refer to disclosures made by the Company to ASX and consult their professional advisers before deciding whether to accept the Offer. Announcements made by the Company to ASX are available from the ASX website www.asx.com.au.

The information provided in this Offer Document is not investment advice and has been prepared without taking into account your investment objectives, financial situation or particular needs (including financial and taxation

issues). It is important that you read and consider the information in this Offer Document in full before deciding to invest in New Shares, consider the risks that could affect the performance of the Company and seek professional advice from your accountant, tax adviser, stockbroker, lawyer or other professional adviser before deciding to invest.

The information in this Offer Document does not constitute a securities recommendation or financial product advice and no person is authorised to give any information or to make any representation in connection with the Offer. Any information or representation which is not contained in this Offer Document or disclosed by the Company pursuant to its continuous disclosure obligations may not be relied upon as having been authorised by the Company in connection with the Issue of this Offer Document.

Application for admission of the New Shares offered by this Offer Document to quotation by ASX will be made within seven days after the date of this Offer Document.

Applications for Shares offered pursuant to this Offer Document can only be submitted on an original Entitlement and Acceptance Form or Shortfall Application Form or making payment of Acceptance Monies in BPAY® in accordance with the instructions set out in this Offer Document and on the Entitlement and Acceptance Form. See section 2 and in particular section 2.7(b).

RISKS

Applicants should read this document in its entirety and, if in any doubt, consult with their professional advisers before deciding whether to apply for New Shares. There are risks associated with an investment in Merlin Diamonds Limited, and the New Shares offered under this Offer Document must be regarded as a speculative investment. In particular, you should consider the risk factors that could affect the value of an investment in the Company, some of which are outlined in Section 3 of the Offer Document. The New Shares offered under this Offer Document carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the New Shares.

No person (whether named in this Offer Document or otherwise) guarantees the performance of Merlin Diamonds Limited, the repayment of capital or the payment of a return on the Shares.

OVERSEAS SHAREHOLDERS

This Offer Document does not constitute an offer or invitation in any place in which, or to any person to whom it would not be lawful to make such an offer for invitation. The distribution of this Offer Document in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Offer Document should seek advice on and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities law.

The Offer contained in this Offer Document to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2013 (New Zealand). This Offer Document is not an investment statement or Offer Document under New Zealand law, and may not contain all the information that an investment statement or Offer Document under New Zealand law is required to contain. Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for New Shares.

The distribution of this Offer Document in jurisdictions outside Australia and New Zealand may be restricted by law and therefore persons who come into possession of this Offer Document should seek advice on and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws. This Offer Document does not constitute an offer of New Shares in any jurisdiction where, or to any person to whom, it would be unlawful to make such an offer. Certain terms and abbreviations used in this Offer Document have defined meanings, which are explained in Section 6 of this Offer Document.

FORWARD-LOOKING STATEMENTS

This Offer Document contains forward-looking statements which are identified by words such as 'may', 'could',

'believes', 'estimates', 'targets', 'expects', or 'intends' and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Offer Document, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of our Company, the Directors and our management.

We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Offer Document will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

We have no intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Offer Document, except where required by law.

These forward looking statements are subject to various risk factors that could cause our actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in section 3 of this Offer Document.

ELECTRONIC OFFER DOCUMENT

Eligible Shareholders can obtain a copy of this Offer Document during the Offer Period on the Company's website at <http://www.merlindiamonds.com.au>. The Offer is only available to Eligible Shareholders receiving this Offer Document in electronic form within Australia. If you access an electronic copy of this Offer Document, you should read the entire Offer Document.

The electronic copy of this Offer Document will not include a personalised Entitlement and Acceptance Form. Eligible Shareholders will only be able to accept the Offer by completing the personalised Entitlement and Acceptance Form which accompanies this Offer Document or by making payment using BPAY® (refer to Section 2 and in particular section 2.9(b) for further information).

FINANCIAL AMOUNTS

Money as expressed in this Offer Document is in Australian dollars.

PRIVACY

Please read the privacy information set out in Section 1.21. By submitting an Entitlement and Acceptance Form, you consent to the matters outlined in that section.

CORPORATE DIRECTORY

Directors

Mordechai Gutnick
David Tyrwhitt
Henry Herzog

Company Secretary

Peter Lee

Registered Office and Domicile

Level 1A, 42 Moray Street
Southbank Victoria 3006
Australia
Telephone: +61 3 8532 2838
Facsimile: +61 3 8532 2805
E-mail: 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
Tower 4, 727 Collins Street
Melbourne Victoria 3008
Australia
Telephone: 1300 554 474 or + 61 3 9615 9999
Facsimile: +61 3 8614 2903

Australian Securities Exchange Listing Code

MED
MED OB

Chairman's Letter

Dear Shareholder,

On behalf of the Board of Directors of Merlin Diamonds Limited (ASX: MED), I am pleased to offer you the opportunity to increase your investment in the Company.

Entitlements Offer

The Entitlements Offer is non-renounceable, made on a two New Shares for every five (5) shares on issue at the Record Date, will raise approximately \$3,247,100 (before expenses the Offer) and is being offered at \$0.005 per New Share. This offer price of \$0.005 represents a 15.1% discount to the 90 day VWAP for the period ended 24 October 2017.

In calculating the number of new shares to which an Eligible Shareholder is entitled (Entitlement), fractions of New Shares will be rounded up to the nearest whole number.

Shareholders who subscribe for their full Entitlement may apply for Additional Shares in addition to their full Entitlement under the Offer.

Any shortfall under the Offer will first be satisfied by allocations made by the Board to Shareholders who have applied for Additional Shares under the terms and conditions of the Offer, subject to compliance with Chapter 6 of the Corporations Act and the ASX Listing Rules. The allocation process is described in more detail in section 2.8 below.

Additional Shares will only be issued if the New Shares offered under the Entitlements Offer are not taken up in full. If the Company receives applications for Additional Shares that would result in the Entitlements Offer being oversubscribed, the Company will scale back applications received for Additional Shares on a pro-rata basis having regard to the number of Additional Shares applied for by each Eligible Shareholder.

In the event of an application for Additional Shares not being accepted, including because of a scale back, the application monies received for an unsuccessful application for Additional Shares (or the applicable portion if the application is partly successful) will be refunded to the applicant, without interest, as soon as practicable.

No Additional Shares will be issued to an applicant if to do so would, to the extent of the knowledge of the Company, result in a breach of the ASX Listing Rules or the restrictions on obtaining or increasing relevant interests of greater than 20% of the Company's issued voting shares under Chapter 6 of the Corporations Act or would otherwise be contrary to the Corporations Act or the ASX Listing Rules.

The Offer is being conducted to raise funds for operations at the Merlin diamond mine, exploration and working capital.

Directors' consideration of the Offer

The Directors believe this Offer is advantageous, with the following benefits:

- the Company requires funding to continue its mining operations and to undertake exploration activities on its tenement interests and for working capital purposes. Given the size of the Company and the industry that it operates in, the Directors consider that an equity raising is the best alternative;
- the alternatives considered were debt funding, which would have been expensive (if achievable, which would have been difficult) or a placement with shareholder approval which would have been dilutive. A pro-rata entitlements offer gives all shareholders the ability to subscribe for shares equal to their existing percentage holding in the Company thus not diluting their position in the Company;
- the audit report for the year ended 30 June 2017 included an emphasis of matter comment which states; "we draw attention to Note 1 to the financial report, which notes net operating cash outflows of \$2,475,512 and a negative working capital position of \$4,769,246 for the year ended 30 June 2017. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our report has not been modified in relation to this matter" and

- the offer price of \$0.005 represents a 15.1% discount to the 90 day VWAP for the period ended 24 October 2017.

However, the Entitlements Offer has some disadvantages:

- the Offer will dilute positions held by Shareholders who do not apply for their full entitlement;
- the shares to be issued under the Entitlements Offer result in the conversion price of the convertible notes on issue to reduce as a term of the convertible notes is that if an issue of equity in the reasonable opinion of the noteholder has terms more favourable than the terms applicable to these notes (from time to time), at the election of the noteholder the more favourable terms (as nominated by the noteholder) shall also apply to these notes and all other terms applicable to these notes at that time remain applicable. Without limiting the generality of the foregoing, the more favourable terms that the noteholder may elect to adopt include a higher coupon rate, higher interest Rate, increased higher rate and a lower conversion price. If effect, this means that the conversion price of the notes will reduce to \$0.005;
- the option exercise price for options on issue(both quoted and unlisted) will be re-calculated in accordance with the formula in ASX Listing Rule 6.22.2 which will reduce the exercise price of all options on issue; and
- there are approximately \$55,600 in cash costs associated with the Offer.

In recommending the Offer, your Directors believe that the advantages of the Entitlements Offer outweigh any disadvantages.

Further information

This Offer Document contains further details of the Offer, including a discussion of the advantages, disadvantages and risks of the Entitlements Offer. Please read the Offer Document carefully before deciding how to respond to the Offer.

If you have any questions about the Offer under the Entitlements Offer, please consult your independent financial or legal adviser.

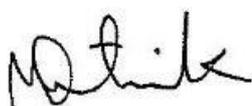
The Company

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

The Company re-commenced operations at the Merlin diamond mine in October 2016 with the processing plant being refurbished and production commencing with steady ramping up of the production process. Through the successful commencing of operations, Merlin preserved its \$44.6m royalty credits by satisfying the requirement of the Northern Territory Department of Treasury and Finance.

Merlin previously produced Australia's largest diamond at 104 carats. Since the re-commencement of operations a 35.3 carat diamond has been recovered which reflects Merlin's history of recovering large diamonds.

Over the past few months, the Ector pipe has been dewatered ahead of re-establishing pit access and pre mining activities. Potential mining and ore-sorting contractors visited site during October 2017 to familiarize with the required tasks. It is expected that contractors will mine, crush screen and machine sort the coarse ore fractions through a new Tomra X-RAY Transmission (XRT) Machine recently purchased by the Company and paid for in full. By using this new sorting technology, it is expected that larger diamonds will be recovered than previously possible as well as recovering low luminescing diamonds that were difficult to recover using previously used sorting technology.



MORDECHAI GUTNICK
Chairman & Managing Director

Section 1 DETAILS OF THE OFFER

1.1 The Offer

The Company is making a non-renounceable pro rata offer of New Shares at an issue price of \$0.005 each on the basis of two (2) New Shares for every five (5) Shares held on the Record Date (the **Offer**).

In calculating the number of new shares to which an Eligible Shareholder is entitled (Entitlement), fractions of New Shares will be rounded up to the nearest whole number.

Merlin's share price has traded at a high price of \$0.008 and a low price of \$0.004 over the last three months ended 24 October 2017. The VWAP for that period of time was \$0.00589241 and the offer price of \$0.005 represents a 15.1% discount to the 90 day VWAP for the period ended 24 October 2017.

The Company intends to apply the funds raised from the Offer towards operations at the Merlin diamond mine, exploration activities and working capital.

As at the date of this Offer Document, the Company has on issue 1,777,707,403 Shares, 589,392,861 listed options 2,884,258, unlisted convertible notes, and 352,080,661 unlisted options. The Company expects that approximately 649,420,066 New Shares will be issued under the Offer, such that immediately after the completion of the Entitlements Offer, the Company will have on issue 2,427,127,469 Shares, 589,392,861 listed options, 2,884,258 unlisted convertible notes, and 352,080,661 unlisted options.

The number of new Shares offered under this Offer document may vary depending on whether any options are exercised or any convertible notes are converted prior to the Record Date.

The Entitlements Offer is expected to raise approximately \$3,247,100 (before expenses of the Offer which are estimated to be approximately \$55,600).

Shareholders who apply for 100% of their entitlement are able to apply for Additional Shares to be issued from any shortfall at the Issue Price subject to the Corporations Act. Any Shortfall Shares will be allocated to Shareholders who apply for New Shares in addition to their Entitlement. The Directors may place any further shortfall to persons who may or may not be Shareholders. The allocation process is described in more detail in section 2.8 below.

Additional Shares will only be issued if the New Shares offered under the Entitlements Offer are not taken up in full. If the Company receives applications for Additional Shares that would result in the Entitlements Offer being oversubscribed, the Company will scale back applications received for Additional Shares on a pro-rata basis having regard to the number of Additional Shares applied for by each Eligible Shareholder.

In the event of an application for Additional Shares not being accepted, including because of a scale back, the application monies received for an unsuccessful application for Additional Shares (or the applicable portion if the application is partly successful) will be refunded to the applicant, without interest, as soon as practicable.

No Additional Shares will be issued to an applicant if to do so would, to the extent of the knowledge of the Company, result in a breach of the ASX Listing Rules or the restrictions on obtaining or increasing relevant interests of greater than 20% of the Company's issued voting shares under Chapter 6 of the Corporations Act or would otherwise be contrary to the Corporations Act or the ASX Listing Rules.

Where the determination of the entitlement of any Eligible Shareholder results in a fraction of New Shares, such fraction will be rounded up to the nearest whole number of Shares.

1.2 The Offer Document

This Offer Document is not a prospectus under the Corporations Act and has not been lodged with ASIC. The Company has given ASX a notice under sections 708AA(2)(f) and (7) of the Corporations Act (**Cleansing Notice**) at the same time as issuing this Offer Document.

The New Shares issued pursuant to this Offer Document will be issued on the terms and conditions set out in this Offer Document.

1.3 Not Underwritten

The offer is not underwritten.

1.4 Entitlements and acceptance

The Offer is being made as a non-renounceable entitlement issue of two (2) New Shares for every five (5) Shares held by Eligible Shareholders registered at the Record Date, at an Offer Price of \$0.005 per Share.

Your entitlement is shown on the Entitlement and Acceptance Form accompanying this Offer Document.

Shareholders who apply for 100% of their entitlement are able to apply for Additional Shares to be issued from any shortfall at the Issue Price, subject the Corporations Act.

Additional Shares will only be issued if the New Shares offered under the Entitlements Offer are not taken up in full. If the Company receives applications for Additional Shares that would result in the Entitlements Offer being oversubscribed, the Company will scale back applications received for Additional Shares on a pro-rata basis having regard to the number of Additional Shares applied for by each Eligible Shareholder.

In the event of an application for Additional Shares not being accepted, including because of a scale back, the application monies received for an unsuccessful application for Additional Shares (or the applicable portion if the application is partly successful) will be refunded to the applicant, without interest, as soon as practicable.

No Additional Shares will be issued to an applicant if to do so would, to the extent of the knowledge of the Company, result in a breach of the ASX Listing Rules or the restrictions on obtaining or increasing relevant interests of greater than 20% of the Company's issued voting shares under Chapter 6 of the Corporations Act or would otherwise be contrary to the Corporations Act or the ASX Listing Rules.

Holding statements in relation to the New Shares will be dispatched to Eligible Shareholders as soon as practicable after allotment. It is the responsibility of Eligible Shareholders to confirm the number of New Shares allotted to them prior to trading on the ASX. Eligible Shareholders who sell their New Shares before they receive their holding statements do so at their own risk.

1.5 Purpose of the Offer and use of Funds

The Offer is expected to raise approximately \$3,247,100 (before expenses).

The purpose of the Offer is to raise funds which the Company intends to apply towards mine operations, mine capital, corporate costs and general working capital and to pay the cash costs of the Offer. In summary:

Use of cash funds	
Merlin diamond mine operations	\$2,100,000
Mine capital	\$500,000
Corporate costs and working capital	\$591,500
Cash cost of Offer	\$55,600
Total	\$3,247,100

Costs of the Offer include the ASX quotation cost of the shares, preparation costs of the Offer Document, printing and mailing costs, legal fees and share registry costs

1.6 Rights trading

The rights to New Shares under the Offer are non-renounceable. Eligible Shareholders may not sell or transfer any part of their entitlements.

1.7 Rights and Liabilities attaching to New Shares

New shares issued under this Offer document will from the time they are issued, rank pari passu in all respects with the Company's existing shares.

For more particular details of the rights attaching to Shares, investors should refer to the Constitution of the Company. The following is a summary of the principal rights which attach to the Company's Shares:

- a) Voting

Every holder of Shares present in person or by proxy, attorney or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands, and, on a poll every holder of Shares who is present in person or by proxy, attorney or representative has;

- i) one vote for every fully paid Share held by him or her; and
- ii) a fraction of one vote for each partly paid up Share held by him or her.

A poll may be demanded by the chairman of the meeting, by at least five Shareholders entitled to vote on the particular resolution present in person, or by any one or more Shareholders who are together entitled to not less than 5% of the total voting rights of the Shares of all those Shareholders having the right to vote on the resolution.

b) Dividends

The Directors may determine that dividends are payable on shares of the Company. Shareholders will be entitled to dividends as a result of ownership of their New Shares in accordance with the Constitution.

c) Further issue of securities

Subject to the Corporations Act and the Listing Rules, the Directors may allot, grant options over, or otherwise dispose of Shares in the Company at the times and on the terms the Directors think fit. A share in the company may be issued with a preferential or special right.

d) Transfers of shares

A Shareholder may transfer shares by a market transfer in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating dealings in shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

The Directors of the Company may refuse to register any transfer of Shares, (other than a market transfer) where the Company is permitted or required to do so by the Listing Rules or the ASX Settlement Operating Rules. The Company must not prevent, delay or interfere with the generation of a proper market transfer in a manner which is contrary to the provisions of any of the Listing Rules or the ASX Settlement Operating Rules.

e) Meetings and notice

Each Shareholder is entitled to receive notice of and to attend general meetings for the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

f) Liquidation rights

A liquidator may, with the authority of a special resolution of Shareholders:

- i) distribute among the Shareholders the whole or any part of the remaining property of the Company; and
- ii) decide how to distribute the property as between the Shareholders or different classes of Shareholders.

The liquidator may vest the whole or any part of the assets in trust for the benefit of Shareholders as the liquidator thinks fit, but no Shareholder of the Company can be compelled to accept any Shares or other securities in respect of which there is any liability.

g) Alteration and reduction of capital

The Company may, by resolution, alter its capital in any manner permitted by law and subject to the Corporations Act, the Company may by special resolution reduce its capital.

h) Indemnities

Subject to the Corporations Act, the Company must indemnify each past and present officer against liability incurred by that person as an officer of the Company and any legal costs incurred in defending an action in respect of such liability.

i) Shareholder liability

As the New Shares offered under the Offer Document are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

j) Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. At least 28 days' written notice must be given, specifying the intention to propose the resolution as a special resolution.

k) Listing Rules

Despite anything in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done. Similarly, nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision or not to contain a provision the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

1.8 Opening and Closing Dates

The Offer opens on the Opening Date, namely 16 November 2017, and the Closing Date for acceptance of entitlements is 28 November 2017. The Company will accept Entitlement and Acceptance Forms until 5pm AEDT on the Closing Date or such other date as the Directors in their absolute discretion shall determine, subject to applicable laws.

1.9 Issue and Dispatch

The expected dates for issue of New Shares offered by this Offer Document and dispatch of holding statements are expected to occur on the dates specified in the Timetable.

It is the responsibility of Applicants to determine their allocation prior to trading in the New Shares. Applicants who sell New Shares before they receive their holding statements will do so at their own risk.

1.10 ASX listing

Application will be made to the ASX for the official quotation of the New Shares within seven days of the date of this Offer Document. If the ASX does not grant quotation to the New Shares within three months after the date of the Offer Document (or any longer period permitted by law), the Offer will be withdrawn and the Company will repay, as soon as practicable, without interest, all application monies received pursuant to the Offer.

1.11 CHESS

The Company participates in the Clearing House Electronic Subregister System, known as CHESS. ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532 (ASTC), a wholly-owned subsidiary of the ASX, operates CHESS in accordance with the Listing Rules and Securities Clearing House Business Rules.

Under CHESS, Applicants will not receive a certificate but will receive a statement of their holding of New Shares.

If you are registered in the Issuer Sponsored subregister, your statement will be dispatched by Link Market Services and will contain the number of New Shares issued to you under this Offer Document and your security holder reference number.

A CHESSE statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. Shareholders may request a statement at any other time, however there may be a charge associated with the provision of this service.

1.12 Overseas Shareholders

No Offer will be made to Shareholders outside Australia and New Zealand. The Company has determined that making the Offer to Shareholders with a registered address outside Australia or New Zealand is not reasonable in the circumstances, taking into account the small number of Shareholders resident outside Australia and New Zealand and the number and value of New Shares that would have been offered to those Shareholders.

This Offer Document and accompanying Entitlement and Acceptance Form do not, nor are they intended to, constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

1.13 Taxation implications

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares under this Offer Document. The Company, its agents, advisers and officers do not accept any responsibility or liability for any such taxation consequences to Shareholders.

Shareholders should consult a professional tax adviser in connection with subscribing for New Shares under this Offer Document.

1.14 Risk factors

An investment in New Shares should be regarded as speculative. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company. Some of the general applicable risks are described in Section 3.

1.15 Continuous Disclosure and Documents Available for Disclosure

The Company is listed on ASX and its Shares are quoted on ASX. The Company is a "disclosing entity" for the purposes of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations, which require it to disclose to ASX any information of which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of securities of the Company (unless an exception applies). Copies of documents lodged with ASX in relation to the Company may be obtained from, or inspected at, an office of ASX.

The Company will provide a copy of each of the following documents, free of charge, to any person who asks for it, during the application period for this Offer Document:

- (a) the annual financial report for the financial year of the Company ended 30 June 2017 (being the last annual financial report lodged with ASX in relation to the Company before the issue of this Offer Document); and
- (b) all continuous disclosure notices given by the Company after the lodgement of the annual financial report referred to in paragraph (a) above and before the lodgement of this Offer Document with ASX being:

Date	Detail
02/10/2017	White diamond achieves a sale price of USD\$11,987 per carat
04/10/2017	Tomra XRT Machine purchased
05/10/2017	Appendix 3B – New Issue Announcement
09/10/2017	Announcement of rights issue
24/10/2017	Appendix 3B - Quarterly Report
25/10/2017	Notice of Annual General Meeting
25/10/2017	Substantial shareholder notice from Gutnick Group
27/10/2017	Appointment of senior diamond advisor, and mine manager and auditor

1.16 Interests of Directors

At the date of this Offer Document, no Director has a relevant interest in the Shares of the Company other than Mr M Z Gutnick who has a relevant interest in 3,153,846 shares and 1,500,000 options, Mr H Herzog who has a relevant interest in 4,062,500 options and Dr DS Tyrwhitt who has an interest in 500,000 options.

The Directors' remuneration paid for the financial year ended 30 June 2017 is contained in the Company's annual report released to the ASX on 28 September 2017.

1.17 Privacy Disclosure

By filling out an Entitlement and Acceptance Form to apply for New Shares, you are providing personal information to the Company through the Registry, which is contracted by the Company to manage Applications. The Company, and the Registry on its behalf, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's members, agents and service providers on the basis that they deal with such information appropriately. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

The Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register of members. If you do not provide all the information requested, your Entitlement and Acceptance Form may not be able to be processed.

The information contained in the Company's register of members must remain there even if that person ceases to be a Shareholder. Information contained in the register of members is also used to facilitate corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements.

You may request access to your personal information held by or on behalf of the Company. A fee may be charged for access. You can request access to your personal information by writing or telephoning the Registry.

1.18 Enquiries concerning Offer Document

Enquiries concerning the Entitlement and Acceptance Form can be obtained by contacting Link Market Services by telephone on 1300 857 499. Enquiries relating to this Offer Document should be directed to the Company Secretary by telephone on (03) 8532 2858.

1.19 Withdrawal of the Offer

The Company reserves the right not to proceed with the Offer and may withdraw the Offer at any time before settlement of the Offer. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded.

1.20 Ineligible Shareholders

The Company is of the view it is unreasonable to make the Offer under this Offer Document to Ineligible Shareholders having regard to:

- a) the number of Ineligible Shareholders in each place where New Shares would otherwise be offered;
- b) the number and value of New Shares that would otherwise be offered to Ineligible Shareholders in those places; and

- c) the cost of complying with the laws and requirements of regulatory authorities of the places where Ineligible Shareholders are located and New Shares would otherwise be offered.

Accordingly, the Offer is not being extended to, and does not qualify for distribution or sale by, and no New Shares will be issued to, Shareholders having registered addresses outside Australia and New Zealand.

1.21 Tax implications

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of the Company undertaking the Offer or Shareholders applying for New Shares under this Offer Document, as it is not possible to provide a comprehensive summary of the possible taxation positions of Shareholders.

The Company makes no representation and provides no advice in relation to the tax consequences for any Shareholder taking up their Entitlements under the Rights Issue. Therefore, the Company, its advisers and officers do not accept any responsibility or liability for any taxation consequences to Shareholders in the Offer. Shareholders and Option holders (if applicable) should seek professional taxation advice about the tax consequences of taking up their Entitlements.

Section 2 ACTION REQUIRED BY SHAREHOLDERS

2.1 The Offer

The Offer is being made as a non-renounceable entitlement issue of two (2) New Shares for every five (5) Shares held by Shareholders registered at the Record Date at an issue price of \$0.005 per Share. Fractional entitlements will be rounded down to the nearest whole number.

Based on the capital structure of the Company as at the date of this Offer Document and assuming all Entitlements are accepted, a maximum of 649,420,066 New Shares will be issued pursuant to this Offer to raise \$3,247,100 before costs of the issue.

The number of New Shares offered under this Offer Document may vary depending on whether any options are exercised or any convertible notes are converted prior to the Record Date.

All of the New Shares offered under this Offer Document will rank equally with the Shares on issue at the date of this Offer Document. Please refer to Section 1.6 for further information regarding the rights and liabilities attaching to the Shares.

The purpose of the Offer and the intended use of funds raised are set out in section 1.4 of this Offer Document.

Shareholders who are entered on the Register at 7pm on the Record Date (25 October 2017) and who have a registered address in Australia or New Zealand are eligible to participate in the Offer.

The Offer is not being extended to any Shareholder with a registered address outside Australia or New Zealand. The Company has determined that making the Offer to Shareholders with a registered address outside Australia or New Zealand is not reasonable in the circumstances, taking into account the small number of Shareholders resident outside Australia and New Zealand and the number and value of New Shares that would have been offered to those Shareholders.

2.2 What Eligible Shareholders may do?

The number of New Shares to which Eligible Shareholders are entitled is shown on the accompanying personalised Entitlement and Acceptance Form. Eligible Shareholders may:

- (a) take up all of their Entitlement (refer to section 2.3);
- (b) take up all of their Entitlement and apply for Additional Shares under the Shortfall Offer (refer to Section 2.8);
- (c) take up a proportion of their Entitlement and allow the balance to lapse (refer to section 2.4); or
- (g) allow all or part of their Entitlement to lapse (refer to section 2.5).

2.3 Acceptance of your maximum entitlement under this Offer Document

To take up all of your entitlement to New Shares, you will need to ensure your Application and Application Money for the Entitlements you wish to take up is received by the Registry by no later than 5:00pm (AEDT) on 28 November 2017.

2.4 Acceptance of part of your maximum entitlement under this Offer Document and allow the balance to lapse

You may wish to subscribe for only part of your entitlement to New Shares in which case you will need to ensure your Application and Application Money for the Entitlements you wish to take up is received by 5:00pm (AEDT) on 28 November 2017.

If you wish to allow the balance of your entitlement to New Shares to lapse, you do not need to do anything further.

2.5 Allow all of your entitlement to lapse

If you do not wish to accept any part of your entitlement, do not take any further action and your entitlement will lapse. By not taking any action and not taking up your entitlement your shareholding in the Company will be diluted.

2.6 Implications of an acceptance

Returning a completed Entitlement and Acceptance Form or paying any Application Monies by BPAY® will be taken to constitute a representation by you that:

- (a) you have received a copy of this Offer Document and the accompanying Entitlement and Acceptance Form, and read them both in their entirety;
- (b) you acknowledge that once the Entitlement and Acceptance Form is returned, or a BPAY® payment instruction is given in relation to any Application Monies, the application may not be varied or withdrawn except as required by law and will form a binding offer to acquire New Shares on the terms and conditions set out in this Offer Document.

Applicants for New Shares agree to be bound by the Constitution.

If the Entitlement and Acceptance Form is not completed correctly it may still be treated as a valid Application for New Shares. The Directors' decision whether to treat an acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

By completing and returning your personalised Entitlement and Acceptance Form with the requisite Application Monies or making a payment by BPAY®, you will also be deemed to have acknowledged, represented and warranted on behalf of each person on whose account you are acting that you are an Eligible Shareholder.

2.7 Payment methods

2.7(a) Payment by cheque

Please complete the Entitlement and Acceptance Form for all or the part of your Entitlement you wish to subscribe for, according to the instructions on the form by filling in the details in the spaces provided. Attach a cheque for the application monies indicated on the Entitlement and Acceptance Form.

Completed Entitlement and Acceptance Forms must be accompanied by a cheque drawn on an Australian bank or bank draft made payable in Australian currency, crossed "Not Negotiable" and made payable to "Merlin Diamonds Limited Entitlements Offer" and received at any time after the Opening Date and on or before the Closing Date at the Company's share registry (by delivery or by post) at:

By delivery: Merlin Diamonds Limited
C/- Link Market Services
1A Homebush Bay Drive
Rhodes NSW 2138

By Post: Merlin Diamonds Limited
C/-Link Market Services
Locked Bag A14
Sydney South NSW 1235

Your completed Entitlement and Acceptance Form and payment must be received by the Registry no later than 5:00pm (AEDT) on the Closing Date.

Cash payments will not be accepted and receipts for payments will not be provided.

2.7(b) Payment by BPAY®

For payment by BPAY®, please follow the instructions on the Entitlement and Acceptance Form. You can only make a payment via BPAY® if you are the holder of an account with an Australian financial institution that supports BPAY® transactions. Please note that should you choose to pay by BPAY®:

- a) you do not need to submit the Entitlement and Acceptance Form but are taken to have made the declarations on that Entitlement and Acceptance Form; and

- b) if you do not pay for your Entitlement in full, you are deemed to have taken up your Entitlement in respect of such whole number of Shares which is covered in full by your application monies.

Make sure that you use the specific Biller Code and unique Customer Reference Number (**CRN**) on your personalized Entitlement and Acceptance Form.

If you have more than one shareholding of Shares and consequently receive more than one Entitlement and Acceptance Form, when taking up your Entitlement in respect of one of those Shareholdings only use the CRN specific to that Shareholding as set out in the applicable Entitlement and Acceptance Form. Do not use the same CRN for more than one of your Shareholdings. This can result in your Application Monies being applied to your Entitlement in respect of only one of your Shareholdings (with the result that any application in respect of your remaining Shareholdings will not be valid).

It is your responsibility to ensure that your BPAY® payment is received by the share registry by no later than 5:00pm (AEDT) on the Closing Date. You should be aware that your financial institution may implement either cut-off times with regards to electronic payment and you should therefore take this into consideration when making payment.

Any application monies received for more than your final allocation of Shares (only here the amount is \$1.00 or greater) will be refunded. No interest will be paid on any application monies received or refunded.

2.8 Shortfall Offer

Shareholders who subscribe for their full Entitlement may apply for Additional Shares in excess of their Entitlement, at the Offer Price. Shareholders wishing to do so must complete a Shortfall Application Form, which must be received together with payment in accordance with section 2.7 by the Registry no later than 5.00pm (AEDT) on the Closing Date.

The offer of the Shortfall is a separate offer pursuant to this Offer Document. Shares not taken up by Eligible Shareholders will form part of the Shortfall Offer. The issue price of any Additional Shares offered pursuant to the Shortfall Offer will be \$0.005 each, which is the issue price at which the Offer has been made to Eligible Shareholders. Shareholders who apply for 100% of their entitlement are able to apply for Additional Shares to be issued from any shortfall at the Issue Price subject to their holding not exceeding 20% of the number of shares on issue after the completion of the Offer.

Any shortfall under the Offer will first be satisfied by allocations made by the Board to Shareholders who subscribe for Additional Shares in excess of their Entitlement, and then under the underwriting arrangements.

The allocation of Additional Shares will be subject to availability and any scale back will be applied by the Company at its discretion.

Additional Shares will only be issued if the New Shares under the Entitlements Offer are not taken up in full. If the Company receives applications for Additional Shares that would result in the Entitlements Offer being oversubscribed, the Company will scale back applications received for Additional Shares on a pro-rata basis having regard to the number of Additional Shares applied for by each Eligible Shareholder.

In the event of an application for Additional Shares not being accepted, including because of a scale back, the application monies received for an unsuccessful application for Additional Shares (or the applicable portion if the application is partly successful) will be refunded to the applicant, without interest, as soon as practicable.

No Additional Shares will be issued to an applicant if to do so would, to the extent of the knowledge of the Company, result in a breach of the ASX Listing Rules or the restrictions on obtaining or increasing relevant interests of greater than 20% of the Company's issued voting shares under Chapter 6 of the Corporations Act or would otherwise be contrary to the Corporations Act or the ASX Listing Rules.

If a Shareholder subscribes for Additional Shares in excess of their Entitlement and the application is not allocated in full, the excess Application Money received will be refunded, without interest.

2.9 Brokerage and stamp duty

No brokerage or stamp duty is payable to accept your entitlement.

Section 3 EFFECTS OF THE OFFER ON THE COMPANY

3.1 Principal effects

The principal effects of the Offer (assuming full subscription) are:

- a) the total number of Shares on issue will increase by 649,420,066; and
- b) the Company's cash funds will increase by approximately \$3,247,100, less expenses of the Offer, which are estimated to be approximately \$55,600.

The number of New Shares offered under this Offer Document may vary depending on whether any options are exercised or any convertible notes are converted prior to the Record Date.

3.2 Effect on capital structure

The pro-forma capital structure of the Company following the Offer pursuant to this Offer Document is set out below:

Share Capital	Number
Ordinary shares on issue at the date of this Offer Document	1,777,707,403
Shares pursuant to the Offer	<u>649,420,066</u>
Shares on issue after the Offer	<u>2,427,127,469</u>

The following table provides information on the effect on the ordinary shares of the Company if options and convertible notes are exercised/converted (assuming all Shares offered pursuant to the offer are taken up).

If all options on issue after the issue contemplated by this Offer Document are exercised into shares	<u>3,368,600,991</u>
If all unlisted convertible notes on issue after the issue contemplated by this Offer Document are exercised into shares	<u>2,916,614,453</u>
If all options and unlisted convertible notes on issue after the issue contemplated by this Offer Document are exercised into shares	<u>3,858,087,975</u>

3.3 Effect on financial position

	30 June 2017 \$	Adjustments	30 June 2017 Proforma \$
Assets			
<i>Current Assets</i>			
Cash and cash equivalents	16,402	3,191,500	3,207,902
Trade and other receivables	219,999	-	219,999
Inventories	1,469,559	-	1,469,559
Total current assets	1,705,960	3,191,500	4,897,460
<i>Non-Current Assets</i>			

Other receivables	778,548	-	778,548
Plant and equipment	1,239,473	-	1,239,473
Development expenditure	4,961,318	-	4,961,318
Total non-current assets	6,979,339	-	6,979,339
Total Assets	8,685,299	3,191,500	11,876,799
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables	4,669,055	-	4,669,055
Borrowings	211,833	-	211,833
Derivative liability - convertible note	1,480,319	-	1,480,319
Provisions	113,999	-	113,999
Total current liabilities	6,475,206	-	6,475,206
<i>Non-Current Liabilities</i>			
Convertible notes at fair value through profit or loss	2,184,389	-	2,184,389
Provisions	1,622,377	-	1,622,377
Total non-current liabilities	3,806,766	-	3,806,766
Total Liabilities	10,281,972	-	10,281,972
Net Assets/(Liabilities)	(1,596,673)	3,191,500	1,594,827
Equity			
Contributed equity	156,182,778	3,236,500	159,419,278
Reserves	622,160	-	622,160
Accumulated losses	(158,401,611)	(45,000)	(158,446,611)
Total equity/(deficiency)	(1,596,673)	3,191,500	1,594,827

3.4 Effect on control

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:

- a) 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;

- b) 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
- c) 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
Edensor 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			497,667,705	20.50

up shares pursuant to its Entitlement				
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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 under this Offer Document is 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 c) 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%.

Section 4 RISK FACTORS

The New Shares offered under this Offer Document are considered speculative.

The Directors strongly recommend Eligible Shareholders examine the contents of this Offer Document and consult their professional advisers before deciding whether to apply for the New Shares pursuant to this Offer. In addition, Eligible Shareholders should be aware that there are risks associated with an investment in the Company. There are certain risks which relate directly to the Company's business and are largely beyond the control of the Company and its Directors because of the nature of the business of the Company. The Company gives no assurances or guarantees of future performance or profitability, or payment of dividends.

Additionally, the Company gives no assurances or guarantees that the risks set out in this document will not change. There may be other material risks which are not disclosed in this document because they are not known by the Company or were not considered to be material at the date of this Offer Document.

This section does not take into account the investment objectives, financial circumstances or particular needs of shareholders. It is important that shareholders carefully read this Offer Document in its entirety (particularly the risks set out in this Section, consider their personal circumstances (including financial and taxation issues) and seek independent professional advice before deciding whether to subscribe for shares.

The following summary, which is by no means exhaustive, represents some of the risk factors that are applicable to the Company:

- **Mining Company**

The Company is a mining company. Investment in a mining company is high risk. The success of the Company is dependent upon the successful exploitation of our mining activities. The Company can give no guarantees the mining operations will be successful.

- **Operating Risks**

The current and future operations of the Company, including exploration, project appraisal and possible production activities may be affected by various factors which can limit or prevent such activities. Such factors may include failure to locate or identify mineral deposits, failure to achieve predicted grades in exploration and mining, operational and technical difficulties encountered in surveying, drilling, other exploration activities and/or production activities, difficulties in commissioning and operating plant and equipment, electrical or mechanical failure or plant breakdown, unanticipated metallurgical problems which may affect extraction costs, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of skilled labour, consumables, spare parts, plant and equipment.

- **Resource Estimates**

Resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis the estimates are likely to change. This may result in alterations to development and mining plans which may, in turn, adversely affect the Company's operations and the value of the Share.

- **Commercial Risk**

The mining industry is competitive and there is no assurance that, even if commercial quantities of minerals are discovered by the Company on its current projects or future projects it may acquire an interest in, a profitable market will exist for sales of such minerals. There can be no assurance that the quality of any such minerals will be such that they can be mined economically.

- **Commodity Price Volatility and Exchange Rate Risks**

If the Company achieves success leading to mineral production, the revenue it will derive through the sale of diamonds or any other minerals it may discover exposes the potential income of the Company to commodity price and exchange rate risks. Commodity prices fluctuate and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations, technological advancements, forward selling activities and other macro-economic factors such as inflation expectations, interest rates and general global economic conditions.

Furthermore, international prices of various commodities are denominated in United States dollars whereas the income and expenditure of the Company are and will be taken into account in Australian currency. This exposes the Company to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

If the price of commodities declines this could have an adverse effect on the Company's exploration, development and possible production activities, and its ability to fund these activities, which may no longer be profitable.

- **Insurance Risks**

Mining involves hazards and risks that could result in the Company incurring losses or liabilities that could arise from its operations. If the Company incurs losses or liabilities which are not covered by its insurance policies, the funds available for exploration and development will be reduced and the value and/or title to the Company's assets may be at risk.

- **Tenement assets**

The Company has a very large land position covered by mining and exploration licences. The continued success of the Company is tied to maintaining those tenements through continued committed mining, exploration spending and land administration. This requires available funds and sound systems and processes to operate as planned.

- **Future Capital requirements**

The available funds of the Company may not be sufficient to cover expenditure that may be required to execute the projects or planned operations of the Company or to expand its operations or projects or for other capital expenditure, further exploration or feasibility studies or otherwise in the Company's operations. The Company may need to raise additional equity or debt funds in the future to finance these activities and requirements. There is no assurance that the Company will be able to obtain additional financing when required in the future, or that the terms and time frames associated with such funding will be acceptable to the Company, particularly having regard to the current uncertain economic environment and the effect that metal prices may have on future production and earnings performance. This may have an adverse effect on the Company's ability to achieve its strategic goals and have a negative effect on its financial results.

- **Native title**

The Company's mineral tenements and other entitlements to property and minerals may be affected by native title claims, unregistered agreements, transfers or unknown defects in title. Native title claims and Aboriginal heritage issues may have a material adverse impact on the Company's activities and may hinder or prevent its exploration and future mining activities or increase the cost of those activities.

- **Health and safety**

The businesses of the Company are subject to strict health safety and safety laws and regulations. The Company may become liable for past and current conduct of which violates such laws and regulations. Penalties for breaching health and safety laws can be significant and include criminal penalties.

Victims of workplace accidents may also commence civil proceedings against the Company. These events might not be insured by the Company or may be uninsurable. In addition, any changes in health and safety laws and regulations may increase compliance costs for the Company. Such an event would negatively impact the financial results of the Company.

- **Regulatory and legislative**

Any changes in the laws and regulations under which the Company operates may adversely impact the Company's activities, planned projects and financial results. These laws and regulations include mining and exploration-related laws, laws requiring permits and licences, environmental regulations and health and safety laws and regulations. In the Company's experience changes in legislation have generally produced more regulatory requirements resulting in increased compliance costs for the Company.

- **Environment**

Mining and exploration activities are strictly regulated by environmental legislation and government authorities. There is a risk that environmental regulation may prevent or impede the Company's activities. It is possible that environmental approvals for the Company's projects are not granted or are delayed. If this occurred it may materially affect the Company's ability to develop its projects and therefore its investment outlook.

- **Changes in legislation and Government regulation**

Changes to legislation or government policy in Australia and in other major economic countries may affect future earnings and the relative attractiveness of investing in the Company.

- **Economic Conditions**

Economic conditions in Australia and globally, may affect the performance of the Company. Factors such as currency fluctuations, inflation, interest rates, supply and demand and industrial disruption may have an impact on operating costs and share market prices. The Company's future securities price may be affected by these factors, all of which are beyond the control of the Company or its Directors.

Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company. In addition, the Company's ability to raise additional capital, should it be required, may be affected.

- **General**

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the mining and resources industry, including, but not limited to, the following:

- the strength of the equity and share markets in Australia and throughout the world;
- general economic conditions in Australia and its major trading partners and, in particular, inflation rates, interest rates and industrial disruptions;
- insolvency or other managerial failure by any of the contractors used by the Company in its activities; and
- changes in government, monetary policies, taxation and other laws can have a significant influence on the outlook for companies and the returns to investors.

Risks associated with the Entitlements Offer

- **Dilution**

The Entitlements Offer will result in the issue of New Shares. If you do not participate in the Entitlements Offer or you do not take up your full Entitlement, your percentage holding in the Company (held at the Record Date) may be reduced, by the take up of New Shares by other shareholders and investors. The extent of dilution will depend upon the extent to which the Offer is taken up, resulting in an increase in the Company's issued share capital.

- **Share price**

Post this Entitlements Offer, there is no certainty that the Company will achieve an improvement of its share price. Due to the occurrence of adverse changes in the business or unforeseen circumstances, or general market conditions, the Company's Shares may depreciate in value.

- **Unforeseen Expenditure Risk**

Expenditure may need to be incurred that has not been considered in this Offer Document. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred this may adversely affect the expenditure proposals and activities of the Company, as the Company may be required to reduce the scope of its operations and scale back its exploration programmes. This could have a material adverse effect on the Company's activities and the value of the Share.

Section 5 ADDITIONAL INFORMATION

5.1 Continuous disclosure obligations

The Company is a "disclosing entity" under the Corporations Act and is subject to the regime of continuous disclosure and periodic reporting requirements. Specifically as a listed company, the Company is subject to the Listing Rules, which require continuous disclosure to the market of any information possessed by the Company, which a reasonable person would expect to have a material effect on the price or value of its securities.

In preparing this Offer Document regard has been had to the fact the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers who investors may consult. No person is authorised to give any information or to make any representation in connection with the Offer described in this Offer Document. Any information or representation which is not contained in this Offer Document or disclosed by the Company pursuant to its continuous disclosure obligations may not be relied upon as having been authorised by the Company in connection with the issue of this Offer Document.

5.2 Interests

Except as disclosed above or elsewhere in this Offer Document, no:

- Director or proposed Director;
- person who is named in this Offer Document and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Offer Document;
- promoter of the Company; or
- underwriter of the Offer,

holds at the time of lodgement of the Offer Document with ASX, or has held in the two years before lodgement of this Offer Document with ASX, an interest in:

- the formation or property of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

5.3 Determination by ASIC

ASIC has not made a determination under Section 713(6) of the Corporations Act which would prevent the Company from issuing an Offer Document under section 713 of the Corporations Act.

5.4 Litigation and Claims

As far as the Directors are aware, there are no current or threatened civil litigation, arbitration proceedings or administrative actions or appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

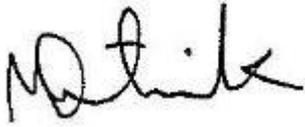
5.5 Governing Law

This Offer Document and the contracts that arise from the acceptance of Applications are governed by the law applicable in Victoria and each Applicant submits to the non-exclusive jurisdiction of the courts of Victoria.

Section 6 AUTHORITY OF DIRECTORS

Each of the Directors of Merlin Diamonds Limited has consented to the issue of this Offer Document and to its lodgement with ASX and has not withdrawn that consent in accordance with the Corporations Act.

Dated 27 October 2017

A handwritten signature in black ink, appearing to read 'M. Gutnick', written in a cursive style.

Signed for and on behalf of Merlin Diamonds Limited
by Mordechai Gutnick.

Section 7 DEFINED TERMS

Act or **Corporations Act** means Corporations Act 2001 (Cth).

Additional Shares means Shares issued under the Shortfall Offer (refer to Section 2.10).

AEDT means Australian Eastern Standard Time.

Applicant refers to a person who submits an Entitlement and Acceptance Form.

Application refers to the submission of an Entitlement and Acceptance Form.

Application Moneys means the amount payable with an Application.

ASIC means Australian Securities and Investment Commission.

ASX means ASX Limited (ACN 008 624 691) or, where the context permits, the Australian Securities Exchange operated by ASX Limited.

Closing Date means 5.00pm AEDT 28 November 2017.

Company and **Merlin Diamonds** means Merlin Diamonds Limited ACN 009 153 119 and where appropriate its subsidiaries.

Directors means the directors of the Company.

\$ or **¢** means the lawful currency of Australia.

Eligible Shareholder" means a Shareholder whose details appear on the Company's register of Shareholders as at the Record Date who is not a Non-qualifying Shareholder.

Entitlement means an Eligible Shareholder's entitlement to subscribe for one New Shares for every one Share held on the Record Date.

Entitlement and Acceptance Form" means the Entitlement and Acceptance Form accompanying this Offer Document.

Ineligible Shareholders means a Shareholder who is not an Eligible Shareholder.

Issuer Sponsored means the facility for registration of shares managed by the share registry on behalf of the Company.

Listing Rules means the Listing Rules of the ASX.

New Shares means a New Shares proposed to be issued pursuant to this Offer.

Non-qualifying Shareholder means a Shareholder as at the Record Date whose registered address is not situated in Australia or New Zealand.

Offer and **Entitlements Offer** means the non-renounceable pro rata offer of New Shares at an issue price of \$0.005 each on the basis of one New Shares for every Share held on the Record Date pursuant to this Offer Document.

Option means an option to acquire a Share.

Offer Document means this Replacement Offer Document.

Opening Date means 16 November 2017.

Record Date means 13 November 2017.

Registry means Link Market Services Limited

Section means a section of this Offer Document.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of Shares.

Shortfall Application Form means the Shortfall Application Form accompanying this Offer Document.

Shortfall Offer means the offer of Additional Shares (refer to section 2.8).

VWAP means the volume weighted average price.