



28 February 2017

Dear Shareholder

**NON-RENOUNCEABLE ENTITLEMENT ISSUE – APPENDIX 3B NOTICE**

On 3 February 2017, Merlin Diamonds Limited (ASX:MED) (**Company**) provided an update to the Australian Securities Exchange (**ASX**) on its proposed pro-rata non-renounceable Entitlement Issue of 1 fully-paid new ordinary share (**New Share**) for every 2 shares in the Company held by shareholders at 6 March 2017 (**Record Date**) at an issue price of \$0.013 per New Share with 1 free attaching option, having an exercise price of \$0.013 and an expiry date of 4 years from the issue date (**New Options**), for every 2 New Shares purchased by each shareholder (**Offer** or **Entitlement Issue**). New Shares issued under the Entitlement Issue will rank equally with all ordinary shares of the Company.

On 28 February 2017 the Company lodged the Prospectus for the Entitlement Issue and on 28 February 2017 applied to the ASX for quotation of the New Shares and New Options.

In addition to the Offer, the Company is offering a Shortfall Facility under which shareholders may apply for New Shares and New Options in excess of their pro-rata entitlement. The issue of New Shares and New Options under the Shortfall Facility will be dependent on there being a shortfall in the purchase of pro-rata entitlements by shareholders under the Entitlement Issue and at the discretion of the Board.

The offer is fully underwritten by Triple C Consulting Pty Ltd. The terms of the underwriting arrangements are set out in the Prospectus for the Offer (**Prospectus**). The Offer is non-renounceable, meaning that the Entitlement Issue may only be taken up or forfeited, and cannot be transferred or traded on the market.

Please note that the Company's shares will be quoted on an "ex" entitlement basis from 3 February 2017 (**Ex-Date**). Shares bought on market on or after the Ex-Date will not be entitled to participate in this Entitlement Issue.

The Company expects that 425,897,368 New Shares and 212,948,684 New Options will be issued under the Offer, and 20,000,000 New Shares and 10,000,000 New Options will be issued to the Underwriter being the success fee (refer section 1.8 of the Prospectus) immediately after the completion of the Entitlement Issue such that 1,285,256,200 shares, 2,755,866 unlisted convertible notes, 1,952,773 unlisted notes, 222,948,684 quoted options (the Company intends to apply to ASX for quotation of the options immediately after the issue and is not aware of any reason why ASX will not grant quotation to the options) and 373,747,486 unlisted options will be on issue following the Offer after taking into account the shares and options to be issued to the underwriter.

The purpose of the Offer is to raise funds for the Merlin mining operations, Merlin mining capital, corporate costs and general working capital and to pay the costs of the Offer.

Shareholders who wish to participate in the Entitlement Issue are required to complete the personalised Entitlement and Acceptance Form that will accompany the Prospectus.

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A copy of the Prospectus and personalised Entitlement and Acceptance Form will be accessible in accordance with the following timetable:

<b>Event</b>	<b>Date</b>
Prospectus lodgement date	28 February 2017
Dispatch of notices to Eligible Shareholders informing them of the Offer and details of Appendix 3B	2 March 2017
Shares trade "Ex"	3 March 2017
Record Date (date for determining entitlements of Eligible Shareholders to participate in the Offer) (7pm AEDT)	6 March 2017
Offer opens – Prospectus dispatched to Eligible Shareholders (expected date of dispatch of Prospectus and Entitlement and Acceptance Forms)	9 March 2017
Last day to extend Offer closing date	15 March 2017
Closing Date (5pm AEDT)	20 March 2017
Shares quoted on a deferred settlement basis	21 March 2017
Merlin notifies ASX of under subscriptions	23 March 2017
Issue of New Shares and attaching Options	23 March 2017
Dispatch of Holding Statements & Deferred Settlement ends. Last day for advising ASX of all information required by Appendix 3B	24 March 2017
Trading of New Shares and attaching Options to commence on ASX	24 March 2017

The dates and times in this timetable are indicative only and may be changed subject to the Company complying with the requirements of the *Corporations Act 2001 (Cth)* and the ASX Listing Rules.

It is recommended that all shareholders wishing to participate in the Entitlement Issue carefully consider the Prospectus and seek independent professional advice.

Should you have any queries regarding the Entitlement Issue or the Offer, please contact our share registrar, Link Market Services Limited on 1300 857 499.

Yours sincerely,



PETER LEE  
Company Secretary

