ANNEXURE C

AUSTRALIAN TAXATION CONSIDERATIONS

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The Directors
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Dear Directors

OFF- MARKET TAKEOVER OF MERLIN DIAMONDS LIMITED ('MERLIN') BY BLUMONT GROUP LIMITED ('BLUMONT')

Following are our comments for inclusion in a Bidder's Statement in relation to the tax consequences for shareholders in Merlin ('Merlin Shareholders') who accept the offer ('the Offer'). The facts in this matter are summarised in the Investigating Accountant's Report and we have relied on these in preparing our comments.

1 TAX CONSIDERATIONS

1.1 Introduction

The information contained in this Section is general in nature and should not be relied upon by Merlin Shareholders as tax advice. This Section is not intended to be an authoritative or complete statement of the taxation law applicable to the particular circumstances of every Merlin Shareholder.

This Section reflects the tax law in effect in Australia as at the date of this letter. It does not take into account or anticipate any changes in taxation law, nor does it take into account the tax law in any other country except Australia.

Any information in this section does not constitute tax advice. Merlin Shareholders should obtain their own professional advice on the taxation consequences of disposing of their Merlin Shares under the Offer.

This Section does not consider the Australian tax consequences for Merlin Shareholders who:

- hold their Merlin Shares as trading stock or as revenue assets; or
- hold their Merlin Shares as part of a profit making undertaking or plan.

Acceptance of the Offer will involve the disposal by Merlin Shareholders of Merlin Shares to Blumont which may give rise to a capital gains tax event (**CGT Event**) for Australian (tax resident) Merlin Shareholders. The **CGT Event** will generally happen at the time Australian Merlin Shareholders accept the Offer to transfer their Merlin Shares to Blumont.

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However this may not be so in all cases and each shareholder should confirm their position with an appropriate advisor.

Australian Merlin Shareholders will make a capital gain if the capital proceeds received are greater than the cost base (or indexed cost base as referred to below) of those shares.

The capital proceeds on the disposal of Merlin Shares under the transaction will, for each Merlin Shareholder, be the value of the Blumont shares issued to the Merlin Shareholder.

The cost base of the Merlin Shares in the hands of the Merlin Shareholders will, broadly, be the original amount paid to acquire those Merlin Shares and any incidental costs incurred in acquiring or disposing of the shares.

1.2 Australian Tax Implications

(a) Duty

No transfer duty should be payable by Merlin Shareholders on the disposal of their Merlin Shares pursuant to the Offer.

(b) GST

No GST will be payable by Merlin Shareholders in respect of the disposal their Merlin Shares pursuant to the Offer.

Merlin Shareholders may however be subject to GST on costs that relate to their participation in the transaction (such as advisor fees). Merlin Shareholders may be entitled to full or partial input tax credits for any GST payable on such costs, but this will depend on the Merlin Shareholder's individual circumstances.

Merlin Shareholders should seek independent advice in this regard.

(c) Capital Gains Tax

The disposal of Merlin Shares will (an exception is explained under Scrip for Scrip Rollover) gives rise to a **CGT Event** for Merlin Shareholders.

(i) Shares acquired (or deemed to be acquired) on or after 20 September 1985

Merlin Shareholders who acquired (or are deemed to have acquired) their Merlin Shares on or after 20 September 1985 may be entitled to reduce any capital gain on the disposal of their Merlin Shares by applying the CGT discount (discussed below). Alternatively they may be able to calculate any capital gain by adjusting (discussed below) the cost to account for movements in the Consumer Price Index ('CPI').

(ii) Indexation

Where Merlin Shares were acquired (or are deemed to have been acquired) by Merlin Shareholders on or after 30 September 1985 and at or before 11.45am on 21 September 1999 the cost base of the Merlin Shares may be increased for indexation based on the CPI movement from the date of acquisition to 30 September 1999.

This indexation can be applied by Merlin Shareholders that are companies and have held their Merlin Shares for at least 12 months. These taxpayers would not be entitled to any general discount.

Merlin Shareholders that are individuals, trusts or complying superannuation funds that have held Merlin Shares prior to 11.45am on 21 September 1999 can choose to apply either the cost base indexation or the CGT discount in calculating their net capital gain from the disposal of their Merlin Shares.

Where Merlin Shareholders acquired (or are deemed to have acquired) their Merlin Shares after 11.45am on 21 September 1999, they cannot apply indexation to the cost base of the Merlin Shares.

(iii) Capital Gains Tax discount

The capital gains tax discount should be available to Merlin Shareholders who are individuals, trusts or complying superannuation funds, who have held their Merlin Shares for at least 12 months before the disposal under the transaction and who hold their shares as a capital asset.

Broadly, the capital gains tax discount provisions enable the Merlin Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 1/3% for complying superannuation funds.

The capital gains tax discount is not available to Merlin Shareholders that are companies or for Merlin Shareholders who have chosen to apply the indexation method to the cost base of their Merlin Shares.

If the Merlin Shares are held for less than 12 months the discount would not apply to any capital gain.

(d) Capital losses

Any capital loss may be used to offset any capital gains derived by the Merlin Shareholder for the relevant year of income, or may be carried forward to offset against capital gains in future income years.

Specific loss recoupment rules apply to trusts and companies to restrict their ability to utilise capital losses in future years. Merlin Shareholders should seek their own tax advice in relation to the operation of these rules.

(e) Shares acquired before 20 September 1985

A Merlin Shareholder acquired their Merlin shares before 20 September 1985 (and is not deemed under the income tax law to have acquired them on or after that date) should seek their own legal advice.

1.3 Scrip for Scrip Rollover

Deferral of a taxable capital gain that would otherwise arise as described above may be available. If applicable no taxable gain will arise as a consequence of acceptance of the Offer, and the tax consequences will be determined when the Blumont shares are dealt with (subject to further rollover concessions).

The basic requirements for an Australian resident Merlin Shareholder to be able to choose roll-over are:

- Merlin shares are exchanged for Blumont shares.
- A capital gain would have been made if roll-over wasn't chosen.
- The Merlin shareholder chooses to take roll-over.
- Blumont ultimately acquires at least 80% of Merlin's issued shares.

Subject to satisfying the conditions, scrip for scrip relief under Subdivision 124-M of the *Income Tax Assessment Act 1997* may be available to the Merlin Shareholders that are Australian resident taxpayers. A shareholder who derives a taxable capital gain can choose to apply the provisions. The choice is only available where a gain would have otherwise been made and cannot be made where a capital loss is incurred.

Merlin Shareholders who are not Australian tax residents may be able to choose the roll-over but only if they would have made a taxable capital gain. Non-resident Merlin Shareholders would only make a taxable capital gain under the arrangement if:

- They hold a 10% or greater interest in Merlin (either directly or indirectly)
- More than 50% of Merlin's assets are Australian real property

Australian real property is:

- Real property situated in Australia
- A mining, quarrying or prospecting right in respect of minerals, petroleum or quarrying materials situated in Australia.

Merlin' Statement of Financial Position disclosed on their web site shows that the majority of its assets are not taxable Australian real property. Therefore based on the information we have a non-resident will not be able to take advantage of the roll-over option. Page 4 of 5

If the provisions are applicable, and a choice is made to apply them, any capital gain which would otherwise be realised by a Merlin Shareholder would be disregarded for tax

Where the choice is made to apply the scrip v scrip provisions, the Merlin Shareholders' CGT cost base for the shares they receive in Blumont will be the same as the cost base of the shares they previously held in Merlin.

Merlin shareholders who accept the Blumont offer and choose to take advantage of these provisions will need to apportion the cost base of their Merlin shares over the larger number of Blumont shares they receive.

If rollover relief is not available or no choice is made the shareholder will derive an assessable capital gain or incur a loss on disposal of Merlin shares. The capital gain would be calculated as outlined above.

The choice for scrip v scrip rollover is only available where Blumont ultimately acquires at least 80% of the shares in Merlin. We note that the Offer Conditions state the minimum acceptance for the Takeover Offer is 50.1%. Blumont has a holding in Merlin which will be included in the holding required to meet the 80% threshold. Subject to the 80% level being achieved Merlin Shareholders can make their choice at the time they lodge their income tax return for the year in which the Offer is accepted.

Yours sincerely

Syd Jenkins
Moore Stephens