

**MERLIN DIAMONDS LIMITED**  
**ABN 86 009 153 119**

**NOTICE OF GENERAL MEETING**

NOTICE IS HEREBY GIVEN that a General Meeting of Merlin Diamonds Limited (the "Company") will be held at Pullman Albert Park, 65 Queens Road Melbourne Vic 3004 Australia, on 27 September 2018, commencing at 9.00 am for the following purposes:

**AGENDA**

**SPECIAL BUSINESS**

**ORDINARY RESOLUTIONS**

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions.

**1. Approve an Issue of Convertible Notes.**

"To approve the Company, in accordance with ASX Listing Rule 7.1 and for all other purposes, issuing 4,816,696 convertible notes at a price of \$1 per convertible note to the parties or its nominees and on the terms and conditions and in the manner set out in the Explanatory Statement to the Notice of Meeting dated 27 August 2018."

**2 Ratify the Issue of Shares**

"That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, shareholders ratify and approve the issue and allotment of 130,638,082 Shares to the parties set out in the Explanatory Statement, on the terms and conditions and in the manner set out in the Explanatory Statement to the Notice of Meeting dated 27 August 2018."

**3 Ratify the Issue of Convertible Notes**

"That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, shareholders ratify and approve the issue of 600,000 convertible notes at a price of \$1 per convertible note to the parties and on the terms and conditions and in the manner set out in the Explanatory Statement to the Notice of Meeting dated 27 August 2018."

**4 Ratify an issue of Shares.**

"That, for the purpose of ASX Listing Rule 7.4 and for all other purposes, shareholders ratify and approve the issue and allotment of 56,531,261 Shares to the parties set out in the Explanatory Statement, on the terms and conditions and in the manner set out in the Explanatory Statement to the Notice of Meeting dated 27 August 2018."

**5 Approve an issue of Convertible Notes**

"To approve the Company, in accordance with ASX Listing Rules 10.1, 10.11 and for all other purposes, issuing up to 2,500,000 convertible notes at a price of \$1 per convertible note to Edensor Holdings Pty Ltd ATF Prolific Enterprises Trust on the terms and conditions and in the manner set out in the Explanatory Statement to the Notice of Meeting dated 27 August 2018."

By Order of the Board and dated this 27th day of August 2018.



PETER LEE  
Company Secretary

## VOTING EXCLUSION STATEMENT

### Resolution 1

The Company will disregard any votes cast in favour on Resolution 1 by (a) any person who is expected to participate in the issue; any person who may obtain a material benefit; and (b) and associate of that person.

However, the Company need not disregard a vote on the resolution if (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Resolution 2

The Company will disregard any votes cast in favour on Resolution 2 by (a) any person who participated in the issue; any person who may obtain a benefit; and (b) and associate of that person.

However, the Company need not disregard a vote on the resolution if (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Resolution 3

The Company will disregard any votes cast in favour on Resolution 3 by (a) any person who participated in the issue and (b) and associate of that person.

However, the Company need not disregard a vote on the resolution if (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Resolution 4

The Company will disregard any votes cast in favour on Resolution 4 by (a) any person who participated in the issue; any person who may obtain a benefit; and (b) and associate of that person.

However, the Company need not disregard a vote on the resolution if (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Resolution 5

The Company will disregard any votes cast in favour on Resolution 5 by Edensor Holdings Pty Ltd ATF Prolific Enterprises Trust and (b) and associate of that party.

However, the Company need not disregard a vote on the resolution if (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

## NOTES TO THE NOTICE OF GENERAL MEETING

1. A Member entitled to attend and vote at the aforementioned meeting is entitled to appoint not more than two other persons as his/her proxy or proxies to attend and vote, in certain circumstances, instead of the Member at the meeting.
2. If a Member appoints one proxy, that proxy may vote on a show of hands.
3. If a Member appoints two proxies neither may vote on a show of hands. However, if you appoint two proxies to represent you at the Meeting, you must show in the space provided either the percentage of your Shareholding or the number of votes (you are entitled to one vote for each

Share you own upon a poll being declared) those proxies are to represent. If you do not complete this section then each proxy may, on a poll, vote half of your Shareholding. A separate proxy form must be submitted for each proxy you appoint.

4. A proxy need not be a Member of the Company.
5. If you appoint a proxy to represent you and vote on your behalf at the Meeting and that person is also a Member or has already been appointed as a proxy for another Member, your vote may not be counted on a show of hands. This is because, on a show of hands, your proxy's vote is only counted once irrespective of the number of Members that that person represents. However, if a poll is taken and your proxy votes, your vote will be counted in full in reaching a decision.
6. The Proxy Form together with the Power of Attorney (if any) or a certified copy of the Power of Attorney (if any) under which it is signed must be lodged at either Level 12, 680 George Street, Sydney, NSW 2000, mailed to Locked Bag A14, Sydney South, NSW 1235 or the Registered Office of the Company or by being sent by fax to (+61) 02 9287 0309, not less than forty-eight (48) hours before the time of the commencement of the meeting.
7. Signing Proxies
  - (i) Joint Holding - All holders must sign.
  - (ii) Shares in Company Names - Companies must execute this form in the way provided by Law.
  - (iii) Individual - Must be signed by the Member or their attorney.
8. For the purpose of the Meeting, Shares will be taken to be held by the persons who are registered holders at 7pm, on 25 September 2018. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

#### **COMPANY REPRESENTATIVE**

If Shares are held in a company name and it is intended that a representative of the company attend the Meeting rather than lodge a proxy prior to the Meeting, the person attending the Meeting must present authority from the company director/s signed in the way provided by law.

## EXPLANATORY MEMORANDUM TO SHAREHOLDERS

This Explanatory Statement provides shareholders of the Company with information in respect of the resolutions to be considered at the General Meeting of the Company to be held at Pullman Albert Park, 65 Queens Road Melbourne Vic 3004 Australia on 27 September 2018 at 9.00 am. Shareholders should carefully review this Explanatory Statement and the associated Notice of General Meeting (**Notice**) to which this Explanatory Statement is attached.

***If you have difficulty in properly understanding this documentation, you should consult your financial or legal adviser.***

### **RESOLUTION 1. APPROVE ISSUE OF CONVERTIBLE NOTES TO REPLACE EXISTING NOTES.**

#### ***Preamble***

The Company has entered into a secured note deeds (Deeds) with the parties set out in Schedule 1("Noteholders").

The purpose of this resolution is to seek shareholder approval to issue convertible notes to replace the Notes pursuant to the Deeds.

Under the terms of the Deeds, Noteholders have provided \$4,816,696 to the Company to be used for mining operations and working capital purposes. The Company has issued 4,816,696 debt notes ("Notes") to Noteholders. For the purpose of this narrative, Notes also mean convertible notes if shareholder approval is received to change the notes to convertible notes. No further consideration will be received by the Company as a result of this approval. Following shareholder approval, the Notes automatically convert into convertible notes. The Notes accrue interest at 10% per annum which will be paid half yearly in arrears or accrued, and the interest may be converted into ordinary shares. The Notes will be for a period of 2 years and if shareholder approval is received, can be converted at any time at a conversion price of \$0.005 per note; or the 5 day VWAP up to the day prior to conversion, whichever is lower by the holder.

The Deeds also have a requirement that

- I. the Notes may be reconstructed in accordance with the requirements of the Listing Rules in the case of a reorganisation of the Company's ordinary shares on issue
- II. and also state that if prior to the maturity date the Company agrees to issue further convertible notes comprising part of the Notes (or another equity or debt facility) which 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. This requirement creates an uncertainty in the number of shares that may be issued and in accordance with ASX Listing Rules is not allowed. As such, the Company will approach Noteholders to request this requirement be removed from the Deed and the Notes held by any Noteholder who does not agree to the removal shall not have their Notes issued as convertible notes and that Noteholder will continue to hold Notes which are not equity securities. As a result, the conversion price will remain at 0.005 per note; or the 5 day VWAP up to the day prior to conversion, whichever is lower by the holder.

The notes are secured by a charge over the assets of the Company.

ASX Listing Rule 7.1 provides that a company must not, without shareholder approval (but subject to certain exceptions), issue during any 12 month period any equity securities or other securities with

rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. In order to ensure that the Company has the capacity to issue the ordinary shares upon conversion of the convertible notes and accrued interest, which may occur anytime within the term of the convertible note, the Company has decided to seek shareholder approval to the issue of the convertible notes immediately.

### ASX Listing Rule 7.3

ASX Listing Rule 7.1 prohibits a listed company from issuing, or agreeing to issue, equity securities (which includes shares) that exceed 15% of the total number of fully paid ordinary securities on issue in any 12 month period, unless approval is obtained from the holders of the company's ordinary securities. ASX Listing Rule 7.3 provides that the approval of holders of the company's ordinary securities may be obtained to the issue of equity securities. The effect of such ratification is to restore the company's discretionary power to issue further securities up to 15% of the number of fully paid ordinary securities on issue at the beginning of the relevant 12 month period without obtaining shareholder approval.

For the purposes of Australian Stock Exchange ("ASX") Listing Rules 7.3, the Company also advises:

The number of securities to be issued is 4,816,696 convertible notes at a price of \$1 per convertible note. The convertible notes may be converted into ordinary shares at a price of \$0.005 or the 5 day VWAP up to the day prior to conversion, whichever is lower. If all the convertible notes are converted at \$0.005, the Company will issue approximately 963,339,200 ordinary shares. As set out above, the convertible notes accrue interest and the holder may convert the accrued interest into ordinary shares at the conversion price at maturity or when they convert the principal amount into shares. Should all holders convert both principal and accrued interest into shares at \$0.005, the Company will issue a total of approximately 1,156,007,040 shares.

Details of the noteholders are as follows:

Name	Number of Notes	Equivalent Number of Shares	Equivalent Number of Shares inc interest
Fanstar Limited	392,328	78,465,600	94,158,720
Baruch Ostreicher	314,934	62,986,800	75,584,160
Leon Marcel Gotlib	321,303	64,260,600	77,112,720
Shiv Investments SA	317,359	63,471,800	76,166,150
Millet Eli	310,155	62,031,000	74,437,200
Collins St Asset Management Pty Ltd	300,000	60,000,000	72,000,000
Mordel Investments (Mordel Family A/C)	50,000	10,000,000	12,000,000
Jacques Morsel	331,117	66,223,400	79,468,080
37th Olive Branch Pty Ltd <Ruth Super Fund A/C>	50,000	10,000,000	12,000,000
Mosnow Pty Ltd (The Mosnow A/C)	50,000	10,000,000	12,000,000
Intanto Pty Ltd	25,000	5,000,000	6,000,000
CM Super Fund	150,000	30,000,000	36,000,000
Mr Victor Larusso	100,000	20,000,000	24,000,000
Filmrim Pty Ltd <Majufe Super A/C>	191,500	38,300,000	45,960,000
Mr Ronald Bowen & Mrs Agnes Bowen <Candy Super A/C>	25,000	5,000,000	6,000,000
Mr Ronald Bowen & Mrs Karen Bowen <Bowen Super Fund A/C>	25,000	5,000,000	6,000,000

Debo Pty Ltd <Bowen Account>	25,000	5,000,000	6,000,000
Westglade Pty Ltd	20,000	4,000,000	4,800,000
Notegrin	25,000	5,000,000	6,000,000
SGI Pty Ltd <SGI Unit A/C>	25,000	5,000,000	6,000,000
Hoffman Super Fund	40,000	8,000,000	9,600,000
Jetan Pty Ltd ATF GR Plummer Super Fund	100,000	20,000,000	24,000,000
Michael Shirley	25,000	5,000,000	6,000,000
Jetan Pty Ltd	100,000	20,000,000	24,000,000
Tyche Investments Pty Ltd	50,000	10,000,000	12,000,000
Doric Wealth Pty Ltd	100,000	20,000,000	24,000,000
Mr Ben Asher Feilich	15,000	3,000,000	3,600,000
Robbie Hunt	200,000	40,000,000	48,000,000
Baruch Ostreicher	135,000	27,000,000	32,400,000
Claymore Ventures Limited	100,000	20,000,000	24,000,000
WS Fund Pty Ltd <Weonga Super Fund A/C>	25,000	5,000,000	6,000,000
Joluk Investments Pty Ltd	100,000	20,000,000	24,000,000
Bloomgold Resources Pty Ltd	33,000	6,600,000	7,920,000
Exchange Minerals Ltd	250,000	50,000,000	60,000,000
Harshell Investments Pty Ltd (Kaplan family a/c)	100,000	20,000,000	24,000,000
Ledger Holdings Pty Ltd	170,000	34,000,000	40,800,000
IFM	100,000	20,000,000	24,000,000
Cove Street Pty Ltd <The Cove Street A/C>	25,000	5,000,000	6,000,000
Flourish Super Pty Ltd <Flourish S/F A/C>	50,000	10,000,000	12,000,000

1. The conversion price of the convertible notes into ordinary shares will be \$0.005 per note or the 5 day VWAP up to the day prior to conversion, whichever is lower.
2. The convertible notes have not been issued to Noteholders, or its nominee or any assignee.
3. The convertible notes have not been issued to a related party.
4. The date by which the Company will issue the convertible notes are no later than 3 months after the date of approval by shareholders.
5. The ordinary shares to be issued upon conversion of the convertible notes will be fully paid and rank pari passu with existing ordinary shares on issue, from the date of issue upon exercise of the convertible notes.
6. The Company anticipates that it will allot the ordinary shares progressively as it will depend upon the date when noteholders advise the Company that they wish to convert their convertible notes into shares.
7. The funds raised by the note issue have been utilised for Merlin mine development and operations and working capital for the Company however the conversion of the convertible notes into ordinary shares will not raise any funds.

### Directors Recommendation

The Board unanimously recommends that Shareholders vote in favour of the resolution as it allows the Company to raise necessary finance for the development of its operations.

## **RESOLUTION 2. RATIFY THE ISSUE OF ORDINARY SHARES.**

### ***Preamble***

On 20 December 2017, the Company announced that it had entered into a secured note deeds (Deeds) with (“Noteholders”) for 645,000 convertible notes. Under the terms of the Deeds, Noteholders have provided \$645,000 to the Company to be used for mining operations and working capital purposes.

The notes accrue interest at 10% per annum. The convertible notes were to expire on 20 March 2018, could be converted at any time prior to expiration at a conversion price of \$0.005 per note and if not converted prior to 20 March 2018, would automatically convert into ordinary shares.

On 17 January 2018, the Company announced that the noteholders had converted the convertible notes and accrued interest into 130,638,082 ordinary shares.

### **ASX Listing Rule 7.4**

ASX Listing Rule 7.1 prohibits a listed company from issuing, or agreeing to issue, equity securities (which includes shares) that exceed 15% of the total number of fully paid ordinary securities on issue in any 12 month period, unless approval is obtained from the holders of the company’s ordinary securities. ASX Listing Rule 7.4 provides that the approval of holders of the company’s ordinary securities may be obtained after the issue of equity securities. The effect of such ratification is to restore the company’s discretionary power to issue further securities up to 15% of the number of fully paid ordinary securities on issue at the beginning of the relevant 12 month period without obtaining shareholder approval.

### **ASX Listing Rule Disclosure Requirements**

The following information is provided in accordance with ASX Listing Rule 7.5:

(a) *Number of securities allotted*

130,638,081 fully paid ordinary shares.

(b) *Price at which the securities were issued*

- \$0.005 per share

(c) *Terms of the securities*

The Shares issued are fully paid ordinary shares ranking equally in all respects with all other Shares on issue and are or will be listed on ASX.

(a) *The names of the allottees or the basis upon which the allottees were determined*

The names of the allottees are:

<b>Name</b>	<b>No of shares</b>
Filmrim Pty Ltd	20,268,493
Westglade Pty Ltd	6,085,479
SIG PTY LTD	5,067,123
Futurity Private Pty Ltd	5,065,753
Mr Ronald Bowen + Mrs Agnes Bowen	4,053,699
Mr Ronald Bowen + Mrs Karen Bowen	4,037,260
Mr Victor Lorusso	20,230,137
Mrs Anna Lorusso	5,054,795

Claymore Ventures Limited	10,128,767
Mr Matthew Hayne	20,219,178
Jetan Pty Ltd	30,427,397

None of these allottees are related parties of the Company or their associates.

*(b) Use (or intended use) of the funds raised*

The net funds raised were used for:

- Merlin diamond mine operations; and
- working capital requirements of the Company.

**Directors' Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 2, as it allows the Company to retain the flexibility to issue further securities representing up to 15% of the total number of Shares on issue in any 12 month period during the next 12 months without Shareholder approval.

**RESOLUTION 3. RATIFY THE ISSUE OF CONVERTIBLE NOTES.**

***Preamble***

On 25 July 2018, the Company announced that it had entered into a secured note deeds (Deeds) with two noteholders (“Noteholders”) for 600,000 convertible notes. Under the terms of the Deeds, Noteholders have provided \$600,000 to the Company to be used for mining operations and working capital purposes.

The Company has issued 600,000 convertible notes to Noteholders. The notes accrue interest at 10% per annum which will be paid quarterly in arrears or accrued, and the interest may be converted into ordinary shares. The convertible notes will be for a period of 2 years and can be converted at any time at a conversion price of \$0.005 per note; or the 5 day VWAP up to the day prior to conversion, whichever is lower by the holder.

The Deeds also have a requirement that the notes may be reconstructed in accordance with the requirements of the Listing Rules in the case of a reorganisation of the Company’s ordinary shares on issue; and also state that if prior to the maturity date the Company agrees to issue further convertible notes comprising part of the notes (or another equity or debt facility) which 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. The notes may be are secured by a charge over the assets of the Company.

ASX Listing Rule 7.1 provides that a company must not, without shareholder approval (but subject to certain exceptions), issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period. In order to ensure that the Company has the capacity to issue the ordinary shares upon conversion of the convertible notes and accrued interest, which may occur anytime within the term of the convertible note, the Company has decided to seek shareholder approval to the issue of the convertible notes immediately.



## **ASX Listing Rule 7.4**

ASX Listing Rule 7.1 prohibits a listed company from issuing, or agreeing to issue, equity securities (which includes shares) that exceed 15% of the total number of fully paid ordinary securities on issue in any 12 month period, unless approval is obtained from the holders of the company's ordinary securities. ASX Listing Rule 7.4 provides that the approval of holders of the company's ordinary securities may be obtained after the issue of equity securities. The effect of such ratification is to restore the company's discretionary power to issue further securities up to 15% of the number of fully paid ordinary securities on issue at the beginning of the relevant 12 month period without obtaining shareholder approval.

## **ASX Listing Rule Disclosure Requirements**

The following information is provided in accordance with ASX Listing Rule 7.5:

(a) *Number of securities allotted*

600,000 convertible notes with a conversion price of \$0.005 per fully paid ordinary share which equates to 120,000,000 shares.

(b) *Price at which the securities were issued*

- \$0.005 per share

(c) *Terms of the securities*

The Shares issued are fully paid ordinary shares ranking equally in all respects with all other Shares on issue and are or will be listed on ASX.

(c) *The names of the allottees or the basis upon which the allottees were determined*

The names of the noteholders are:

L1 Capital Global Opportunities Fund – 500,000 convertible notes (100,000,000 shares)

JRT Trading – 100,000 convertible notes (20,000,000 shares)

None of these allottees are related parties of the Company or their associates.

(d) *Use (or intended use) of the funds raised*

The net funds raised were used for:

- Merlin diamond mine operations;
- Corporate promotional work; and
- working capital requirements of the Company.

## **Directors' Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 2, as it allows the Company to retain the flexibility to issue further securities representing up to 15% of the total number of Shares on issue in any 12 month period during the next 12 months without Shareholder approval.

## **RESOLUTION 4. RATIFY THE ISSUE OF ORDINARY SHARES**

The Company issued 45,000,000 shares on 20 December 2017 in a private placement; 1,531,261 shares on 5 January 2018 in a private placement; and 10,000,000 for corporate promotional work on

5 January 2018. The ratification of the issue and allotment of the shares issued pursuant to those placements is sought under Resolution 4 in accordance with the requirements of ASX Listing Rule 7.4.

#### **ASX Listing Rule 7.4**

ASX Listing Rule 7.1 prohibits a listed company from issuing, or agreeing to issue, equity securities (which includes shares) that exceed 15% of the total number of fully paid ordinary securities on issue in any 12 month period, unless approval is obtained from the holders of the company's ordinary securities. ASX Listing Rule 7.4 provides that the approval of holders of the company's ordinary securities may be obtained after the issue of equity securities. The effect of such ratification is to restore the company's discretionary power to issue further securities up to 15% of the number of fully paid ordinary securities on issue at the beginning of the relevant 12 month period without obtaining shareholder approval.

#### **ASX Listing Rule Disclosure Requirements**

The following information is provided in accordance with ASX Listing Rule 7.5:

(a) *Number of securities allotted*

56,531,261 fully paid ordinary shares.

(b) *Price at which the securities were issued*

- 46,531,261 shares at a price of \$0.005 for \$232,656
- 10,000,000 shares for corporate promotional work which have a nominal value of \$50,000

(c) *Terms of the securities*

The Shares issued are fully paid ordinary shares ranking equally in all respects with all other Shares on issue and are or will be listed on ASX.

(e) *The names of the allottees or the basis upon which the allottees were determined*

The names of the allottees are:

- 10,000,000 shares were to Ledger Holdings Pty Ltd;
- 1,531,261 shares to Vince Zangari;
- 20,000,000 shares to Hirish Financial
- 10,000,000 to Ben Jarvis; and
- 15,000,000 shares to Filmrim Pty Ltd.

None of these allottees are related parties of the Company or their associates.

(f) *Use (or intended use) of the funds raised*

The net funds raised were used for:

- Merlin diamond mine operations;
- Corporate promotional work; and
- working capital requirements of the Company

#### **Directors' Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 3, as it allows the Company to retain the flexibility to issue further securities representing up to 15% of the total number of Shares on issue in any 12 month period during the next 12 months without Shareholder approval.

#### **RESOLUTION 5. APPROVE ISSUE OF CONVERTIBLE NOTE AND OPTIONS.**

## **Preamble**

The Company has entered into a secured note deed (**Deed**) with Edensor Holdings Pty Ltd ATF Prolific Enterprises Trust (**Edensor**) on the same terms and conditions as the convertible note with the parties as set out in Resolution 1. Stera Gutnick is a shareholder and Mordechai Gutnick and Stera Gutnick are the directors of Edensor. Under the terms of the proposed Deed, Edensor will provide up to \$2,500,000 to the Company to be used for mine operations and working capital purposes. The Company will issue 2,500,000 notes to Edensor.

The convertible notes will have the same terms and conditions as those to be issued to the parties as set out in Resolution 1.

Further details of the terms and conditions are set out in the narrative under Resolution 1 in this Explanatory Statement.

As set out earlier, one of the terms and conditions of the Deed is that the Company provides security over its assets. As the security is granted on convertible notes issued to a related party of the company, shareholder approval is required to be obtained under listing rule 10.1. If such approval is not obtained, the Company will not grant a security over its assets in favour of Edensor.

Under s. 606 of the Corporations Act, Edensor is prohibited from converting any of the convertible notes into ordinary shares in the Company if that would result in Edensor, 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% subject to several exemptions set out in s. 611 of the Corporations Act and the table thereto.

Those exemptions most relevantly include shareholder approval pursuant to item 7 of s. 611 and what is usually referred to as the "3% creep" exemption as set out in item 9 of s. 611. Attached to this explanatory memorandum is a copy of s. 611 and the full table of exemptions there set out.

No shareholder approval under item 7 of s. 611 has been obtained and it is not sought at the General meeting to which this Explanatory Memorandum relates.

The exemptions in items 7 and 9 are set out above.

### **ASX Listing Rule 10.1**

ASX Listing Rule 10.1 states that an entity (in the case of a trust, the responsible entity) must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, any of the following persons without the approval of holders of the entity's ordinary securities.

ASX consider the providing of security a disposal of an asset.

As set out earlier, one of the terms and conditions of the Deed is that the Company provides security over its assets.

### **ASX Listing Rule 10.11**

ASX Listing Rule 10.11 provides that an entity must not issue or agree to issue equity securities to any of the following persons without the approval of holders of ordinary securities:

- A related party
- A person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

Mordechai Gutnick and Stera Gutnick are the directors of Edensor and as such is a related party.

Equity securities include convertible notes.

Edensor currently hold 734,447 convertible notes, convertible at \$0.005; and 94,999,885 options exercisable at \$0.013 per option.

For the purposes of Australian Stock Exchange ("ASX") Listing Rules 7.3 and 10.13, the Company also advises:

1. The number of securities to be allotted is 2,500,000 convertible notes at a price of \$1 per convertible note. The convertible notes may be converted into ordinary shares at a price of \$ .005 cents or the 5 day VWAP up to the day prior to conversion, whichever is lower.
2. Should Edensor (subject to the prohibition and exemptions set out in, respectively, s. 606 and s. 611 of the Corporations Act referred to above), ultimately convert all the convertible notes, the Edensor holding of ordinary shares will be as follows subject to the below Note:

Table 1

	Edensor holding	Issued capital	Edensor %
Current holding	42,400,009	3,227,708,538	1.31
Upon conversion of 100% of convertible notes inc convertible notes on issue	689,289,409	3,874,597,938	17.79
Upon conversion of 100% of convertible notes inc convertible notes and options on issue	784,289,294	3,969,597,823	19.75

Note –

- a) This assumes that no further ordinary shares are issued or none of the existing convertible notes and options on issue are converted/exercised.
- b) Furthermore, resolution 1 and 3 to this notice of general meeting seeks approval for the issue of further securities.
- c) If any of the existing convertible notes and options on issue are converted/exercised; or the securities in point 4 above are issued, the percentage holding of Edensor will reduce.

The following companies and person hold shares, options and/or convertible notes in the Company. Joseph Gutnick is the husband of Stera Gutnick and Mordechai Gutnick is their son.

Table 2

Name	Holding	Shareholders	Directors
Edensor Holdings Pty Ltd	42,400,009 shares 734,447 convertible notes 94,999,885 options	Stera Gutnick	Stera Gutnick Mordechai Gutnick
Chabad Properties Pty Ltd	300,000,000 shares 120,000,000 options	Stera Gutnick Mordechai Gutnick Joseph	Stera Gutnick

		Gutnick	
Hoydu International Enterprises Pty Ltd	25,000,000 shares	Stera Gutnick	Stera Gutnick
Mazel Fortune Pty Ltd	32,307,692 shares	Stera Gutnick Joseph Gutnick	Stera Gutnick
Great Central Gold Limited	14,615,385 shares	Stera Gutnick Joseph Gutnick	Stera Gutnick Han Cheun Soh Joseph Gutnick
Atlantic Holdings (Aust) Pty Ltd	4,307,693 shares	Mordechai Gutnick	Mordechai Gutnick
Morzev Pty Ltd	76,923 shares	Mordechai Gutnick	Mordechai Gutnick
Harapid Pty Ltd	19,450,000 shares	Naomi Gutnick	Naomi Gutnick
Joseph Gutnick	18,000,000 shares 18,000,000 incentive options exercisable at 15 cents		
Mordechai Gutnick	1,500,000 incentive options exercisable at 15 cents		

The Company has been advised by these companies and persons that they will not vote on this resolution.

Trinity Management Group Pty Ltd (TMG) is the trustee of the Merlin Diamonds Employee Share Trust under the Merlin Diamonds Employee Share Trust Deed. It is the registered holder of 18,000,000 ordinary shares in the Company.

If all of the convertible notes and options referred to in Table 1 and Table 2 were converted/exercised (subject to the prohibition and exemptions set out in, respectively, s. 606 and s. 611 of the Corporations Act referred to above), the cumulative holding would be as follows:

Table 3

	Holding	Issued capital	%
Current holding	456,157,702	3,227,708,538	14.13
Upon conversion of 100% of convertible notes	1,103,047,102	4,311,305,640	25.47
Upon exercise of 100% of options	1,337,542,987	4,565,251,525	29.3

Note –

- a) This assumes that no further ordinary shares are issued or none of the existing convertible notes and options on issue are converted/exercised.
- b) Furthermore, resolution 1 and 3 to this notice of general meeting seeks approval for the issue of further securities.
- c) If any of the existing convertible notes and options on issue are converted/exercised; or the securities in point 4 above are issued, the percentage holding of the abovementioned entities will reduce.

3. The conversion price of the convertible notes into ordinary shares will be \$0.005 or the 5 day VWAP up to the day prior to conversion, whichever is lower. The Deed also states that if prior to the maturity date the Company agrees to issue further convertible notes comprising part of the notes (or another equity or debt facility) which 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.
4. The convertible notes will be issued to Edensor, or its nominee or any assignee.
5. The date by which the Company will issue the convertible notes is no later than one month after the date of approval by shareholders.
6. The ordinary shares to be issued upon conversion of the convertible notes will be fully paid and rank pari passu with existing ordinary shares on issue, from the date of issue upon conversion of the convertible notes.
7. The Company anticipates that it will allot the ordinary shares in one tranche however it may allot in several tranches.
8. The funds raised by the note issue will be utilised for Merlin mine operations, exploration and working capital for the Company however the conversion of the convertible notes into ordinary shares will not raise any funds.

#### **Chapter 2E of the Corporations Act**

Section 208 of the Corporations Act provides that a public company must not, subject to certain exceptions, give a financial benefit to a related party without approval of the company's members. Section 228 of the Corporations Act defines a 'related party' for the purposes of Chapter 2E to include:

- Directors of the public company (section 228(2)(a)); and
- An entity controlled by directors of the public company (section 228 (4)).

Edensor is a related party of the Company for the purposes of Chapter 2E of the Corporations Act. A 'financial benefit' is defined in section 229 of the Corporations Act and includes issuing shares or granting an option to a related party.

Section 210 of the Corporations Act provides an exception to the requirement to obtain shareholder approval for giving a financial benefit to a related party, where the financial benefit is on terms which would be reasonable in the circumstances if the public company and the related party were dealing at arm's length.

The Company considers that the proposed issue of securities the subject of Resolution 8 will be on arm's length terms as it is on the same terms as issue of convertible notes and options to Regal (Resolution 1) and the parties set out in Resolution 2. Furthermore, the issue price of the convertible notes and the exercise price of the options are the same as the recent Entitlements Offer made to investors who are not related parties of the Company. As such, the Company considers that the proposed issue falls within the exception set out in section 210 of the Corporations Act.

The nature of the financial benefit to be given to Edensor is the interest in the ordinary shares upon conversion of the convertible notes and the options which are to be issued to Edensor.

Directors Recommendation

Mr Joseph Gutnick and Mordechai Gutnick decline to make a recommendation on resolution 5.

The Board (other than Mr Joseph Gutnick and Mr Mordechai Gutnick) unanimously recommends that Shareholders vote in favour of the resolution as it allows the Company to raise necessary finance for the development of its operations.

By Order of the Board and dated this 27th day of August 2018

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

PETER LEE  
Company Secretary

## CORPORATIONS ACT 2001 - SECT 611

### Exceptions to the prohibition

The following table sets out:

- (a) acquisitions of relevant interests in a company's voting shares that are exempt from the prohibition in subsection 606(1); and
- (b) acquisitions of relevant interests in a company's voting shares resulting from acquisitions of legal or equitable interests in securities of a body corporate that are exempt from the prohibition in subsection 606(2).

Note: Some of the items in the table cover only activities in relation to the company itself (items 7, 8, 12 and 13) while the other items cover acquisitions in that company that may occur through activities in relation to other companies.

<b>Acquisitions that are exempt</b>	<b>[operative]</b>
<b>Takeover bids</b> <i>Acceptance of takeover offer</i>	
1	An acquisition that results from the acceptance of an offer under a takeover bid.
See also section 612.	
<i>On-market purchase during bid period</i>	
2	An acquisition in relation to bid class securities that results from an on-market transaction if:  (a) the acquisition is by or on behalf of the bidder under a takeover bid; and  (b) the acquisition occurs during the bid period; and  (c) the bid is for all the voting shares in the bid class; and (d) the bid is:  (i) unconditional; or  (ii) conditional only on the happening of an event referred to in subsection 652C(1) or (2).
See also sections 612 and 613.	



---

**Acquisitions that are exempt** [operative]

---

*On-market purchase of convertible securities during bid period*

- 3 An acquisition of bid class securities that results directly from the exercise of rights attached to convertible securities if:
- (a) the acquisition is by or on behalf of the bidder under a takeover bid; and
  - (b) the bidder acquired a relevant interest in the convertible securities through an on-market transaction during the bid period; and
  - (c) the bid is for all the voting shares in the bid class; and
  - (d) the bid is:
    - (i) unconditional; or
    - (ii) conditional only on the happening of an event referred to in subsection 652C(1) or (2).

See sections 612 and 613.

---

*Acceptance of scrip offered as takeover consideration*

- 4 An acquisition that results from the acceptance of:
- (a) an offer under a takeover bid if the voting shares are included in the consideration for offers under the bid; or
  - (b) an offer that results in an acquisition to which item 5 applies.

See also section 612.

---

**Nature of acquirer**

- 6 An acquisition that results from the exercise by a person of a power, or appointment as a receiver, or receiver and manager, under an instrument or agreement creating or giving rise to a security interest if:
- (a) the person's ordinary business includes the provision of financial accommodation by any means; and
  - (b) the person took or acquired the security interest in the ordinary course of their business of the provision of financial accommodation by any means and on ordinary commercial terms.
-

---

**Acquisitions that are exempt** [operative]

---

**Approval by resolution of target**

- 7 An acquisition approved previously by a resolution passed at a general meeting of the company in which the acquisition is made, if:
- (a) no votes are cast in favour of the resolution by:
    - (i) the person proposing to make the acquisition and their associates; or
    - (ii) the persons (if any) from whom the acquisition is to be made and their associates; and
  - (b) the members of the company were given all information known to the person proposing to make the acquisition or their associates, or known to the company, that was material to the decision on how to vote on the resolution, including:
    - (i) the identity of the person proposing to make the acquisition and their associates; and
    - (ii) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition; and
    - (iii) the voting power that person would have as a result of the acquisition; and
    - (iv) the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
    - (v) the voting power that each of that person's associates would have as a result of the acquisition.

---

**Target newly formed**

- 8 An acquisition that results from an issue of securities of the company in which the acquisition is made if the company has not started to carry on any business and has not borrowed any money.

---

**Manner of acquisition***3% creep in 6 months*

- 9 An acquisition by a person if:
- (a) throughout the 6 months before the acquisition that person, or any other person, has had voting power in the company of at least 19%; and
  - (b) as a result of the acquisition, none of the persons
-

---

**Acquisitions that are exempt** [operative]

---

referred to in paragraph (a) would have voting power in the company more than 3 percentage points higher than they had 6 months before the acquisition.

---

*Rights issues*

10 An acquisition that results from an issue of securities that satisfies all of the following conditions:

(a) a company offers to issue securities in a particular class;

(b) offers are made to every person who holds securities in that class to issue them with the percentage of the securities to be issued that is the same as the percentage of the securities in that class that they hold before the issue;

(c) all of those persons have a reasonable opportunity to accept the offers made to them;

(d) agreements to issue are not entered into until a specified time for acceptances of offers has closed;

(e) the terms of all the offers are the same.

This extends to an acquisition by a person as underwriter to the issue or sub-underwriter.

See section 615.

---

*Dividend reinvestment etc.*

11 An acquisition that results from an issue of:

(a) shares in a company to existing holders of shares in the company under a dividend reinvestment plan or bonus share plan; or

(b) interests in a managed investment scheme to existing holders of interests in the scheme under a distribution reinvestment plan or switching facility;

if the plan or facility is available to all members.

Disregard any unavailability to foreign holders in determining whether the plan or facility is available to all members.

---

<b>Acquisitions that are exempt</b>	[operative]
<i>Initial public offering (IPO) fundraising</i>	
12	An acquisition that results from an issue under a disclosure document of securities in the company in which the acquisition is made if: <ul style="list-style-type: none"> <li>(a) the issue is to a promoter; and</li> <li>(b) the disclosure document is the first issued by the company; and</li> <li>(c) the disclosure document disclosed the effect that the acquisition would have on the promoter's voting power in the company.</li> </ul>
<i>Underwriting of fundraising</i>	
13	An acquisition that results from an issue under a disclosure document of securities in the company in which the acquisition is made if: <ul style="list-style-type: none"> <li>(a) the issue is to a person as underwriter to the issue or sub-underwriter; and</li> <li>(b) the disclosure document disclosed the effect that the acquisition would have on the person's voting power in the company.</li> </ul>
<i>Acquisition through listed company</i>	
14	An acquisition that results from another acquisition of relevant interests in voting shares in a body corporate included in the official list of: <ul style="list-style-type: none"> <li>(a) a prescribed financial market; or</li> <li>(b) a foreign body conducting a financial market that is a body approved in writing by ASIC for the purposes of this item.</li> </ul>
<i>Wills etc.</i>	
15	An acquisition through a will or through operation of law.
<i>Forfeiture of shares</i>	
16	An acquisition that results from an auction of forfeited shares conducted on-market.
<b>Compromise, arrangement, liquidation or buy-back</b>	
<i>Part 5 . 1 compromise or arrangement</i>	
17	An acquisition that results from a compromise or arrangement approved by the Court under Part 5.1.
<i>Section 507 arrangement</i>	
18	An acquisition that results from an arrangement entered into by a liquidator under section 507.

---

**Acquisitions that are exempt** [operative]

---

*Buy-back*

- 19 An acquisition that results from a buy-back authorised by section 257A.
- 

**Regulations**

- 20 An acquisition made in a manner or in circumstances prescribed by the regulations. The circumstances may include acquisitions of relevant interests in voting shares in a specified body or class of bodies.
-