

MERLIN DIAMONDS LIMITED
ABN 86 009 153 119

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Merlin Diamonds Limited (the "Company") will be held at Pulman Albert Park, 65 Queens Road, Melbourne, Victoria 3004, Australia, on Thursday 27 November 2014, commencing at 11.00 am for the following purposes:

AGENDA

ORDINARY BUSINESS

ORDINARY RESOLUTIONS

1. Financial Statements and Reports

To receive and consider the Financial Statements of the Company and the Reports of the Directors and of the Auditor for the financial year ended 30 June 2014.

2. Election of Directors

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Dr David Tyrwhitt who holds office until the close of the meeting in accordance with clause 14.4(a) of the Company's Constitution, and, being eligible, be re-elected as a director of the Company."

NON-BINDING ORDINARY RESOLUTION

3. Remuneration Report

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That the Remuneration Report of the Company (which forms part of the Directors' Report) for the financial year ended 30 June 2014 be adopted."

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company.

SPECIAL BUSINESS

ORDINARY RESOLUTIONS

4. Approve Placement of up to 200 Million Ordinary Shares.

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

"To approve for the purpose of Listing Rule 7.1 and for all other purposes, the issue of up to 200,000,000 ordinary shares on the terms and conditions as set out in the Explanatory Statement to the Notice of Meeting dated 22 October 2014."

5. Approve issue of ordinary shares to Loh Kuwei Lam.

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

"To approve for the purpose of Listing Rule 7.1 and for all other purposes, the issue of 20,000,000 ordinary shares at a price of 6.5 cents per share to Loh Kuwei Lam for a consideration of \$1,300,000 as repayment of a loan of \$1,300,000 from Loh Kuwei Lam to the Company on the terms and conditions as set out in the Explanatory Statement to the Notice of Meeting dated 22 October 2014."

6. Approve issue of ordinary shares to Joseph Isaac Gutnick, Mordechai Zev Gutnick or their nominees.

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

“To approve for the purpose of Listing Rules 7.1 and 10.11 and for all other purposes, the issue of up to 61,538,461 ordinary shares at a price of 6.5 cents per share to Joseph Isaac Gutnick, Mordechai Zev Gutnick or their nominees for a consideration of up to \$4,000,000 as repayment of a loan of up to \$4,000,000 to the Company on the terms and conditions as set out in the Explanatory Statement to the Notice of Meeting dated 22 October 2014.”

7. Approval of Merlin Diamonds Limited 2014 Incentive Share Scheme

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“For the purpose of ASX Listing Rule 7.2 Exception 9 (b), to approve the issue of fully paid ordinary shares of the Company under the Merlin Diamonds Limited 2014 Incentive Share Scheme”.

8. Approve issue of ordinary shares to Joseph Gutnick.

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

“That for the purposes of Part 2E.1 of the Corporations Act and ASX Listing Rule 10.14, and for all other purposes, the Company is authorised to issue and allot up to 18,000,000 ordinary shares under the Merlin Diamonds Limited 2014 Incentive Share Scheme to Mr Joseph Gutnick, who is a Director, on the terms and conditions and in the manner set out in the Explanatory Memorandum.”

9. Approve issue of ordinary shares to David Tyrwhitt.

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

“That for the purposes of Part 2E.1 of the Corporations Act and ASX Listing Rule 10.14, and for all other purposes, the Company is authorised to issue and allot up to 500,000 ordinary shares under the Merlin Diamonds Limited 2014 Incentive Share Scheme to Dr David Tyrwhitt, who is a Director, on the terms and conditions and in the manner set out in the Explanatory Memorandum.”

10. Approve issue of ordinary shares to Henry Herzog

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

“That for the purposes of Part 2E.1 of the Corporations Act and ASX Listing Rule 10.14, and for all other purposes, the Company is authorised to issue and allot up to 500,000 ordinary shares under the Merlin Diamonds Limited 2014 Incentive Share Scheme to Mr Henry Herzog, who is a Director, on the terms and conditions and in the manner set out in the Explanatory Memorandum.”

By Order of the Board and dated this 22nd day of October 2014.



PETER LEE
Company Secretary

2014 ANNUAL REPORT

A copy of the 2014 Annual Report is available on our website at www.merlindiamonds.com.au

VOTING EXCLUSION STATEMENT

Resolution 3

The Company will disregard any votes cast on Resolution 3 by (a) key management personnel of the Company; and (b) closely related parties of the key management personnel.

The key management personnel (**KMP**) of the Company are set out in the Remuneration Report.

However, the Company need not disregard a vote on Resolution 3 if:

- (a) it is cast by a person other than a person who is a key management 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 a person who is a key management person as a proxy for a person who is entitled to vote and the proxy is a directed proxy (that is, the proxy specifies how the proxy is to vote on the proposed resolution); or
- (c) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, the chair has been given an open proxy and the proxy appointment expressly authorises the chair to exercise the proxy vote even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP. For the purpose of this resolution, if the chair is appointed as set out in this clause and you do not complete any of the boxes on the proxy form opposite resolution 3, you will be directing the chairman to vote in favour of resolution 3.

Resolution 4

The Company will disregard any votes cast on the resolution by (a) any person who may participate 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 on Resolution 5 by (a) Loh Kuwei Lam; and (b) and associate of those parties.

However, the Company need not disregard a vote on Resolution 5 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 6

The Company will disregard any votes cast on Resolution 6 by (a) Joseph Gutnick, Mordechai Gutnick; and (b) and associates of Joseph Gutnick and Mordechai Gutnick.

However, the Company need not disregard a vote on Resolution 6 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 7

The Company will disregard any votes cast on Resolution 7 by (a) a director of the Company; 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 8 to 10

The Company will disregard any votes cast on Resolutions 8 to 10 by (a) a director of the Company; 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.

NOTES TO THE NOTICE OF ANNUAL 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 November 2014. 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 Annual General Meeting of the Company to be held Sebel Albert Park, 65 Queens Road, Melbourne 3004 on 27 November 2014 at 11.00 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. RECEIVE AND CONSIDER THE REPORTS FOR THE YEAR ENDED 30 JUNE 2014

This item is intended to provide an opportunity for Shareholders to raise questions on the reports themselves and on the performance of the Company generally.

The Company's Annual Report 2014 has been made available to Shareholders. There will be an opportunity for Shareholders at the meeting to comment on and ask questions about the Company's management, operations, financial position, business strategies and prospects.

RESOLUTION 2. RE-ELECTION OF DIRECTORS

Article 14.4(a) of the Company's Constitution requires that one-third of the Directors (excluding the Managing Director) must retire by rotation at the conclusion of the annual general meeting of the Company. Accordingly, Dr David Tyrwhitt retires and being eligible offers himself for re-election.

A profile about Dr Tyrwhitt follows:

David Tyrwhitt

Dr Tyrwhitt has been a Director of the Company since 2011. He has more than 50 years' experience in the mining industry. He is currently a Director of Legend International Holdings, Inc., Quantum Resources Limited, Hawthorn Resources Limited and Golden River Resources. He worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive Officer of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991 and a Director of Astro Diamond Mines N.L. from November 1996 to May 2008. He established his own consultancy in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia. Age 76.

The Board of Directors supports the nomination of Dr Tyrwhitt.

RESOLUTION 3. ADOPT THE REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2014

There will be an opportunity for Shareholders at the meeting to comment on and ask questions about the Remuneration Report which is contained in the Company's Annual Report 2014.

The vote on the proposed resolution in agenda Item 3 is advisory only and will not bind the Directors or the Company, however, the Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

The Remuneration Report is set out in the Director's Report of the Company's Annual Report 2014. The Report:

- explains the Board's policies in relation to the nature and level of remuneration paid to Directors and key management personnel within the Company;
- discusses the link between the Board's policies and the Company's performance;
- sets out remuneration details for each Director and for each member of the Company's senior executive management team.

RESOLUTION 4. APPROVE PLACEMENT OF ORDINARY SHARES.

Preamble

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.

Blumont Holdings Ltd has made a takeover offer for the Company and recently has extended the offer closing date to 13 February 2015. As the takeover offer from Blumont has been extended, the Company has a requirement for capital to pursue its activities. The Company plans to raise further funds via a placement of up to 200,000,000 ordinary shares. Currently this placement cannot occur as the Company has no capacity under Listing Rule 7.1 to place shares, without shareholder approval. Accordingly the Directors request shareholders to approve the issue of ordinary shares set out below.

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

1. The number of securities to be allotted is 200,000,000 ordinary shares.
2. The issue price of the ordinary shares will be at least 80% of the average market price for the ordinary shares. The average market price is calculated over the last 5 days on which sales in the ordinary shares were recorded before the day on which the issue was made or, if there is a prospectus, product disclosure statement or offer information statement relating to the issue, over the last 5 days on which sales in the ordinary shares were recorded before the date the prospectus, product disclosure statement or offer information statement was signed.
3. The shares will be issued to investors to whom a prospectus does not need to be provided under the Corporations Act.
4. The shares will not be issued to a related party.
5. The date by which the Company will issue the ordinary shares is no later than 3 months after the date of approval by shareholders.
6. The ordinary shares are fully paid and rank pari passu with existing ordinary shares on issue.
7. The Company anticipates that it will allot the ordinary shares in one tranche however it may allot in several tranches.
8. The funds will be utilised for operational, development, exploration and working capital for the Company.

RESOLUTION 5. APPROVE ISSUE OF ORDINARY SHARES.

Preamble

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.

Loh Kuwei Lam has advised the Company that he would like to have a loan made to the Company to be repaid by an issue of ordinary shares.

The Company believes the issue of ordinary shares to Loh Kuwei Lam in repayment of a loan is in the best interests of the Company as it conserves the cash resources of the Company and allows those funds to be used to develop the Company's assets.

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

1. The number of securities to be allotted will be 20,000,000 ordinary shares.
2. The issue price of the ordinary shares will be 6.5 cents per share.
3. The shares will be issued to Loh Kuwei Lam or his nominee.

4. The shares will not be issued to a related party.
5. The date by which the Company will issue the ordinary shares is no later than 3 months after the date of approval by shareholders.
6. The ordinary shares are fully paid and rank pari passu with existing ordinary shares on issue.
7. The Company anticipates that it will allot the ordinary shares in one tranche however it may allot in several tranches.
8. The funds have been utilised for operational, development, exploration and working capital for the Company.

RESOLUTION 6. APPROVE ISSUE OF ORDINARY SHARES.

Preamble

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.

Joseph Gutnick, Mordechai Gutnick and companies of which they are Directors have loaned funds to the Company and have agreed to accept an issue of up to \$4 million of ordinary shares in the Company. Joseph Gutnick is a Director of the Company and Mordechai Gutnick is his son.

ASX Listing Rule 10.11 states that an entity must not issue or agree to issue shares to a related party or a person whose relationship with the entity or a related party is in ASX's opinion such that shareholder approval should be obtained; without the approval of holders of ordinary shares. Listing Rule 10.13 sets out the information to be contained in the notice of meeting

For the purposes of Listing Rules 7.3 and 10.13, the Company advises:

1. The shares will be issued to Joseph Gutnick, Mordechai Gutnick or their nominees.
2. The number of securities to be allotted will be up to 61,538,461 ordinary shares.
3. The issue price of the ordinary shares will be 6.5 cents per share.
4. The date by which the Company will issue the ordinary shares is no later than one month after the date of approval by shareholders.
5. Mordechai Gutnick is the son of Joseph Gutnick.
6. The ordinary shares are fully paid and rank pari passu with existing ordinary shares on issue.
7. The Company anticipates that it will allot the ordinary shares in one tranche however it may allot in several tranches.
8. The issue of shares will repay a debt of the Company.
9. The funds were used for working capital purposes.

RESOLUTION 7. APPROVAL OF MERLIN DIAMONDS 2014 INCENTIVE SHARE SCHEME

The Company has established the Merlin Diamonds 2014 Incentive Share Scheme (ISP). The ISP Trustee is a special purpose company known as Trinity Management Pty Ltd (the "Trustee"). The beneficial interest in the ISP is divided into Share Units, to which the Shares are allocated.

The ISP allows certain employees selected by the Board of Directors to be offered the benefit of Shares in the Company. The key reasons for the establishment of the ISP are as follows:

The Company has found that a traditional employee share plan on its own does not facilitate the take up and retention of Shares by employees. The reason is that many employees find it necessary to immediately sell their Shares in order to fund the upfront tax on those Shares. The ISP structure enables the acquisition of employee

Shares to be funded from the ISP, as described below. This will enable Shares to be retained in the ISP for the benefit of employees.

Facilitating the retention of Shares for the benefit of employee's Shares will assist with the retention of key employees.

A traditional employee share plan on its own creates complex and negative taxation issues for employees. The taxation issues for employees arising from the ISP are much more attractive because the employees own Share Units in the ISP to which the Shares are allocated, funded by an interest free, non-recourse loan arrangement.

The key steps that will occur when Shares are issued to the Trustee under the ISP to be allocated for the benefit of an employee are as follows:

The Company makes contributions to the ISP equal to the value of the Shares and the Shares are issued to the ISP for consideration equal that value. The Shares are then allocated to Share Units in the ISP.

The ISP provides an interest free loan to the employee equivalent to the value of the Shares to enable the employee to subscribe for Share Units in the ISP. The loan is non-recourse. The Share Units in the ISP are issued for a consideration equal to the value of the allocated Shares.

Provided the Shares have vested the employee can direct the ISP to sell the Shares.

The employee's Share Units are then redeemed and the employee receives an amount equivalent to the consideration received from the sale of the underlying Shares.

RESOLUTIONS 8 TO 10 - APPROVE ISSUE OF ORDINARY SHARES TO MR JI GUTNICK, DR DS TYRWHITT AND MR HENRY HERZOG

Preamble

Resolutions 8 to 10 inclusive seek the approval of Shareholders for the issue of Incentive Shares to Directors as follows:

Director	Number of Incentive Shares
Joseph Gutnick	18,000,000
Henry Herzog	500,000
David Tyrwhitt	500,000

Shareholder approval of the grant of the Incentive Shares the subject of Resolutions 8 to 10 is sought for the purposes of:

1. Part 2E.1 of the Corporations Act, which governs the giving of financial benefits to directors and other "related parties" of a company; and
2. ASX Listing Rule 10.14, which provides that, subject to certain exceptions (none of which are relevant here), a company must not issue or grant securities to a director without shareholder approval.

The object of Resolutions 8 to 10 is to provide the Directors with a mechanism to participate in the future development of the Company and an incentive for their future involvement with, and commitment to, the Company. Accordingly it is important that the Company is able to attract and retain people of the highest calibre. The Directors consider that the most appropriate means of achieving this is to provide Directors with an opportunity to participate in the Company's future growth and an incentive to contribute to that growth.

If Shareholder approval is obtained for Resolutions 8 to 10, the Incentive Shares will be granted within twelve months of the receipt of Shareholder approval.

Terms of Shares

Subject to the receipt of Shareholder approval, the Director Shares will be granted on the terms and conditions set out in the Explanatory Statement – Resolution 7.

Part 2E.1 of the Corporations Act

Part 2E.1 of the Corporations Act prohibits the Company from giving a financial benefit to a “related party” of the Company (such as a Director) unless either:

1. the giving of the financial benefit falls within one of the nominated exceptions to the relevant provisions of the Corporations Act; or
2. prior Shareholder approval is obtained to the giving of the benefit.

For the purposes of Part 2E.1, Messrs Gutnick, Herzog and Dr Tyrwhitt (and/or their nominee(s)) are considered to be related parties of the Company as they are Directors, therefore, the proposed grant of Incentive Shares to them (and/or their nominee(s)) requires prior Shareholder approval.

The estimated value of the shares to each of Messrs Gutnick, Michael, Herzog and Dr Tyrwhitt as at 20 October 2014 are as follows:

Director	Position	Estimated value of Director Shares to be issued
Joseph Gutnick	Executive Chairman and Managing Director	\$1,080,000
Henry Herzog	Independent Non-Executive Director	\$30,000
David Tyrwhitt	Independent Non-Executive Director	\$30,000

The following table sets out Messrs Gutnick, Herzog and Dr Tyrwhitt’s respective beneficial interests in the securities of Merlin:

Director	Ordinary Shares
Joseph Gutnick	-
Henry Herzog	-
David Tyrwhitt	-

In accordance with the requirements of Part 2E.1 and, in particular, sections 219 and 221 of the Corporations Act and ASX Listing Rule 10.15, the following information is provided to Shareholders to allow them to assess the proposed grant of Incentive Shares:

1. Messrs Gutnick, Herzog and Dr Tyrwhitt, being Directors, are related parties of the Company to whom the financial benefit would be given by virtue of section 228(2)(a) of the Corporations Act (or in the case of their respective nominee(s), section 228(4) of the Corporations Act);
2. the nature of the financial benefit to be given is the grant of 19,000,000 Incentive Shares (being 18,000,000 Incentive Shares issued to Mr Gutnick and 500,000 Incentive Shares issued to each of Mr Herzog and Dr Tyrwhitt) on the terms set out in the Explanatory Statement – Resolution 7;
3. the Incentive Shares will be issued within twelve months of the date of the Meeting;
4. the Incentive Shares are to be granted for nil consideration and therefore no funds will be raised from their issue;
5. an estimate of the value of the Incentive Shares is \$1,080,000 to Mr Gutnick, \$30,000 to Dr Tyrwhitt and \$30,000 to Mr Herzog Based on a closing price of \$0.06 on 20 October 2014.
6. neither the Directors nor the Company are aware of any other information that would be reasonably required by Shareholders to make a decision as to whether it is in the best interests of the Company to pass Resolutions 6 to 8 other than as follows:
 - (a) if all the Incentive Shares the subject of Resolutions 5 to 7 are granted, then the Company’s fully paid share capital (based on the existing number of Shares) will be diluted by 7.2% based on an issued number of shares as at the date of this notice of meeting of 261,480,396;

- (b) the Directors consider that the incentive represented by the grant of Incentive Shares is a cost effective and efficient incentive when compared to other forms of incentive such as cash, bonuses or increased remuneration;
- (c) the primary purpose of the grant of Incentive Shares is to provide an incentive to Messrs Gutnick, Herzog and Dr Tyrwhitt. Given this purpose, the Directors do not consider that there is any opportunity cost or benefit foregone to the Company in granting the Incentive Shares that are the subject of Resolutions 4 to 6 (other than as set out below); and
- (d) the Board has examined carefully the individual remuneration packages of Directors to determine the fairness and reasonableness of the remuneration package. As part of the examination, the Board has reviewed the remuneration packages of industry executives and non-executives in similar roles.

The Board considers the grants to Messrs Gutnick, Herzog and Dr Tyrwhitt are appropriate in the circumstances for the reasons set out below.

Based on the examination, the Board has concluded that the totality of Messrs Gutnick, Herzog and Dr Tyrwhitt's remuneration packages, including the equity component of such number of Incentive Shares proposed to be issued to each of Messrs Gutnick, Herzog and Dr Tyrwhitt under Resolutions 4 to 6 respectively (now to be considered for approval by shareholders), is fair and reasonable in the circumstances of Merlin given its size and stage of development, market practice of other companies in the mineral exploration industry and given the necessity to attract and retain the highest calibre of skilled professionals to the Company whilst maintaining the Company's cash reserves, and in light of Messrs Gutnick, Michael, Herzog and Dr Tyrwhitt's management experience and knowledge of the mineral exploration industry.

The Directors do not consider that there are any opportunity costs to the Company or benefits forgone by the Company in respect of the proposed issue of Incentive Shares pursuant to Resolutions 4 to 6.

The latest available price of Shares quoted on the ASX prior to the date of this Notice of Meeting on 20 October 2014 was \$0.06. The highest price for Shares trading on the ASX over the last 12 months was \$0.14 and the lowest price in that period was \$0.05.

ASX Listing Rule 10.14

ASX Listing Rule 10.14 provides that, subject to certain exemptions (none of which are relevant here), a company must not issue Shares to a related party without shareholder approval. Resolutions 8 to 10 seek this approval.

Information required for the purposes of ASX Listing Rule 10.15 in relation to the Shareholder approval sought under ASX Listing Rule 10.14 pursuant to Resolutions 8 to 10 is provided in the Notice of Meeting and the Explanatory Memorandum above.

ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that prior approval of shareholders is required for an issue of equity securities if the equity securities will, when aggregated with the equity securities issued by a company during the previous 12 months, exceed 15% of the number of ordinary shares on issue at the commencement of that 12 month period.

Approval pursuant to ASX Listing Rule 7.1 is not required (under Exception 14 to ASX Listing Rule 7.1) in order to issue the Incentive Shares to Messrs Gutnick, Herzog and Dr Tyrwhitt and/or their nominee(s) as approval is being obtained under ASX Listing Rule 10.14.

Shareholders should note that the issue of securities Messrs Gutnick, Herzog and Dr Tyrwhitt and/or their nominee(s) will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

Directors' Recommendation

Mr Joseph Gutnick declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. The other Directors (excluding Mr Joseph Gutnick) recommend that, for the reasons set out above, Shareholders vote in favour of Resolution 8.

Mr Henry Herzog declines to make a recommendation to Shareholders in relation to Resolution 10 due to his material personal interest in the outcome of the Resolution. The other Directors (excluding Mr Henry Herzog) recommend that, for the reasons set out above, Shareholders vote in favour of Resolution 10.

Dr David Tyrwhitt declines to make a recommendation to Shareholders in relation to Resolution 9 due to his material personal interest in the outcome of the Resolution. The other Directors (excluding Dr David Tyrwhitt) recommend that, for the reasons set out above, Shareholders vote in favour of Resolution 9.

By Order of the Board and dated this 22nd day of October 2014

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

PETER LEE
Company Secretary