



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF MERCER GROUP LIMITED

Notice is hereby given that the 2017 Annual Meeting of Shareholders of Mercer Group Limited (the "Company") will be held at The George Hotel, 50 Park Terrace in Christchurch on 15 November 2017 commencing at 2.00 pm (New Zealand time).

AGENDA

A. CHAIR'S ADDRESS

B. CHIEF EXECUTIVES REVIEW

C. ORDINARY BUSINESS

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

Resolution 1 - ELECTION AND ROTATION OF DIRECTORS

Mr Rookes retires by rotation and being eligible, offers himself for re-election. See explanatory notes for biographical details.

Resolution 2 - ISSUE OF SHARE OPTIONS to JOHN DENNEHY

That the granting of options to John Dennehy or his nominee to subscribe for up to 625,000 ordinary shares in the Company on the terms and conditions described in the explanatory notes to this Notice of Meeting be authorised and approved.

Resolution 3 - ISSUE OF SHARE OPTIONS to RICHARD ROOKES.

That the granting of options to Richard Rookes or his nominee to subscribe for up to 1,611,110 ordinary shares in the Company on the terms and conditions described in the explanatory notes to this Notice of Meeting be authorised and approved.

Resolution 4 - ISSUE OF SHARE OPTIONS to IAN MCGREGOR.

That the granting of options to Ian McGregor or his nominee to subscribe for up to 277,778 ordinary shares in the Company on the terms and conditions described in the explanatory notes to this Notice of Meeting be authorised and approved.

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Resolution 5 - APPOINTMENT OF AUDITORS

To record the reappointment of Deloitte as auditors of the Company and to authorise the directors to fix the auditors' remuneration.

GENERAL BUSINESS - Proxies

A Proxy Form is included with this Notice of Annual Meeting. Any shareholder of the Company, who is entitled to attend and vote at the Annual Meeting, is entitled to appoint a proxy to attend the Annual Meeting and vote on his or her behalf. A proxy does not need to be a shareholder of the Company.

The Chairman of the meeting, John Dennehy, is willing to act as proxy for any shareholder who may wish to appoint him for that purpose. Where a direction is not given to the Chairman as to how to cast the vote on any resolution, then the Chairman intends to vote in favour of the resolution except that, as noted below, the Chairman is disqualified from voting on an undirected proxy in respect of Resolution 2 (Issue of Share Options to John Dennehy).

To be valid, a completed Proxy Form must be produced to the Company by delivering, posting, faxing or emailing it to Link Market Services Limited (see Proxy Form for the address). Proxy Forms must be received no later than **2:00pm on Sunday, 13 November 2017**.

By order of the board

A handwritten signature in black ink, appearing to read "I.A. McGregor", with a horizontal line extending from the end of the signature.

Ian McGregor

Company Secretary

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EXPLANATORY NOTE

AGENDA ITEM 1

Election and rotation of Director

The NZX Listing Rules require that at least one-third of directors retire by rotation at each annual meeting (on the basis that they may seek re-election if they wish). Those who retire by rotation must be those who have been longest in office.

Richard was appointed CEO in July 2015 having been on the board since 2011. Since being appointed as CEO, Richard has driven the strategic and operational change in the business.

Prior to taking the executive role at Mercer, Richard was an executive director at investment bank Murray & Co. Richard holds a BCom, Diploma for Graduates and a Post-Graduate Diploma in Commerce, all from the University of Otago.

As Richard is the CEO of the Company, the Board does not consider that he would qualify as an Independent Director.

AGENDA ITEMS 2 AND 3

AUTHORISATION FOR ISSUE OF OPTIONS

Options to John Dennehy

John Dennehy ("John") provides general support and advisory services to the management team of the Company, such additional commitment and services being over and above those normally provided by a director and Board Chair. For the avoidance of doubt, the exercise of executive authority remains with the Company's executive management, led by the CEO. As part of this provision of services (subject to obtaining the necessary approvals) the Company agrees to grant to John options as detailed in an option agreement that will be entered into between John and the Company.

The Shareholders previously approved the issue of options to John in 2015. Those options were not exercised by John and the option agreement outlined below will cancel and replace the previous options.

The option agreement provides that John or his nominee will be granted an option to subscribe for ordinary shares in the Company as follows:

an option to subscribe for 625,000 ordinary shares in the capital of the Company at an exercise price of \$0.40 per share exercisable in August 2018; and provided that John is employed or engaged by the Company at any time in the period 30 days prior to the relevant exercise date.

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Options to Richard Rookes

Richard George Nelson Rookes ("Richard") is employed by the Company as the Chief Executive Officer, and as part of Richard's employment arrangements (subject to obtaining the necessary approvals) the Company agrees to grant to Richard options as detailed in an option agreement that will be entered into between Richard and the Company.

The Shareholders previously approved the issue of options to Richard in 2015. Those options were not exercised by Richard and the option agreement outlined below will cancel and replace the previous options.

The option agreement provides that Richard or his nominee will be granted options to subscribe for ordinary shares in the Company as follows:

- a) an option to subscribe for 833,333 ordinary shares in the capital of the Company exercisable at \$0.30 per share (a discount of \$0.06 or 16.67% to the current market price of \$0.36) exercisable in August 2018; and
- b) an option to subscribe for 777,777 ordinary shares in the capital of the Company at an exercise price of \$0.45 per share exercisable in August 2019, provided that Richard is employed or engaged by the Company at any time in the period 30 days prior to the relevant exercise date.

Options to Ian McGregor

Ian Alexander McGregor ("Ian") is employed by the Company as the Chief Financial Officer, and as part of Ian's employment arrangements (subject to obtaining the necessary approvals) the Company agrees to grant to Ian options as detailed in an option agreement that will be entered into between Ian and the Company.

The option agreement provides that Ian or his nominee will be granted options to subscribe for ordinary shares in the Company as follows:

- a) an option to subscribe for 166,667 ordinary shares in the capital of the Company exercisable at \$0.30 per share (a discount of \$0.06 or 16.67% to the current market price of \$0.36) exercisable in August 2018; and
- b) an option to subscribe for 111,111 ordinary shares in the capital of the Company at an exercise price of \$0.45 per share exercisable on in August 2019, provided that Ian is employed or engaged by the Company at any time in the period 30 days prior to the relevant exercise date.

THE TRANSACTIONS

The issue of options to John, Richard and Ian together shall be referred to as the "**Transactions**". Assuming John exercises all of his options, the Transactions will result in the issue of 625,000 new ordinary shares in the Company to John or his nominee. Assuming Richard exercises all of his options, the Transactions will result in the issue of 1,611,110 new ordinary shares in the Company to Richard or

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his nominee. Assuming Ian exercises all of his options, the Transactions will result in the issue of 277,778 new ordinary shares in the Company to Ian or his nominee.

Any issue of ordinary shares to John, Richards and/or Ian will therefore dilute the shareholding of existing shareholders.

Assuming John, Richard and Ian exercise all their respective options and no further shares in the Company are issued:

- John would have a maximum holding of 1.83% of the total issued capital of the Company, Richard would have a maximum holding of 3.51% of the total issued capital of the Company, and Ian would have a maximum holding of 1.83% of the total issued capital of the Company; and
- all other shareholdings will be diluted by 7.14%.

GENERAL

Voting

Pursuant to Listing Rules 9.3.1 and 9.3.3, any person who is a party to, or a beneficiary of, any person who is an Associated Person of a party to, or beneficiary of, the Transactions contemplated by the Resolutions, is disqualified from voting on the relevant Resolutions. That means that John and his Associated Persons are disqualified from voting (or from acting as discretionary proxies) on Resolution 2 to the extent that they hold any shares in the Company, Richard and his Associated Persons are disqualified from voting (or from acting as discretionary proxies) on Resolution 3 to the extent that they hold any shares in the Company and Ian and Associated Persons are disqualified from voting (or from acting as discretionary proxies) on Resolution 4 to the extent that they hold any shares in the Company.

As at the date of this notice, Richard and Ian hold shares in the Company and are therefore disqualified from voting as set out above.

Each of Resolutions 1 to 5 must be passed as ordinary resolutions of the Company. Pursuant to NZX Main Board Listing Rule 1.6.1, an ordinary resolution means a resolution passed by a simple majority of votes of holders of securities of the Company which carry votes entitled to vote and voting.

Approval of notice of meeting

This Notice of Meeting has been approved by NZX Limited in accordance with Listing Rule 6.1. NZX Limited accepts no responsibility for any statement contained in this Notice of Meeting.

LISTING RULES

The following is a detailed analysis of the application of the Listing Rules to the Issue of the Options. To enter into the Transactions, the Company is required to obtain the approval of its Shareholders, by way of an ordinary resolution, pursuant to the Listing Rules as described below.

Shareholder approval needed for issue of options

Listing Rule 7.3.1 prohibits the issue of securities (which includes options) unless the precise terms and

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conditions of the proposal to issue the securities have been approved by an ordinary resolution. Listing Rule 7.3.1(a) will apply to any issue of options to John, Richard or Ian (or their nominees) and, therefore, the precise terms and conditions of the issue of options to John, Richard and Ian (or their nominees) will need to be approved by existing Shareholders, by way of an ordinary resolution.

Exemption from Material Transactions requirements

Listing Rule 9.2.1 prohibits the Company from entering into a Material Transaction with a Related Party, unless the Material Transaction is approved by an ordinary resolution. Listing Rule 9.2.5 further provides that the text of any such resolution to be put to shareholders to approve a Material Transaction with a Related Party must be accompanied by an Appraisal Report from an independent and appropriately qualified person approved by NZX.

For the purposes of the Listing Rules, Related Party is defined in Listing Rule 9.2.3 and includes any person who, at the time of a Material Transaction, is or was at any time within six months before a Material Transaction, a director or executive officer of the Company. As at the date of this Notice of Meeting, both John and Richard are directors of the Company. Additionally, John provides executive services to the Company and Richard is the CEO.

In the absence of any relevant exemption, any issue of options to John and Richard (or their nominees) pursuant to the Transactions will be a Material Transaction with a Related Party requiring Shareholder approval under Listing Rule 9.2.1 by way of an ordinary resolution, because:

- a) the options issued to John (or his nominee) may have an actual gross cost to the Company that exceeds an amount equal to 1% of the Company's Average Market Capitalisation (as that term is defined in the Listing Rules) (Listing Rule 9.2.2(e)); and
- b) the options issued to Richard (or his nominee) may have an actual gross cost to the Company that exceeds an amount equal to 1% of the Company's Average Market Capitalisation (as that term is defined in the Listing Rules) (Listing Rule 9.2.2(e)).

However, Listing Rule 9.2.4(d) provides an exemption to Listing Rule 9.2.1. Listing Rule 9.2.4(d) provides that Listing Rule 9.2.1 shall not apply to:

An employment contract or contract for personal services with an Issuer which is a Material Transaction under Rule 9.2.2(e) where:

- i. The terms of the contract are set on an arm's length, commercial basis and have been approved by the Independent Directors of the Issuer; and*
- ii. The Independent Directors approving the contract sign and deliver to NZX a certificate stating Rule 9.2.4(d)(i) has been complied with; and*
- iii. Material particulars of the contract (including the Issuer's use of this exception) are disclosed in the next annual report of the Issuer.*

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This exemption means that the Company is not required to seek the approval of the shareholders under Listing Rule 9.2.1 for a Material Transaction with a Related Party and is not required to prepare and present an Appraisal Report under Listing Rule 9.2.5, where the Independent Directors have signed and delivered to the NZX a certificate complying with Listing Rule 9.2.4(d).

In accordance with this requirement, the Independent Director of the Company, Paul Smart, has determined that both John and Richard's option agreements are set on an arm's length, commercial basis, and will deliver the required certificate to the NZX.

The Independent Director determined this on the basis that the terms of both John and Richard's option agreements are substantially the same as previous option agreements the Company has entered into with executives (except that John and Richard's agreements provide for a 12 month lock-up period after exercise), and on the basis that the exercise price of the options was determined by reference to the current share price and was discussed and agreed to by the full Board as appropriate and reasonable.

Summary of applicable Listing Rules

The Company is required to seek shareholder consent to the Transactions under Listing Rule 7.3.1(a). The Company is not required to seek consent for a Material Transaction to a Related Party under Listing Rule 9.2.1, and is not required to prepare an Appraisal Report under Listing Rule 9.2.5 because the Issue of options to John and Richard are exempted under Listing Rule 9.2.4(d).

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