

**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 Pullman Albert Park, 65 Queens Road, Melbourne, Victoria 3004, Australia, on 29 November 2017, commencing at 9.00 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 2017.

**2. Election of Director**

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

"That Mr Henry Herzog 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."

**SPECIAL RESOLUTION**

**3. Approval of 10% Placement Capacity – Shares**

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That for the purposes of ASX Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totalling up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A2 and on the terms and conditions set out in the Explanatory Memorandum."

**ORDINARY RESOLUTIONS**

**4. Ratify an issue of up to 481,111 Convertible Notes and 37,008,512 Options over Ordinary Shares.**

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

"To approve the Company, in accordance with ASX Listing Rule 7.1 and for all other purposes, issuing 481,111 convertible notes at a price of \$1 per convertible note and 37,008,512 Options over Ordinary Shares to the parties and on the terms and conditions as set out in the Explanatory Statement to the Notice of Meeting dated 26 October 2017."

**5. 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".

**NON-BINDING ORDINARY RESOLUTION**

**6. 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 2017 be adopted."

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

By Order of the Board and dated this 24th day of October 2017.



PETER LEE  
Company Secretary

## 2017 ANNUAL REPORT

A copy of the 2017 Annual Report is available on our website at [www.merlindiamonds.com.au](http://www.merlindiamonds.com.au)

### VOTING EXCLUSION STATEMENT

#### Resolution 3

The Company will disregard any votes cast on Resolution 3 by a person who may participate in the issue of equity Securities under the resolution and a person who may obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the Chair 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 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 on Resolution 5 by a director of the Company.

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 6

The Company will disregard any votes cast on Resolution 6 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 6 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 6, you will be directing the chairman to vote in favour of resolution 10.

## **OPEN VOTES HELD BY CHAIRMAN**

The Chairman intends to vote all open proxies held by the Chairman in favour of all resolutions.

## **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 27 November 2017. 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 Pullman Albert Park, 65 Queens Road, Melbourne 3004 on 29 November 2017 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.**

### 1. RECEIVE AND CONSIDER THE REPORTS FOR THE YEAR ENDED 30 JUNE 2017

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 2017 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.

### 2. 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, Mr Henry Herzog retires and being eligible offers himself for re-election.

A profile about Mr Herzog follows:

Mr Herzog has more than 40 years of corporate and management experience. He has been a Director of the Company since December 2009. Mr. Herzog has served in various positions as President, Vice President or Director of a number of publicly listed companies in Australia and the United States, predominantly in the mining sector. Mr. Herzog was responsible for the restructuring and reorganization of several publicly listed companies including Golden River Resources Corporation, where he served as its President and Chief Executive Officer from 1986-1988 and as a Vice President from 1988-1989. For at least the past five years, Mr. Herzog has also been managing a number of private investment entities. Age 75

Directors' Recommendation

The Board of Directors supports the nomination of Mr Herzog.

### 3. APPROVAL OF 10% PLACEMENT CAPACITY – SHARES

The purpose of this special resolution is to authorise the Directors to seek Shareholder approval to allow it to issue a further 10% of the Company's issued share capital under Listing Rule 7.1A during the 10% Placement Period in addition to and without using the Company's 15% placement capacity under Listing Rule 7.1.

This effectively gives the Directors a 25% placement capacity less that part of its placement capacity not available under Listing Rule 7.1

Listing Rule 7.1A came into effect on 1 August 2012 and enables "eligible entities" to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting if the Equity Securities are in an existing quoted class of the Company's securities ("10% Placement Facility"). The 10% Placement Facility is in addition to the Company's 15% placement annual capacity under Listing Rule 7.1. An "eligible entity" for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity. The Company is seeking Shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility during the period up to 12 months after the Meeting. As Resolution 3 is a special resolution 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 3 for it to be passed.

If Shareholders approve Resolution 3 the exact number of Equity Securities that may be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer below). The Company will comply with the disclosure obligations under Listing Rules 7.1A.4 and 3.10.5A upon the issue of any Equity Securities under the 10% Placement Facility.

#### **Description of Listing Rule 7.1A**

##### ***Shareholder approval***

The ability to issue Equity Securities under the 10% Placement Facility is subject to shareholder approval by way of a special resolution at an annual general meeting, which is in addition to its 15% annual placement capacity.

### **Equity Securities**

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company. The Company, as at the date of the Notice, has on issue one class of Equity Securities, namely Shares.

#### **Formula for Calculating Additional 10% Placement Facility.**

Listing rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(a x d) – e

**a** is the number of shares on issue 12 months before the date of issue or agreement:

- (i) plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
- (ii) plus the number of partly paid shares that became fully paid in the 12 months;
- (iii) plus the number of fully paid shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% annual placement capacity without shareholder approval;
- (iv) less the number of fully paid shares cancelled in the 12 months.

Note that "a" has the same meaning in Listing Rule 7.1 when calculating an entity's 15% annual placement capacity.

**d** is 10%

**e** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

#### **Listing Rule 7.1 and Listing Rule 7.1A.**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 1,735,307,393 Shares and therefore has a capacity to issue:

- (i) 15% or 260,296,108 Equity Securities under Listing Rule 7.1; and
- (ii) 10% or 173,530,739 Equity Securities subject to Shareholder approval being sought under this Resolution 3 under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities, or the agreement date, in accordance with the formula prescribed in Listing Rule .1A.2 (refer above).

#### **Information required by Listing Rule 7.3A**

Pursuant to and in accordance with Listing Rule 7.3A, the below information is provided in relation to the approval of the 10% Placement Facility:

##### **Minimum Price.**

The issue price of the new Equity Securities will be no lower than 75% of the VWAP for the relevant class of securities calculated over the 15 Trading Days immediately before:

- the date on which the price at which the Equity Securities are to be issued is agreed; or
- if the Equity Securities are not issued within 5 Trading Days of the date above, the date on which the Equity Securities are issued.

##### **Date of Issue**

The Equity Securities may be issued under the 10% Placement Facility commencing on the date of the Meeting and expires on the earlier to occur of:

- the date that is 12 months after the date of this Meeting; or
- the date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking).

**Risk of economic and voting dilution**

If Resolution 4 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders’ voting power in the Company will be diluted as shown in the table below.

Shareholders should note that there is a risk that:

- the market price for the Equity Securities to be issued may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- the Equity Securities may be issued at a price that is at a discount to the market price for those Equity Securities on the issue date.
  - a) Any issue of Equity Securities under the 10% Placement Facility will dilute the interests of Shareholders who do not receive any Shares under the issue. If Resolution 4 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Facility, the economic and voting dilution of existing Shares would be as shown in the table below.
  - b) The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable “A” calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice, assuming the full 10% dilution.
  - c) The table also shows the voting dilution impact where the number of Shares on issue (Variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Facility.

Variable “A” in Listing Rule 7.1 A2		Dilution		
		\$ .012 50% decrease in Issue Price	\$ .024 Issue Price	\$ .036 50% increase in Issue Price
Current Variable A 173,530,739 Shares	Shares issued	173,530,739	173,530,739	173,530,739
	Funds raised	\$347,061	\$694,123	\$1,041,184
50% increase* in current Variable A 260,296,108 Shares	Shares issued	260,296,108	260,296,108	260,296,108
	Funds raised	\$520,592	\$1,041,184	\$1,561,776
100% increase* in current Variable A 347,061,478 Shares	Shares issue	347,061,478	347,061,478	347,061,478
	Funds raised	\$694,123	\$1,388,246	\$2,082,368

\* The number of shares on issue (Variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued under Listing Rule 7.1.

The table has been prepared on the following assumptions:

- The current Shares on issue are the Shares on issue at 16 October 2017.
- The issue price set out above is the closing price of the Shares on the ASX on 16 October 2015.
- The Company issues the maximum number of Equity Securities available under the 10% Placement Facility hence the voting dilution is shown in each example as 10%.

- The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances, and if necessary seek advice from their professional advisers.
- No convertible notes, listed or unlisted options of the Company are exercised into Shares before the date of issue of the Equity Securities.
- The table shows only the effect of issues of Equity Securities under ASX Listing Rule 7.1A, and not dilution under the 15% placement capacity under ASX Listing Rule 7.1, under ASX Listing Rule 7.2, or Shareholder approvals under ASX Listing Rule 7.1.
- The issue of Equity Securities under the 10% Placement Facility consists only of Shares.

***Purpose of issue under 10% Placement Facility***

The Company may seek to issue the Equity Securities for the following purposes:

- as cash consideration, in which case the Company intends to use the funds raised towards operations at the Merlin diamond mine and its other projects, and general working capital; or
- as non-cash consideration for the acquisition of new resources assets and other investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A

***Allocation under the 10% Placement Facility***

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- the purpose of the issue;
- the alternative methods of raising funds that are available to the Company, including but not limited to, an entitlement issue or other issue in which existing security holders can participate;
- the effect of the issue of the Equity Securities on the control of the Company;
- the circumstances of the Company, including but not limited to the financial situation and solvency of the Company;
- prevailing market conditions; and
- advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing Shareholders and/or new Shareholders, who are not related parties of the Company or their associates.

***Previous Approval under Listing Rule 7.1A***

The total number of equity securities issued in the 12 months preceeding the date of the meeting is 1,080,293,111 fully paid ordinary shares, 589,392,861 listed options, 26,666,666 unlisted options and 3,343,884 convertible notes.

Details of the issues are set out in Attachment A.

Options - Each Option is exercisable at any time after the date on which the options issues (vesting date) until and including their expiry date, namely 4 years from the vesting date (expiry date). Any options not exercised by the expiry date will automatically lapse on the expiry date.

Convertible notes - 10% convertible notes, with a face value of \$1.00 each with an expiration date of 36 months from the date of issue; and attaching options. Interest is paid half yearly in arrears at a rate of 10% per annum based on the face value. The notes are convertible into fully paid ordinary shares of the Company at various conversion prices. The Company may by written notice prior to the maturity date but not until after the expiry of the initial period of 12 months, redeem the principal outstanding plus any accrued interest. Each Option is exercisable at any time after the date on which the options issues (vesting date) until and including their expiry date, namely 4 years from the vesting date (expiry

date). Any options not exercised by the expiry date will automatically lapse on the expiry date. The convertible notes are secured. A term of the convertible notes was that if further convertible notes were issued with terms better than the terms of earlier convertible notes, then the terms of the earlier convertible notes would be automatically amended to be consistent with the terms of the latter convertible notes.

#### Voting Exclusion

A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not invited any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

#### Directors' Recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 4.

#### 4. RATIFY ISSUE OF CONVERTIBLE NOTE AND OPTIONS.

##### Preamble

The Company has entered into a secured note deeds (Deeds) with L1Capital Global Opportunities Master Fund, Shmuel Levitien, The Chai Centre, Vince Zangari, Mosnow Pty Ltd <The Mosnow A/C > , Mr Mordechai Engel & Mrs Elisheva Beille Engel <Mordel Family A/C> and Mr Emanuel Max Green & Mrs Sharon Green <The Green Super Fund A/C> (collectively "the Parties").

Name	No of convertible notes	Issue price per convertible note	Total proceeds	Number of options issued
L1 Capital Global Opportunities Master Fund	150,000	\$1.00	\$150,000	11,538,461
Shmuel Levitien	31,272	\$1.00	\$31,272	1,910,690
The Chai Center	24,839	\$1.00	\$24,839	2,405,536
Vince Zangari	100,000	\$1.00	\$100,000	7,692,300
Mosnow Pty Ltd <the Mosnow A/C>	75,000	\$1.00	\$75,000	5,769,225
Mr Mordechai Engel & Mrs Elisheva Beille Engel <Mordel Family A/C>	75,000	\$1.00	\$75,000	5,769,225
Mr Emanuel Max Green & Mrs Sharon Green <The Green Super Fund A/C>	25,000	\$1.00	\$25,000	1,923,075

Under the terms of the Deeds, the Parties have provided \$481,111 to the Company to be used for development, exploration and working capital purposes. The Company has issued 481,111 notes to the Parties. The convertible notes accrue interest at 10% per annum which will be paid half yearly in arrears or can be converted into ordinary share upon conversion of the convertible notes into ordinary shares. The convertible notes will be for a period of 3 years and can be converted at any time at a conversion price of 1.3 cents 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 convertible notes may be reconstructed in accordance with the requirements of the Listing Rules in the case of a reorganisation of the Company ordinary shares on issue. The convertible notes are secured by a charge over the assets of the Company. Attaching to each note (or convertible notes) as the case may be are 74.923 options which are convertible into ordinary shares at a price of 1.3 cents per option. The terms and condition of the options are set out in Appendix 1.

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, 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.

For the purposes of Australian Stock Exchange ("ASX") Listing Rules 7.5, the Company also advises:

1. The number of securities issued is 481,111 convertible notes at a price of \$1 per convertible note (face value) and 37,008,512 options. The convertible notes may be converted into ordinary shares at a price of 1.3 cents or the 5 day VWAP up to the day prior to conversion, whichever is lower.
2. The conversion price of the convertible notes into ordinary shares will be 1.3 cents per note or the 5 day VWAP up to the day prior to conversion, whichever is lower and the exercise price of the options is 1.3 cents or the 5 day VWAP up to the day prior to conversion, whichever is lower.
3. The convertible notes and options have been issued to the Parties listed above.
4. The convertible notes and the options have not been issued to a related party.
5. The ordinary shares to be issued upon conversion of the convertible notes and/or the exercise of the options 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 or options.
6. The Company anticipates that it will allot the ordinary shares in one tranche.
7. The funds raised by the convertible note issue have been utilised for development, exploration and working capital for the Company however the conversion of the convertible notes into ordinary shares will not raise any funds. Further funds will be received if the options are exercised and it is anticipated that the funds raised upon exercise of the options will also be utilised for development, exploration and working capital for the Company

#### **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.

#### **5. APPROVAL OF MERLIN DIAMONDS LIMITED 2014 INCENTIVE OPTION SCHEME**

The Company has established the Merlin Diamonds Limited 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.

In the past 3 years, 18,000,000 shares have been issued under the scheme at the date of this notice of annual general meeting.

ASX Listing Rule 7.2 Exception 9 (b) states that an issue under an employee incentive scheme is an exception to Listing Rule 7.1 and 7.1A if within 3 years before the issue date holders of ordinary securities under the scheme as an exception to the rule. The notice of meeting must have included a summary of the terms of the scheme; the number of securities issued under the scheme since the date of the last approval; and a voting exclusion statement. The share incentive scheme was last approved by shareholders in 2014.

#### **Directors Recommendation**

The Board recommends that Shareholders approve the Plan. It will allow the Company to issue securities for the benefit of Plan Participants whilst preserving the Company's 15% limit of issuing securities and provide flexibility in the manner in which the Plan is managed.

#### **6. ADOPT THE REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2017**

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 2017.

The vote on the proposed resolution in agenda Item 6 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 2017. 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.

#### **Directors' Recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 8.

By Order of the Board and dated this 24<sup>th</sup> day of October 2017



PETER LEE  
Company Secretary

## Option Terms

Each Option entitles the holder (**Option Holder**) to subscribe for and be issued one fully paid ordinary share (**Ordinary Share**) in Merlin Diamonds Limited ACN 009 153 119 (**Company**) on the following terms:

1. Each Option is exercisable at any time after the date on which the Option issues (**Vesting Date**), until and including their expiry date, namely 23 March 2021 (**Expiry Date**). Any Options not exercised by the Expiry Date will automatically lapse on the Expiry Date.
1. An Option may be exercised by the Option Holder giving written notice (**Notice of Exercise**) to the Company at its registered office prior to the Expiry Date.
2. The exercise price for each Option (which is payable immediately on exercise) is AUD\$0.013 per Ordinary Share (**Exercise Price**).
3. On receipt by the Company of the Notice of Exercise and payment of the Exercise Price, the Company must, within 2 Business Days and if the Ordinary Shares are listed on the Australian Stock Exchange (**ASX**) within the time period prescribed by the Listing Rules of the ASX (**ASX Listing Rules**):
  - (a) allot to the Option Holder one Share in the Company for each Option exercised by the Option Holder;
  - (b) cause to be dispatched to the Option Holder the relevant acknowledgement of issue, a holding statement or share certificate (as applicable) as soon as is reasonably practicable detailing the issue of the relevant Ordinary Share/s; and
  - (c) issue (if applicable) a new holding statement (or Option Certificate) for the balance of the Options that remain unexercised.
4. Ordinary Shares allotted on the exercise of Options will rank equally in all respects with the then existing issued ordinary fully paid shares in the capital of the Company (except in respect to any dividends which shall have been declared but not yet distributed before the actual exercise of an Option) and will be subject to the provisions of the Constitution of the Company.
5. The Options are transferable by an Option Holder on written notice to the Company, and where the Ordinary Shares are quoted, in accordance with the ASX Listing Rules. The transferor of an Option remains the holder of that Option until the name of the transferee is recorded in the Option Register as the holder of that Option.
6. In the event of a pro rata issue of Ordinary Shares by the Company, the Exercise Price for each Option will be adjusted in accordance with Listing Rule 6.22.2 of the ASX Listing Rules (which adjustment formula will apply even where the Company is not admitted to the ASX Official List).
7. If any reorganisation (including consolidation, subdivision, reduction, return or cancellation) of the issued capital of the Company occurs before the expiry of any Options, the number of Options to which each Option Holder is entitled or the Exercise Price of his or her Options or both must be reorganised in accordance with the ASX Listing Rules applying to a reorganisation at the time of the reorganisation (which adjustment formula will apply even where the Company is not admitted to the ASX Official List).
8. An Option does not confer the right to participate in new issues of capital offered to holders of Ordinary Shares (**Rights Entitlement**) during the currency of the Options without exercising the Options. However, the Company will ensure that for the purpose of determining Rights Entitlements to any such issue, the Option Holder is to receive written notice from the Company of the pending closing or record date and sufficient time for the Option Holder to exercise the Options prior to that closing or record date in order to qualify for the participation in the Rights Entitlement.
9. If the Ordinary Shares are listed for quotation on the ASX, the Company will apply to the ASX for, and will use its best endeavours to obtain, quotation or listing of all Ordinary Shares allotted on the exercise of any Options within 10 Business Days (as defined in the Listing Rules of the ASX) of allotment.
10. In the event of the liquidation of the Company, all unexercised Options will lapse upon the occurrence of that liquidation.
11. The Options do not provide any entitlement to dividends paid to ordinary shareholders.
12. The Options do not entitle the Option Holder to vote at any meeting of shareholders.
13. To the extent that any of these Option Terms and Conditions are inconsistent with or contrary to the ASX Listing Rules (if any), the ASX Listing Rules provisions will prevail and these Option Terms and Conditions are deemed to incorporate the relevant ASX Listing Rules provisions as an amendment to these terms; and
14. These terms and conditions are governed by the law of Victoria. The parties submit to the non-exclusive jurisdiction of the courts of Victoria.

## Ordinary Shares Issued In Past 12 Months

Date	Name	Quantity	Price	Consideration \$	Market price date of issue \$	Discount to market value on date of issue %	Issue for cash
15/12/2016	IFM Pty Ltd <IFM Super Fund>	26,923,077	0.013	350,000.00	0.016	18.75	yes
15/12/2016	Benjamin William Jarvis	9,000,000	0.013	117,000	0.016	18.75	yes
15/12/2016	Stuart Allison	1,500,000	0.013	19,500	0.016	18.75	yes
15/12/2016	Mr Kerry William John Harris & Miss Katrina Fourro <Dig Deep S/F A/C>	5,500,000	0.013	71,500	0.016	18.75	yes
15/12/2016	Mrs Coral Estelle Harris & Mr Kerry William John Harris <the CE Harris S/F A/C>	6,000,000	0.013	78,000	0.016	18.75	yes
15/12/2016	Jetan Pty Limited	10,000,000	0.013	130,000	0.016	18.75	yes
15/12/2016	Mr Simon William Tritton <Investment A/C>	2,500,000	0.013	32,500	0.016	18.75	yes
15/12/2016	Andrew John Pearson	7,692,308	0.013	100,000	0.016	18.75	yes
15/12/2016	Lambrecht Investment Trust	10,000,000	0.013	130,000	0.016	18.75	yes
15/12/2016	Jackie Au Yeung	11,500,000	0.013	149,500	0.016	18.75	yes
15/12/2016	Fluid Investments Pty Ltd	3,000,000	0.013	39,000	0.016	18.75	yes
15/12/2016	Boranup Holdings Pty Ltd	769,230	0.013	10,000	0.016	18.75	yes
15/12/2016	Albion Ballymore Pty Limited	1,538,461	0.013	20,000	0.016	18.75	yes
15/12/2016	Avon Management Company Pty Ltd <The Diermajer Family S/F A/C>	4,000,000	0.013	52,000	0.016	18.75	yes

Date	Name	Quantity	Price	Consideration \$	Market price date of issue \$	Discount to market value on date of issue %	Issue for cash
15/12/2016	Willaton Properties Pty Ltd	1,000,000	0.013	13,000	0.016	18.75	yes
15/12/2016	Outback Formwork Pty Ltd ATF Willaton Super Fund	1,500,000	0.013	19,500	0.016	18.75	yes
21/12/2016	Ledger Holdings Pty Ltd (Mochkin Family No#2 A/C)	6,666,666	0.013	86,667	0.015	13.33	yes
21/12/2016	Benjamin William Jarvis	2,000,000	0.013	26,000	0.015	13.33	yes
21/12/2016	Boyd Gregory Cohen	1,000,000	0.013	13,000	0.015	13.33	yes
21/12/2016	S3 Consortium Pty Ltd	1,562,500	0.013	20,312	0.015	13.33	yes
21/12/2016	Luchenstein Pty Ltd ATF Luchenstein Family Trust	500,000	0.013	6,500	0.015	13.33	yes
21/12/2016	Mikhail Denisov	500,000	0.013	6,500	0.015	13.33	yes
21/12/2016	Kushkush Investments Pty Ltd	10,000,000	0.013	130,000	0.015	13.33	yes
21/12/2016	Australian Share Nominees Pty Ltd	2,000,000	0.013	26,000	0.015	13.33	yes
21/12/2016	Stock Assist Group Pty Ltd	10,000,000	0.013	130,000	0.015	13.33	yes
21/12/2016	Yonas Medfu and Hinu Sadamo	15,384,615	0.013	200,000	0.015	13.33	yes
21/12/2016	Jonathon Herzog	10,000,000	0.013	130,000	0.015	13.33	yes
24/01/2017	Ledger Holdings Pty Ltd (Mochkin Family No#2 A/C)	20,000,000	0.013	260,000	0.015	N/A	yes
24/01/2017	Martin Suman	2,307,692	0.013	30,000	0.015	N/A	No – conversion of convertible notes
08/02/2017	Pegari Pty Ltd	1,666,675	0.013	25,000	0.017	N/A	No – exercise of options
09/02/2017	Scintilla Capital Pty Ltd	2,307,692	0.013	30,000	0.017	N/A	No – conversion of convertible notes
09/02/2017	Scintilla Strategic Investments Pty Ltd	4,615,384	0.013	60,000	0.017	N/A	No – conversion of convertible notes

Date	Name	Quantity	Price	Consideration \$	Market price date of issue \$	Discount to market value on date of issue %	Issue for cash
09/02/2017	Neil Kaner	3,846,153	0.013	50,000	0.017	N/A	No – conversion of convertible notes
23/03/2017	Entitlements issue tranche 1	157,994,229	0.013	2,053,925	0.012	8.33	yes
28/03/2017	Entitlements issue tranche 2	267,903,139	0.013	3,482,741	0.015	13.33	yes
03/04/2017	Triple C Nominees Pty Ltd	20,000,000	0.013	260,000	0.014	N/A	No – underwriting success fee
18/04/2017	Neil Kaner	4,158,060	0.013	54,054	0.013	N/A	No – conversion of convertible notes
18/04/2017	Slade Technologies Pty Ltd <Embrey Family Superfund>	5,769,230	0.013	75,000	0.013	N/A	No – conversion of convertible notes
26/06/2017	Mr Neil Kaner	4,670,250	0.013	60,713	0.011	N/A	No – mining services
26/06/2017	Alex Kidman	2,798,055	0.013	36,375	0.011	N/A	No – mining services
26/06/2017	Richard Price	128,800	0.013	1,674	0.011	N/A	No – corporate services
26/06/2017	Ralph Scholz	284,700	0.013	3,701	0.011	N/A	No – mining services
26/06/2017	Everblu Pty Ltd	17,500,000	0.013	227,500	0.011	N/A	No – mining services
26/06/2017	Key Mining Pty Ltd	6,666,666	0.013	86,667	0.011	N/A	No – mining services
26/06/2017	Ledger Holdings Pty Ltd	20,000,000	0.013	260,000	0.011	N/A	No – conversion of convertible notes
26/06/2017	Slade Technologies Pty Ltd	262,380	0.013	3,411	0.011	N/A	No – conversion of convertible notes
26/06/2017	Mr Neil Kaner	314,014	0.013	4,082	0.011	N/A	No – conversion of convertible notes
26/06/2017	O'Connor Business Minds Pty Ltd Brunswick Super Fund A/C	3,750	0.013	49	0.011	N/A	No – exercise of options
26/06/2017	Excel Technik Pty Ltd	4,375	0.013	57	0.011	N/A	No – exercise of options
12/07/2017	Hoydu International Enterprises Pty Ltd ACN 116 852 101 as trustee for the Hoydu Family Trust No 2	25,000,000	0.010	250,000	0.010	N/A	No – conversion of convertible notes

Date	Name	Quantity	Price	Consideration \$	Market price date of issue \$	Discount to market value on date of issue %	Issue for cash
12/07/2017	Chabad Properties Pty Ltd ATF Machon Chaim College Fund	120,000,000	0.010	1,200,000	0.010	N/A	No – conversion of convertible notes
10/08/2017	Chabad Properties Pty Ltd ATF Machon Chaim College Fund	100,000,000	0.006	600,000	0.005	N/A	No – conversion of convertible notes
10/08/2017	Vince Zangari	16,666,666	0.006	100,000	0.005	N/A	No – conversion of convertible notes
10/08/2017	Gramview Pty Ltd	16,666,666	0.006	100,000	0.005	N/A	No – conversion of convertible notes
10/08/2017	Riveck Nominees Pty Ltd	16,666,666	0.006	100,000	0.005	N/A	No – conversion of convertible notes
10/08/2017	Shmel Levitin	5,468,167	0.006	32,809	0.005	N/A	No – conversion of convertible notes
14/09/2017	Mr Robert Jessie Hunt	33,828,355	0.006	202,970	0.008	N/A	No – conversion of convertible notes
14/09/2017	Mr Emanuel Max Green & Mrs Sharon Green <The Green Super Fund A/C>	4,421,531	0.006	26,539	0.008	N/A	No – conversion of convertible notes
14/09/2017	The Chai Center	4,441,714	0.006	26,650	0.008	N/A	No – conversion of convertible notes
14/09/2017	Mosnow Pty Ltd <the Mosnow A/C>	12,079,376	0.006	72,476	0.008	N/A	No – conversion of convertible notes
14/09/2017	Mr Mordechai Engel & Mrs Elisheva Beille Engel <Mordel Family A/C>	12,113,440	0.006	72,681	0.008	N/A	No – conversion of convertible notes
14/09/2017	Melissa Mwale ATF Talia Remi Mwale	1,102,429	0.006	6,615	0.008	N/A	No – conversion of convertible notes
04/10/2017	Ledger Holdings Pty Ltd	6,600,000	0.006	39,600	0.007	N/A	No – consulting fees

#### Unlisted Options Issued In The Past 12 Months

21/12/2016	Ledger Holdings Pty Ltd	6,666,666		\$			No -attach to convertible notes
			N/A	-	N/A	N/A	
4/01/2017	EverBlu Capital Pty Ltd	20,000,000		\$			No -attach to convertible notes
			N/A	-	N/A	N/A	

### Convertible Notes Issued In The Past 12 Months

Date	Name	Quantity	Price	Consideration \$	Market price date of issue \$	Discount to market value on date of issue %	Issue for cash
14/06/2017	Ledger Holdings Pty Ltd (Mochkin Family No#2 A/C)	260,000	\$1.00	260,000	N/A	N/A	Yes
14/06/2017	Regals Fund LP	752,773	\$1.00	752,773	N/A	N/A	Yes
14/06/2017	BSUT Pty Ltd	300,000	\$1.00	300,000	N/A	N/A	Yes
14/06/2017	Gramview Pty Ltd ATF Rupin Superannuation	100,000	\$1.00	100,000	N/A	N/A	Yes
14/06/2017	Riveck Nominees Pty Ltd ATF The Ruth Paneth Superannuation Fund	100,000	\$1.00	100,000	N/A	N/A	Yes
26/06/2017	Mr Emanuel Max Green & Mrs Sharon Green <The Green Super Fund A/C>	25,000	\$1.00	25,000	N/A	N/A	Yes
5/07/2017	L1 Capital Global Opportunities Master Fund	150,000	\$1.00	150,000	N/A	N/A	Yes
12/07/2017	Shmuel Levitien	31,272	\$1.00	31,272	N/A	N/A	Yes
14/07/2017	The Chai Center	24,839	\$1.00	24,839	N/A	N/A	Yes
14/07/2017	Vince Zangari	100,000	\$1.00	100,000	N/A	N/A	Yes
14/07/2017	Edensor Holdings Pty Ltd ATF Prolific	1,500,000	\$1.00	1,500,000	N/A	N/A	Yes
28/08/2017	Mosnow Pty Ltd <the Mosnow A/C>	75,000	\$1.00	75,000	N/A	N/A	Yes
28/08/2017	Mr Mordechai Engel & Mrs Elisheva Beille Engel <Mordel Family A/C>	75,000	\$1.00	75,000	N/A	N/A	Yes

#### Notes

- The funds from the issue of shares for cash, on exercise of options and from the issue of convertible notes have been used for mining operations at Merlin diamond mine, exploration and working capital.