

**MERCANTILE INVESTMENT COMPANY LIMITED
AND CONTROLLED ENTITIES
ABN 15 121 415 576**

**Annual Report
30 June 2020**

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Annual Report
30 June 2020**

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**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

Corporate Directory

Directors:	Mr Gabriel Radzynski - Non-Executive Chairman Ms Melinda Snowden - Independent Non-Executive Director (appointed 13 September 2019) Mr Peter Velez - Independent Non-Executive Director (appointed 13 September 2019) Sir Ron Brierley - Chairman & Non-Executive Director (resigned as Chairman 6 June 2019 and resigned as Non-Executive Director 19 Dec 2019) Mr James Chirnside - Independent Non-Executive Director (resigned 13 September 2019) Mr Daniel Weiss - Independent Non-Executive Director (resigned 13 September 2019) Ms Katrina Langley - Independent Non-Executive Director (resigned 13 September 2019) Dr Gary Weiss – Non-Executive Alternate Director (resigned 13 September 2019)
Company Secretary:	Mark Licciardo is the Company Secretary as at 30 June 2020. Mark Licciardo and Elizabeth McGregor were joint Company Secretaries up to the 9 January 2020. Elizabeth McGregor resigned as joint Company Secretary on 10 January 2020. Mertons Corporate Services Pty Ltd Level 7, 330 Collins Street Melbourne VIC 3000
Auditor:	Grant Thornton Audit Pty Ltd Level 17 383 Kent Street Sydney NSW 2000
Registered Address:	Level 5, 139 Macquarie Street Sydney NSW 2000
Contact Details:	Telephone: +61 2 8014 1188 Email: info@mercinv.com.au Website: www.mercantileinvestment.com.au
Share Registrar:	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Telephone: +61 2 8280 7100 Website: www.linkmarketservices.com.au
ASX Code:	MVT (delisted and ceased from official quotation 18 October 2019) Fully paid ordinary shares. MVTHA 8% p.a. Unsecured Notes.
NZX Code:	MVT (delisted and ceased from official quotation 21 October 2019) Fully paid ordinary shares.

**Mercantile Investment Company Limited
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**Portfolio Composition
As at 30 June 2020**

Listed Domestic Investments	Total Value \$
MG Unit Trust	5,160,000
Fleetwood Corporation Ltd	4,070,317
Yellow Brick Road Ltd	3,975,673
Ingenia Communities Group	2,449,744
Australian Silica Quartz Group Ltd	1,614,721
Joyce Corporation Ltd	1,530,000
Fitzroy River Corporation Ltd	1,223,734
BCI Minerals Ltd	1,020,000
Coventry Group Ltd	874,022
Dawney & Co Ltd	751,746
Consolidated Operations Group Ltd	503,431
Cashwerkz Ltd	494,228
Kingsgate Consolidated Ltd	400,000
Sietel Ltd	334,892
Iluka Resources Ltd	274,305
Pental Ltd	243,310
Desane Group Holdings Ltd	230,307
Clearview Wealth Ltd	118,495
Ricegrowers Ltd	112,000
CML Group Ltd	77,657
MMA Offshore Ltd	65,000
American Patriot Oil & Gas Ltd	63,000
Reverse Corporation Ltd	48,136
Smart Parking Ltd	48,000
Quattro Plus Real Estate Ltd	36,074
Sub-total	25,293,792
	Total Value
Listed International Investments	\$
Spectra Systems Corp PLC (UK)	8,668,987
Tower Ltd (NZ)	1,460,690
Worsley Investors Limited (UK)	1,309,502
Hydro Hotel Eastbourne PLC (UK)	758,937
Enteq Upstream PLC (UK)	236,106
Smart (J.) & Co. (Contractors) PLC (UK)	402,668
Northamber PLC (UK)	291,789
Sub-total	13,128,679

**Mercantile Investment Company Limited
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**Portfolio Composition (continued)
As at 30 June 2020**

Unlisted Domestic Investments

CM Capital Venture Trust No 4	4,018,148
Archer Capital Fund 4	281,365
Scantech Ltd	100,181
Multiplex Europe	19,445
Pacific Equity Partners Fund IV - Core	15,676
DMX Corporation Ltd	4,800
Pacific Equity Partners Fund IV - Supplemental	1,683
Sub-total	<u>4,441,298</u>

Unlisted International Investments

Foundation Life (NZ) Investment (NZ)	5,345,652
European Real Estate Investment Trust (UK)	160
Sub-total	<u>5,345,812</u>

Total Portfolio Position at 30 June 2020	<u>48,209,581</u>
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**Mercantile Investment Company Limited
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Directors' Report

The Directors of Mercantile Investment Company Limited ("MVT" or "the Company") present their report together with the financial statements and its controlled entities for the year ended 30 June 2020.

Directors

The following persons were Directors of MVT for the whole or part of the financial year and up to the date of this report:

- Mr Gabriel Radzynski
- Ms Melinda Snowden (appointed 13 September 2019)
- Mr Peter Velez (appointed 13 September 2019)
- Sir Ron Brierley (resigned as Non-Executive Director 19 Dec 2019)
- Mr James Chirnside (resigned 13 September 2019)
- Mr Daniel Weiss (resigned 13 September 2019)
- Ms Katrina Langley (resigned 13 September 2019)
- Dr. Gary Weiss (alternate for Mr. D Weiss) (resigned 13 September 2019)

Principal Activities

MVT is an unlisted investment company whose assets are managed by an external investment manager, Sandon Capital Pty Ltd (The Manager). The principal activities of the Group during the financial year were investments in cash and securities (which are expected to provide attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding of shares for dividend yield/long term capital appreciation, as deemed appropriate), consumer finance and shipping services.

Dividends Paid or Recommended

No dividends were paid or are payable for the year ended 30 June 2020 (2019: nil).

Review of operations

During the period, Sandon Capital Investments Limited (SNC) successfully completed its takeover offer for the Company. MVT is now a wholly owned subsidiary of SNC. A total of 46,523,233 new SNC shares were issued as scrip consideration to MVT shareholders. A further 601,457 new SNC shares were issued as part consideration for the acquisition of unlisted options over unissued MVT shares. All new SNC shares were issued at a price 95.07 cents per share, which was a slight premium to the post-merger pre-tax NTA of 94.80 cents per share (as at 13 September 2019).

Since the completion of the compulsory acquisition of the Company, funding of \$15,330,000 has been provided to SNC.

On 16 October 2019, the Company entered into an Investment Management Agreement (IMA) with Sandon Capital Pty Ltd, largely replicating the terms of the IMA that exists between Sandon Capital Pty Ltd and SNC. Sandon Capital Pty Ltd does not charge any fees at the Company level.

Richfield Maritime Agency (S) Pte Ltd

Richfield Maritime Agency (S) Pte Ltd, the Company's wholly owned Singapore based shipping agency generated total revenue for the year ended 30 June 2020 of \$2.3m (2019: \$2.5m) and a net profit after tax of \$0.4m (2019: \$0.6m).

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Directors' Report (continued)

Review of operations (continued)

Ask Funding Limited

Ask Funding Limited (AKF) generated total revenue of \$2.1m (2019: \$2.2m) and a net loss after tax of \$0.2m (2019: \$0.4m profit). This net loss includes an impairment of \$2.0m (2019: \$2.2m) relating to the write down of the loan book value. The Company's activities since closure of all loan books has been limited to the servicing and amortising of its loan books with the sole objective of distributing all surplus funds to shareholders.

AKF has progressively reduced its cost base in line with the run-off of receivables. AKF considers it unlikely that it will be able to further reduce its cost base whilst it remains a disclosing entity. AKF continues to closely monitor its revenue, cost base and cash flow to ensure operational viability. It will continue to service and amortise its loan book with the sole objective of delivering the surplus funds to shareholders. AKF's loan book remains permanently closed to new loans.

Mercantile, being the Parent Company of AKF, has undertaken to provide financial support to AKF to support the run-off strategy.

State of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the group that occurred during the financial year under review not otherwise disclosed in the report or the group's financial statements.

Financial Position, Financial Instruments and Going Concern

The Directors believe MVT is in a strong and stable position.

Details of financial risk management objectives and policies are set out in Note 13 of the consolidated financial statements.

The Directors, having made appropriate enquiries, consider that MVT has adequate resources to continue in its operational business for the foreseeable future and have therefore continued to adopt the going-concern basis in preparing the financial statements.

Litigation

There is no litigation outstanding as at 30 June 2020 (2019: nil).

Events Subsequent to the Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it did have an significant impact on the portfolio's value for the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Future Developments, Prospects and Business Strategies

The Company will continue to selectively invest in cash, term deposits, unlisted and listed securities and debt instruments that the Manager considers offer the prospect for attractive risk-adjusted returns.

Corporate Governance Statement

MVT's Corporate Governance Statement is available under the Governance section of the Company's website at www.mercantileinvestment.com.au

Environmental Compliance

The operations of MVT are not subject to any particular environmental regulations under a Commonwealth, State or Territory law.

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Directors' Report (continued)

Review of operations (continued)

Directors

Information regarding the Directors of the Parent Company:

Mr Gabriel Radzynski - BA (Hons), MCom

Non-Executive Chairman

Gabriel is the founder and Managing Director of Sandon Capital Pty Limited, a boutique investment management and advisory firm. He is the portfolio manager of funds managed by Sandon Capital Pty Limited. Gabriel is also a non-executive director of Future Generation Investment Fund Limited and Sandon Capital Investments Limited.

Ms Melinda Snowden- BEc, LLB, GAICD, FFin

Independent Non-Executive Director

Melinda Snowden is a professional company director and experienced audit and risk committee member across a range of sectors. Melinda brings to the board a deep understanding of investment markets, governance disciplines and strategic insight.

Melinda's other current directorships include WAM Leaders Limited and Newington College. She is a former director of Mercer Investments (Australia) Limited, Kennards Self Storage Pty Ltd, MLC Limited, the wealth management division of National Australia Bank, Vita Group Limited and SANE Australia.

Prior to leaving her executive career in 2010, Melinda was a corporate advisor for over 15 years with firms Grant Samuel, Merrill Lynch and Goldman Sachs in Australia and New York.

Melinda is a member of the Audit and Risk Committee.

Mr Peter Velez - LLB MA MSc

Independent Non-Executive Director

Peter is a corporate lawyer specialising in equity capital markets, mergers and acquisitions and funds management. Peter has also advised extensively on activist corporate activity, ASX compliance and corporate governance. Peter has been a practising lawyer since 1989 having worked at then national firm Freehill Hollingdale and Page and Sydney boutique corporate firm Watson Mangioni from 1995 to 2016. He played a key role in the development of externally-managed listed investment companies (LIC) having been involved in the IPO of over 25 LICs.

Peter is a member of the Audit and Risk Committee.

Company Secretary

Mr Mark Licciardo - B Bus (Acc), GradDip CSP, FGIA, FCIS, FAICD (Company Secretary)

Mark Licciardo is Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed and unlisted public and private companies.

Prior to establishing Mertons, Mark Licciardo was Company Secretary of the Transurban Group and Australian Foundation Investment Company Limited. Mark has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mark Licciardo is a former Chairman of the Governance Institute Australia (GIA) in Victoria and the Melbourne Fringe Festival, a fellow of GIA, the Institute of Chartered Secretaries (CIS) and the Australian Institute of Company Directors (AICD) and a Director of ASX listed Frontier Digital Ventures Limited, iCar Asia Limited and Mobilicom as well as several other public and private companies.

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Directors' Report (continued)

Directors' Meetings

The number of meetings of Directors (including meetings of committees of directors) held during the financial year were:

	Directors' Meetings		Committee Meetings Audit & Risk		Nomination & Remuneration Committee	
	Number of Eligible Meetings to Attend	Number Attended	Number of Eligible Meeting to Attend	Number Attended	Number of Eligible Meeting to Attend	Number Attended
Mr Gabriel Radzynski	4	3	-	-		
Ms Melinda Snowden	2	2	-	-	1	1
Mr Peter Velez	2	2	-	-	1	1
Sir Ron Brierley	3	1	-	-	-	-
Mr James Chirnside	2	2	1	1	-	-
Mr Daniel Weiss	2	2	1	1	-	-
Ms Katrina Langley	2	2	1	1	-	-
Dr Gary Weiss	-	-	-	-	-	-

Directors' Interests

The relevant interest of each Director in the share capital of MVT, as notified to the Australian Securities Exchange in accordance with section 205G of the *Corporations Act 2001*, at the date of this report is as follows:

**No. of Ordinary
Shares Held at 30
June 2020**

Mr Gabriel Radzynski	-
Ms Melinda Snowden	-
Mr Peter Velez	-
Sir Ron Brierley	-
Mr James Chirnside	-
Mr Daniel Weiss	-
Ms Katrina Langley	-
Dr Gary Weiss	-

**Mercantile Investment Company Limited
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Directors' Report (continued)

Remuneration Report

Scope of Report

This Remuneration Report considers the key management personnel ("KMP") of MVT. The current KMP of the Company are three Non-Executive Directors. The Company Secretaries are remunerated under a service agreement with Mertons Corporate Services Pty Ltd. Non-Executive Director remuneration is not linked to the company's performance.

KMP included in this report:

Non-executive Directors

Peter Velez (appointed 13 September 2019)
Melinda Snowden (appointed 13 September 2019)
Sir Ron Brierley (resigned as Non-Executive Director 19 Dec 2019)
Mr James Chirside (resigned 13 September 2019)
Mr Daniel Weiss (resigned 13 September 2019)
Ms Katrina Langley (resigned 13 September 2019)
Dr Gary Weiss (alternate for D. Weiss) (resigned 13 September 2019)

Non-executive Chairman

Gabriel Radzynski

Remuneration Governance

The Board's policy is to remunerate Non-Executive at market rates for time, commitment and responsibilities. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Company.

Where specialist services beyond the normal expectations of a Director are provided to the company, payment will be made on a normal commercial basis. Work under this arrangement has been carried out by Gabriel Radzynski and others through Sandon Capital Pty Ltd on arm's-length commercial terms. This arrangement ceased on 16 October 2019.

On 16 October 2019, following the acquisition of the Company by SNC, MVT entered into an Investment Management Agreement (IMA) with Sandon Capital Pty Ltd, largely replicating the terms of the IMA that exists between Sandon Capital Pty Ltd and SNC. Sandon Capital Pty Ltd only charges accounting fees at the Company level as all other prior arrangements have been cancelled.

Since 13 September 2019, there have been no fees payable to Directors.

Elements of Remuneration

The Directors are the only people considered to be key management personnel of the company.

Remuneration for Mr Daniel Weiss was not paid directly to Mr Weiss but was paid to Ariadne Australia Limited (inclusive of irrecoverable GST). Mr Weiss is an employee of and remunerated separately by Ariadne Australia Limited.

Remuneration for Mr Radzynski reflects director's fees of \$3,750 plus superannuation up to and including 13 September 2019.

In the 2019 financial year, the Board approved a cash bonus payment of \$125,000 (inclusive of super) payable in 2 tranches of \$62,500. The first tranche was paid in November 2019 and the second tranche was paid to Mr Radzynski in February 2020.

There are no fixed term employment contracts between the Company and its KMP. Employment may be terminated with four weeks' notice by either the Company or the employee. There are no provisions for any termination payments other than for unpaid annual leave and long service leave.

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Directors' Report (continued)

Remuneration Report (continued)

The Board issued Mr Gabriel Radzynski the following options at nil consideration:

Option Issued/Sale Date	Exercise price \$ per option	Expiration date	No. of Options	No. Options exercised	Sale of Option to Parent Company	Fair Value of the Option \$
2 December 2016	0.20	31 December 2020	10,000,000	-	-	342,000
21 November 2018	0.23	31 December 2021	10,000,000	-	-	90,000
21 November 2018	0.24	31 December 2022	13,250,000	-	-	145,750
24 June 2019	-	-	-	-	(33,250,000)	(577,750)
			33,250,000	-	(33,250,000)	-

The weighted average exercise price is \$0.22.

As part of the SNC acquisition of the Company, SNC entered into agreements to acquire Mercantile options issued to Mr Gabriel Radzynski. Mr Radzynski received a consideration of \$237,930 in cash and 285,826 in SNC shares at an issue price of \$0.9507. The value of these options was determined by an independent valuation commissioned by the independent directors of SNC.

Remuneration expenses for KMP

The remuneration policy has been tailored to align the interest between shareholders, executive directors and non-executive.

	Cash & Salary	Short Term Bonus	Post Employment Benefits	Share based payments	Total
30 June 2020	\$	\$	\$	\$	\$
Directors					
Mr Gabriel Radzynski	3,750	125,000	356	-	129,106
Mr James Chirside	8,216	-	781	-	8,997
Mr Daniel Weiss	9,164	-	-	-	9,164
Ms Katrina Langley	7,608	-	723	-	8,331
	28,738	125,000	1,860	-	155,598

* During the year, \$15,000 was paid to the independent non-executive directors for services beyond the normal expectations of a non-executive director arising from the takeover of MVT.

	\$	\$	\$	\$	\$
30 June 2019					
Directors					
Mr Gabriel Radzynski	15,000	180,000	1,425	-	196,425
Mr James Chirside	18,000	-	1,710	-	19,710
Mr Daniel Weiss	18,067	-	-	-	18,067
Ms Katrina Langley	9,830	-	934	-	10,764
Mr Ron Langley*	5,000	-	475	-	5,475
	65,897	180,000	4,544	-	250,441

* Mr Ron Langley retired on 31 October 2018.

Share based payments are equity settled.

Mr Gabriel Radzynski, Mr James Chirside and Ms Katrina Langley were directly remunerated by the Company.

**Mercantile Investment Company Limited
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Directors' Report (continued)

Remuneration Report (continued)

Options and bonuses are awarded to executives on a discretionary basis which are not target specific, with the Nomination & Remuneration Committee regarding the overall performance of the company and the committee's assessment of an executive's contribution to performance.

Remuneration for Mr Daniel Weiss was not paid to Mr Weiss but was paid to Ariadne Australia Limited (inclusive of irrecoverable GST). Mr Weiss is an employee of and remunerated separately by Ariadne Australia Limited.

Other Statutory Information

The number of shares in the company held during the financial year by each director of the group, including their personally related parties, is set out below:

	Balance at the start of the year No.	Received as part of remuneration No.	Additions No.	Disposals/ other No.	Balance at the end of the year No.
30 June 2020					
Ordinary shares					
Mr Gabriel Radzyninski	1,803,171	-	-	(1,803,171)	-
Mr Peter Velez	-	-	-	-	-
Ms Melinda Snowden	-	-	-	-	-
Sir Ron Brierley	69,430,338	-	-	(69,430,338)	-
Mr James Chirnside	175,000	-	-	(175,000)	-
Mr Daniel Weiss	-	-	-	-	-
Ms Katrina Langley	-	-	-	-	-
Dr Gary Weiss	15,455,001	-	-	(15,455,001)	-
	86,863,510	-	-	(86,863,510)	-

	Opening Balance No.	Options Issued No.	Exercise of Options No.	Expiration of Options No.	Sale of Options to Parent Entity No.	Closing Balance No.
30 June 2020						
Options						
Mr Gabriel Radzyninski	33,250,000	-	-	-	(33,250,000)	-
Mr Peter Velez	-	-	-	-	-	-
Ms Melinda Snowden	-	-	-	-	-	-
Sir Ron Brierley	-	-	-	-	-	-
Mr James Chirnside	-	-	-	-	-	-
Mr Daniel Weiss	-	-	-	-	-	-
Ms Katrina Langley	-	-	-	-	-	-
Dr Gary Weiss	-	-	-	-	-	-
	33,250,000	-	-	-	(33,250,000)	-

**Mercantile Investment Company Limited
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Directors' Report (continued)

Remuneration Report (continued)

The 33,250,000 options issued to Mr Radzynski consists of:

Option Issued Date	Exercise price \$ per option	Expiration date	No. of Options	No. Options exercised	Sale of Options to Parent Company	Value of Options \$
2 December 2016	0.20	31 December 2020	10,000,000	-	(10,000,000)	342,000
21 November 2018	0.23	31 December 2021	10,000,000	-	(10,000,000)	90,000
21 November 2018	0.24	31 December 2022	13,250,000	-	(13,250,000)	145,750
			33,250,000	-	(33,250,000)	577,750

The weighted average exercise price is \$0.22.

The value of the Options was calculated using the Black-Scholes Model. It is used to calculate the theoretical value of Options using current share prices, expected dividends, the option's strike price, expected interest rates, time to expiration, expected volatility (30%) and the risk-free rate (1.5%).

As part of the SNC acquisition of the Company, SNC entered into agreements to acquire Mercantile options issued to Mr Gabriel Radzynski. Mr Radzynski received consideration of \$237,930 in cash and 285,826 in SNC shares at an issue price of \$0.9507. The value of these options was determined by an independent valuation commissioned by the independent directors of SNC.

Loans to KMP

No loans have been made to the Directors of MVT.

Other transactions with KMP:

	2020 \$	2019 \$
Sandon Capital Pty Ltd is an entity associated with Mr Gabriel Radzynski. Sandon Capital Pty Ltd provided general consulting, corporate advisory and accounting services to Mercantile Investment. All dealings are conducted at arm's length on normal commercial terms. The following amount was paid to Sandon Capital Pty Ltd.	187,054	566,500
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Daniel Weiss were paid to Ariadne Australia Limited.	9,164	18,067
The Board awarded a discretionary cash bonus to Mr Radzynski of \$125,000 (inclusive of super) in November 2019. The bonus was paid in two equal instalments within the 2020 Financial Year.	125,000	125,000
In prior financial years, Sir Ron Brierley provided short-term, unsecured loans the Company to fund purchases of investments. The Company repaid the amount \$6.0m (2019: \$8.0m) in the 2020 financial year. Interest was paid at the RBA cash rate per annum. The balance represents the interest paid to Sir Ron Brierley. There are no further loans or interest owing to Sir Ron Brierley.	206,466	164,055
Sir Ron Brierley subscribed for 30,000 MVTHA notes (\$3,000,000) in partial repayment of the short-term debt facility which was in operation during the 2016 financial year. At the date of Sir Ron Brierley's retirement on 19 December 2019, interest paid on these notes was \$nil (2019: \$240,000)	-	240,000
Gabriel Radzynski subscribed for 250 MVTHA notes (\$25,000) during the 2017 financial year. Interest paid on these notes at 30 June 2020 was \$2,000 (2019: \$2,000)	2,000	2,000

This is the end of the Remuneration Report

**Mercantile Investment Company Limited
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Directors' Report (continued)

Indemnifying Officers

The Parent Company's constitution provides for an indemnity of Directors, Secretaries and Executive Officers (as defined in *the Corporations Act 2001*) where liability is incurred in the performance of their duties in those roles, other than conduct involving a wilful breach of duty in relation to the Company. The Constitution further provides for an indemnity in respect of any costs and expenses incurred in defending proceedings in which judgement is given in their favour, they are acquitted, or the Court grants them relief under *the Corporations Act 2001*.

Auditor Indemnification

No indemnities have been given or insurance premiums paid during or since the end of the financial year in respect of any person who is or has been an auditor of the Parent Company or its controlled entities.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of MVT or intervene in any proceedings to which MVT is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. MVT was not a party to any such proceedings during the year.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by *the Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 24 to the financial statements do not compromise the external auditor's independence requirements of *the Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2020 is set out on page 14.

Rounding of amounts

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, and in accordance with that legislative instrument, amounts in the Directors' Report and financial report have been rounded off to the nearest dollar, unless otherwise stated.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)a of the Corporations Act 2001.



Gabriel Radzynski
Executive Director

2 November 2020

Auditor's Independence Declaration

To the Directors of Mercantile Investment Company Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Mercantile Investment Company Limited for the financial year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



A J Sheridan
Partner – Audit & Assurance

Sydney, 2 November 2020

**Mercantile Investment Company Limited
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**Consolidated Statement of Comprehensive Income
For the year ended 30 June 2020**

	Note	2020 \$	2019 Restated * \$
Income			
Revenue from continuing operations	9	7,447,637	6,843,350
Other income	10	(10,229,096)	2,565,495
		<u>(2,781,459)</u>	<u>9,408,845</u>
Expenses			
Accounting fees		188,727	270,082
Audit fees	26	169,946	196,090
Taxation service fees		381,193	202,937
Finance costs	11	1,973,404	2,090,486
Service agreement fees		96,304	467,500
Company secretary fees		51,765	47,039
Share registry fees		152,402	113,194
Brokerage		33,101	43,455
Impairment charges	11	1,950,535	3,243,915
Legal and professional fees		289,020	536,753
ASIC and ASX charges		111,084	135,776
Share based payments		-	310,000
Employee benefit expenses	11	1,721,127	1,972,817
Insurance		47,578	50,530
Other operating costs	28	535,838	1,092,793
		<u>7,702,024</u>	<u>10,773,367</u>
Loss Before Income Tax		(10,483,483)	(1,364,522)
Income tax benefit/ (expense)	12	2,982,825	(752,900)
Loss for the period		<u>(7,500,658)</u>	<u>(2,117,422)</u>
Loss Attributable to:			
Members of the parent entity		(7,452,281)	(1,977,033)
Non-controlling interest		(48,377)	(140,389)
		<u>(7,500,658)</u>	<u>(2,117,422)</u>
Other Comprehensive Income			
<i>Items that will not be reclassified to profit or loss:</i>			
Movement in fair value of long term equity investments at fair value through other comprehensive income, net of tax		1,887,028	2,087,723
Total other comprehensive income		<u>1,887,028</u>	<u>2,087,723</u>
Total Comprehensive Income for the year		<u>(5,613,630)</u>	<u>(29,699)</u>
Total Comprehensive Income attributable to:			
Members of the Parent Entity		(5,565,253)	110,690
Non-Controlling Interest		(48,377)	(140,389)
		<u>(5,613,630)</u>	<u>(29,699)</u>
Loss per Share		Cents	Cents
- Basic Loss per share	27	(2.65)	(0.70)
- Diluted Loss per share	27	(2.65)	(0.70)

* See note 1 for details regarding the restatement as a result of an error.

The above statement should be read in conjunction with the accompanying notes.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576
Consolidated Statement of Financial Position
As at 30 June 2020**

	Note	2020 \$	2019 Restated* \$	1 July 2018 Restated * \$
Assets				
Current Assets				
Cash and cash equivalents	8	5,039,484	6,505,698	11,743,998
Trade and other receivables	19	460,841	1,883,536	2,337,479
Net loans and advances	16	3,146,000	3,455,099	3,533,231
Financial assets at fair value through profit or loss	15	25,462,498	38,810,623	25,715,784
Intercompany tax receivable from parent		1,320,314	-	-
Other current assets	19	74,362	81,313	89,281
Loan to parent entity	23	15,330,000	-	-
Current tax receivable		87,760	-	-
Total Current Assets		50,921,259	50,736,269	43,419,773
Non-Current Assets				
Financial assets at fair value through other comprehensive income	15	22,747,083	39,251,847	47,734,505
Property, plant & equipment		145,659	36,631	22,591
Right-of-use assets	25	590,993	-	-
Deferred tax assets	1,13	939,823	1,508,678	915,295
Total Non-Current Assets		24,423,558	40,797,156	48,672,391
Total Assets		75,344,817	91,533,425	92,092,164
Liabilities				
Current Liabilities				
Trade and other payables	20	2,421,418	11,289,763	9,928,487
Current lease liability	21	196,961	-	-
Current tax liability	1	-	1,022,240	-
Total Current Liabilities		2,618,379	12,312,003	13,654,133
Non-Current Liabilities				
Unsecured notes	17	22,055,932	21,929,602	21,824,524
Lease liability	21	394,387	-	-
Deferred tax liabilities	1,13	12,234	1,655,692	1,503,894
Total Non-Current Liabilities		22,462,553	23,585,294	23,328,418
Total Liabilities		25,080,932	35,897,297	36,982,551
Net Assets		50,263,885	55,636,128	55,109,613
Equity				
Issued capital	6	28,834,628	28,834,628	28,834,628
Accumulated losses	1	(19,437,357)	(12,664,345)	(10,523,814)
Reserves	1,5	39,960,034	38,510,888	35,719,474
Members' interests		49,357,305	54,681,171	54,030,288
Non-controlling interest		906,580	954,957	1,079,325
Total Equity		50,263,885	55,636,128	55,109,613

* See note 1 for details regarding the restatement as a result of an error.

The above statement should be read in conjunction with the accompanying notes.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Changes in Equity
For the year ended 30 June 2020**

Notes	Issued Share Capital - Ordinary	Accumulated Losses	Reserves	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$
Balance at 30 June 2018	28,834,628	(10,454,943)	35,719,474	1,079,325	55,178,484
Correction of error (net of tax)	-	(68,871)	-	-	(68,871)
Restated balance as at 1 July 2018	28,834,628	(10,523,814)	35,719,474	1,079,325	55,109,613
Loss for the year	-	(1,977,033)	-	(140,389)	(2,117,422)
Other comprehensive income for the year	-	-	2,087,723	-	2,087,723
Total comprehensive income for the year	5	(1,977,033)	2,087,723	(140,389)	(29,699)
<u>Transactions with Owners:</u>					
Foreign Currency Translation Reserve	-	-	393,691	-	393,691
Non-controlling interest on acquisition of controlled entity	-	-	-	2,392,523	2,392,523
Change in proportion of NCI	-	(163,498)	-	(2,376,502)	(2,540,000)
Share options issued	22	-	310,000	-	310,000
Balance at 30 June 2019 (restated)	28,834,628	(12,664,345)	38,510,888	954,957	55,636,128
Loss for the year	-	(7,452,281)	-	(48,377)	(7,500,658)
Other comprehensive income for the year	-	-	1,887,028	-	1,887,028
Total comprehensive income for the year	5	(7,452,281)	1,887,028	(48,377)	(5,613,630)
<u>Transactions with Owners:</u>					
Foreign Currency Translation Reserve	5	-	325,415	-	325,415
Change in proportion of NCI	-	(84,028)	-	-	(84,028)
Share based payments expensed	-	1,103,500	(1,103,500)	-	-
Balance at 30 June 2020	28,834,628	(19,097,154)	39,619,831	906,580	50,263,885

The above statement should be read in conjunction with the accompanying notes.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Cash Flows
For the year ended 30 June 2020**

	Note	2020 \$	2019 \$
Cash Flows from Operating Activities			
Dividends, distributions and other investment income received		7,508,790	5,532,921
Other payments in the course of ordinary operations		(5,377,421)	(6,251,603)
Proceeds from sale of trading securities		6,421,218	3,633,345
Payments for trading securities		(4,370,386)	(5,671,839)
Interest received		34,023	375,300
Interest paid		-	(76,808)
Loan repayments received		452,112	12,207
Income tax paid		(1,173,495)	(4,364,320)
Net Cash provided by/(used in) Operating Activities	8	<u>3,494,841</u>	<u>(6,810,797)</u>
Cash Flows from Investing Activities			
Proceeds from disposal of financial assets		21,108,460	11,461,857
Payments for financial assets		(1,257,330)	(4,577,513)
Payment for acquisition of IPE Limited		-	(4,488,575)
Payment for purchase of non-controlling interest		-	(2,649,357)
Proceeds from return of capital		302,459	1,634,972
Loan to parent entity		(15,370,000)	-
Net Cash provided by Investing Activities		<u>4,783,589</u>	<u>1,381,384</u>
Cash Flows from Financing Activities			
Borrowing costs		-	(17,232)
Interest Payments on MVT Notes		(1,787,154)	(1,784,695)
Loan proceeds received		-	9,000,000
Repayment of loan		(6,000,000)	(8,000,000)
Interest paid		(206,466)	-
Proceeds from issue of shares		-	-
Share buy-back		-	(162,061)
Net Cash used in Financing Activities		<u>(7,993,620)</u>	<u>(963,988)</u>
Net Increase/ (Decrease) in Cash and Cash Equivalents held		284,810	(6,393,401)
Effects of exchange rate changes on cash and cash equivalents		(1,751,024)	1,155,101
Cash and cash equivalents at the beginning of financial year		6,505,698	11,743,998
Cash and Cash Equivalents at End of Financial Year	8	<u>5,039,484</u>	<u>6,505,698</u>

The above statement should be read in conjunction with the accompanying notes.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Basis of preparation

This financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a for profit basis;
- is presented in Australian dollars with all values rounded to the nearest dollar, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation.
- has been prepared on an accruals basis and are based on the historical cost basis except as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss or through other comprehensive income.
- where Parent company information is disclosed, relevant accounting policies are described when different to the Group accounting policies.
- was authorised for issue with a resolution of the Board of Directors on 2 November 2020.

a) New, revised or amending Accounting Standards and Interpretations adopted

AASB 16 Leases

The company transitioned from AASB 117 Leases to AASB 16 Leases on 01 July 2019 under the modified retrospective method. No retained earning adjustment was required on adoption. The standard removes the classification of leases as either operating or finance leases, effectively treating all leases as finance leases and move all off-balance sheet operating leases onto the balance sheet.

The following is reconciliation of total operating lease commitment as at 30 June 2019 (as disclosed in the financial statements to 30 June 2019) to the lease liabilities recognised at 1 July 2019:

	\$
Total operating lease commitments disclosed at 30 June 2019	185,957
Discounted lease payment	2,789
Total lease liabilities recognised under AASB 16 at 1 July 2019	<u>183,168</u>

The Group has leases for premises and fixed assets.

On adoption of AASB 16, the Group has recognised lease liabilities in relations to leases which had previously been as "operating leases" under the principles of AASB 117 Leases.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019.

On transitions, the incremental borrowing rates applied to the lease liabilities recognised under AASB 16 was 1.9%-2.0%.

IFRIC 23 Uncertainty over Income Tax Treatments

The IFRS Interpretations Committee has issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied where there is uncertainty over income tax treatments. Management have applied AASB Interpretation 23 Uncertainty over Income Tax Treatments, which becomes effective from 1 July 2019. Based on our assessment, the Consolidated Entity does not have any treatments or positions which require adjustment or disclosure required by the interpretation.

**Mercantile Investment Company Limited
And Controlled Entities
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Basis of preparation (continued)

b) Foreign currency translations and balances

Transactions and Balances

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group Companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

c) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST receivable or payable. The net amount of GST recoverable from, or payable to the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**Mercantile Investment Company Limited
And Controlled Entities
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Basis of preparation (continued)

d) Controlled Entities (Subsidiaries)

The consolidated financial statements of the Group incorporate the financial statements of Mercantile Investment Company Limited and its subsidiaries. A table is set out below on page 22, listing these subsidiaries.

Subsidiaries are all entities over which MVT has control. MVT controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

AKF being a subsidiary of MVT de-listed from the ASX on 11 October 2018. The directors consider it appropriate to prepare the financial report for the year ended 30 June 2020 on a non-going concern basis given the orderly run-off and closure of AKF's loan books.

Any adjustments required to align AKF (whose accounts are not prepared on a going concern basis) into the consolidated Group which has been prepared on a going concern basis have been assessed and have been deemed immaterial.

RMA is a reporting entity that has a 12 month financial reporting period ending 31 December 2019. In order to align with the consolidated Group's reporting period, RMA financials for the 12 months ending 30 June 2020 have been brought to account for this financial report.

Otherwise, the financial statements of all other subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

e) New and amended standards not adopted:

There are no other new accounting standards and interpretations that are available for early adoption at 30 June 2020, which will result in any material change in relation to the financial statements of Mercantile Investment Company Limited

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Parent Entity	Country of Incorporation	Percentage	
		June 2020	June 2019
Mercantile Investment Company Limited	Australia	100	100
Controlled Entities of Mercantile Investment Company Limited			
Ask Funding Limited	Australia	72	72
ATL Exploration Pty Ltd	Australia	100	100
IPE Limited	Australia	100	100
Jack Hills Holdings Pty Ltd	Australia	100	100
Mercantile ADF Pty Ltd	Australia	100	100
Mercantile IAH Pty Ltd	Australia	100	100
Mercantile IAM Pty Ltd	Australia	100	100
Mercantile NZ Limited	New Zealand	100	100
Mercantile OFM Pty Ltd	Australia	100	100
MMX Investments Pty Ltd	Australia	100	100
MMX Port Holdings Pty Ltd	Australia	100	100
MMX Rail Holdings Pty Ltd	Australia	100	100
Murchison Metals Ltd	Australia	100	100
Richfield International Ltd	Australia	100	100
Richfield Marine Agencies (S) Pte Ltd	Singapore	100	100
Weld Range Mining Pty Ltd	Australia	100	100
Wellington Merchants Ltd	New Zealand	100	100

Percentage of voting power is in proportion to ownership.

The principal place of business for all entities is Level 5, 139 Macquarie Street Sydney NSW 2000, other than those entities operating overseas.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated.

Other accounting policies

Significant and other accounting policies relevant to gaining an understanding of the financial statements have been grouped with the relevant notes to the financial statements.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Key judgements and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates assume a reasonable expectation of future events and are based on current trends and economic data. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed within the notes below.

Note reference	Critical accounting estimates and judgements	Page
Note 13	Deferred tax assets and deferred tax liabilities	37
Note 15	Fair value estimation	46
Note 16	Net Loans and Advances	49
Note 19	Trade and Other Receivables	51

Impairment of assets

At the end of each reporting period, the group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value, less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

Deferred Tax

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 1: Restatement of prior period errors

a) correction of error in accounting for deferred tax

During the financial year, the directors undertook a review of tax balances within the consolidated group. In particular, the deferred tax assets and deferred tax liabilities relating to acquired controlled entities being IPE Limited, Wellington Merchants Limited and Richfield International Ltd.

It was found due to a staggered approach in the acquisition of all three entities and becoming part of the Mercantile Investment Company Limited consolidated tax group, the deferred tax asset and deferred tax liabilities recorded in prior period was incorrect.

b) correction of error in measurement of the unrealised gain and deferred tax

The directors re-evaluated the cost base of a *financial asset at fair value through other comprehensive income* for 2019. It was identified the balance was understated due to various corporate actions and sell down of the assets. The unrealised gain of the financial asset has impacted the groups deferred tax liability balance for the same year and therefore needed to be restated.

The error has been corrected by reinstating each of the affected financial statement line item for the prior periods as follows:

	Note	30 June 2018	Adjustments	1 July 2018 Restated
Statement of Financial Position		\$	\$	\$
Deferred tax asset	a,b	183,645	731,650	915,295
Total Non-Current Assets		47,940,741	731,650	48,672,391
Deferred tax liabilities	a,b	703,373	800,521	1,503,894
Total Non-Current Liabilities		22,527,897	800,521	23,328,418
Accumulated losses		(10,454,943)	(68,871)	(10,523,814)
Total equity		55,178,484	(68,871)	55,109,613

	Note	30 June 2019	Adjustments	30 June 2019 Restated
Statement of Financial Position		\$	\$	\$
Deferred tax asset	a,b	441,925	1,066,753	1,508,678
Total Non-Current Assets		39,730,403	1,066,753	40,797,156
Deferred tax liabilities	a,b	-	1,655,692	1,655,692
Total Non-Current Liabilities		21,929,608	1,655,692	23,585,294
Accumulated losses		(12,075,406)	(588,939)	(12,664,345)
Total equity		56,225,067	(588,939)	55,636,128

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 2: Parent Company Financial Information

Accounting Policy:

The statement of financial position, profit after tax and total comprehensive income for the Parent company, have been prepared on the same basis as the consolidated financial statements except for investments in controlled entities (subsidiaries) and investments in associates.

In the Parent company, investments in subsidiaries and associates are carried at the lower of cost or impaired cost. Dividends from these entities are recognised as income within profit.

The consolidated financial statements recognises the individual assets, liabilities, income and expenses of the controlled entities.

a) Interest bearing liabilities

The Parent Company has no current interest-bearing liabilities as at 30 June 2020 (2019: \$6m).

At year end, the Parent Company MVTHA 8% Unsecured Notes were non-current liabilities. These are due and payable on 10 July 2021.

b) Contingent liabilities

The Parent company did not have any contingent liabilities as at 30 June 2020. Refer Note 17.

c) Contractual commitments

The Parent company has entered into an IMA with Sandon Capital Pty Ltd as at 30 June 2020. Refer to Directors' Report.

	2020	2019
	\$	\$
Profit of the parent entity		
Profit for the year	(6,682,519)	536,338
Total comprehensive loss for the year	(10,531,860)	(1,504,911)
Financial position of the parent entity as at 30 June		
Current assets	21,747,758	32,128,243
Non-current assets	84,875,333	85,931,004
Current liabilities	(26,421,970)	(32,965,754)
Non-current liabilities	(22,123,164)	(22,837,350)
Net assets	<u>57,074,700</u>	<u>62,256,143</u>
Total equity of the parent entity comprising of		
Issued capital	28,834,389	28,834,389
Capital profits reserves	29,463,707	23,295,752
Asset revaluation reserve	2,152,321	6,093,048
Retained profits	(2,375,716)	2,929,454
Share based payment reserve	-	1,103,500
Total equity attributable to shareholders of the parent entity	<u>58,074,700</u>	<u>62,256,143</u>

**Mercantile Investment Company Limited
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 3: Payment of Dividends to Shareholders

The group has not declared a dividend for the 2020 financial year (2019: nil).

	2020	2019
	\$	\$
The amount of franking credits available to shareholders for the subsequent financial year, adjusted for franking credits that will arise from the payment of the current tax liability years based on Australian company tax rate of 27.5% (2019: 27.5%).	13,612,299	13,612,299
Franking dividend transferred to ultimate parent company	(13,612,299)	-
Franking credits	-	13,612,299

Note 4: Segment Information

The Parent Company invests in a diverse range of companies.

The Parent Company and its subsidiaries operate within three segments:

a) Securities

The Group invests in cash, term deposits and equity investments.

b) Consumer Finance

AKF previously engaged in pre-settlement and disbursement lending. AKF has been in a run-off since 2011.

c) Shipping Services

Richfield International Ltd (RIS), through its Singapore based subsidiary, is involved in the provision of port and shipping services for ocean-going vessels.

Geographic Segments

The group operates in two geographic areas being Singapore and Australia.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 4: Segment Information (continued)

Consolidated – 2020	Securities	Consumer Finance	Shipping Services	Total
	\$	\$	\$	\$
Revenue	(7,191,069)	2,122,530	2,287,080	(2,781,459)
Expenses	(3,454,076)	(2,293,715)	(1,954,233)	(7,702,024)
(Loss) before tax	(10,645,146)	(171,184)	332,847	(10,483,483)
(Loss)/ Profit after tax	(7,055,886)	(171,184)	(273,588)	(7,500,658)
<i>Material items include:</i>				
Impairment of loans	-	(1,950,535)	-	(1,950,535)
Assets				
Segment assets	68,316,167	3,146,000	262,904	71,725,071
Trade and other receivables	-	-	-	460,841
Other current assets	-	-	-	74,362
Right-of-use assets	-	-	590,987	590,987
Property, plant & equipment	-	-	-	145,659
Deferred tax assets	-	-	-	939,823
Current tax benefit	-	-	-	87,760
Intercompany tax asset with Parent entity	-	-	-	1,320,314
				<u>75,344,817</u>
Liabilities				
Segment liabilities	(20,994,770)	-	(1,061,173)	(22,055,943)
Trade and other payables	-	-	-	(2,421,418)
Lease liability	-	-	(591,339)	(591,339)
Deferred tax liabilities	-	-	-	(12,234)
				<u>(25,080,932)</u>

**Mercantile Investment Company Limited
And Controlled Entities
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 4: Segment Information (continued)

Consolidated - 2019	Securities	Consumer Finance	Shipping Services	Total
	\$	\$	\$	\$
Revenue	4,698,862	2,216,846	2,493,137	9,408,845
Expenses	(6,187,886)	(2,656,929)	(1,928,552)	(10,773,367)
(Loss) before tax	(1,489,024)	(440,083)	564,585	(1,364,522)
(Loss)/ Profit after tax	(586,389)	(440,083)	(1,090,950)	(2,117,422)
<i>Material items include:</i>				
Impairment of loans	-	(2,194,529)	-	(2,194,529)
Assets				
Segment assets	84,513,720	3,455,100	1,394,520	89,363,340
Trade and other receivables	-	-	-	543,465
Other current assets	-	-	-	81,313
Property, plant & equipment	-	-	-	36,631
Deferred tax assets	-	-	-	1,508,678
				<u>91,533,427</u>
Liabilities				
Segment liabilities	(21,929,602)	-	(3,517,030)	(25,446,631)
Trade and other payables	-	-	-	(7,772,737)
Current tax liability	-	-	-	(1,022,240)
Deferred tax liabilities	-	-	-	(1,655,692)
				<u>(35,897,300)</u>

**Mercantile Investment Company Limited
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**Notes to the Financial Statements
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Note 4: Segment Information (continued)

Consolidated - 2020	Australia \$	Singapore \$	Total \$
Income	(5,068,539)	2,287,080	(2,781,459)
Non-current assets	24,277,899	145,659	24,423,558
Consolidated - 2019			
Income	6,915,708	2,493,137	9,408,845
Non-current assets	40,755,027	42,131	40,797,158

Note 5: Reserves

Accounting Policy:

Certain changes in the value of assets and liabilities are not recognised in the profit or loss but are instead included in other comprehensive income.

	Note	2020 \$	2019 Restated \$
a) Reserves			
Profits Reserve		37,024,363	32,744,489
Asset Revaluation Reserve		1,820,813	4,213,659
Foreign currency translation reserve		774,655	449,240
Share based payment reserve	21	-	1,103,500
		<u>39,619,831</u>	<u>38,510,888</u>
b) Major movements in reserves consist of:			
Profit reserve			
Balance 1 July (Restated)		32,744,489	29,118,386
Revaluation of pre-existing investment in controlled entity		-	-
Realised gains on sale of long-term equity investments		4,279,874	3,626,103
Transfer to profit reserve		-	-
Balance 30 June		<u>37,024,363</u>	<u>32,744,489</u>
Asset Revaluation Reserve			
Balance 1 July (Restated)		4,213,659	5,752,039
Movement in fair value of long-term equity investments, net of tax		1,887,028	2,087,723
Realised gains on sale of long-term equity investments		(4,279,874)	(3,626,103)
Balance 30 June		<u>1,820,813</u>	<u>4,213,659</u>

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Note 5: Reserves (continued)

	2020	2019
	\$	\$
Foreign currency translation reserve		
Balance 1 July	449,240	55,549
Foreign exchange movement	325,415	393,691
Balance 30 June	<u>774,655</u>	<u>449,240</u>
 Share based payment reserve		
Balance 1 July	1,103,500	793,500
Issuance of share-based options	-	310,000
Share purchased by Parent entity	(1,103,500)	-
Balance 30 June	<u>-</u>	<u>1,103,500</u>

c) Nature and purpose of reserves

Profits reserve

This reserve represents amounts allocated from retained profits (accumulated losses) and capital profits and losses transferred from the asset revaluation reserve on disposal of long-term equity investments.

Asset revaluation reserve

This reserve represents changes in the fair value of certain assets including long term equity investments which are not recognised in the income statement.

Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences which arise from the translation of self-sustaining foreign operations and foreign exchange movements.

Share based payment reserve

The share-based payment reserve is used to recognise the fair value of options and rights issued.

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Note 6: Share Capital and Capital Management

Accounting Policy:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction net of tax, from the proceeds. The amounts of any capital returns are applied against share capital.

			2020 \$	2019 \$
280,700,000 (2019: 280,700,000) fully paid ordinary shares			28,834,628	28,834,628
Ordinary Shares	2020	2019	2020	2019
	No.	No.	\$	\$
At the beginning of reporting period	280,700,000	280,700,000	28,834,628	28,834,628
<u>Movement in Shares on Issue:</u>				
Shares issued on options exercised	-	-	-	-
Capital raising costs, net of tax	-	-	-	-
Closing Balance at Reporting Date - 30 June	280,700,000	280,700,000	28,834,628	28,834,628

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value.

Options

The Company has issued options to employees of the group and an employee of Sandon Capital Pty Ltd (an entity associated with Gabriel Radzynski). Refer to Note 21.

Capital Management

The Board manages the capital of the Group in order to provide shareholders with returns through capital growth in the medium to long term and ensure that the Company can fund its operations and continue as a going concern. The Company does not have any externally imposed capital requirements.

The Company did not issue any unsecured notes during the year ended 30 June 2020 (2019: nil).

Note 7: Events Subsequent to the Reporting Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it did have a significant impact on the portfolio's value for the group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

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Note 8: Cash and Cash Equivalents

Accounting Policy:

Cash and cash equivalents include cash on hand, cash at bank, and deposits held with financial institutions for which there is a short-term identified use in the operating cash flows of the Group. Bank overdrafts, should they occur, are shown within borrowings in current liabilities in the statement of financial position.

Included in cash and cash equivalents held by the Group is an escrow trust account totalling \$524,870 (2019: \$1,536,796). These are advance monies for freight and surcharges collected on behalf of the various clients of the shipping agency.

	2020	2019
	\$	\$
Cash at bank and in hand	5,039,484	6,505,698
	<u>5,039,484</u>	<u>6,505,698</u>

	2020	2019
	\$	\$
Loss after income tax	<u>(7,500,658)</u>	<u>(2,117,422)</u>

Non-Cash Flows in Profit or Loss:

- Fair value gain on revaluation of trading equities	12,435,019	(5,114,509)
- Loss on acquisition of a controlled entity	-	1,049,386
- Depreciation	251,079	11,548
- Impairment	1,950,535	2,194,529
- Share based payment expense	-	310,000
- Amortisation of MVT notes	143,838	156,940
- Interest income	(2,092,220)	(2,165,894)
- Interest and fees received	(3,755)	(50,952)
- Interest expense on MVT notes	1,787,154	1,784,696
- Other Non-Cash Items	83,169	(547,316)

Changes in assets and liabilities:

- Decrease in Trade and Other Receivables	1,669,146	431,439
- Increase in Deferred Tax Assets	568,855	(593,383)
- Decrease in Other Assets	5,546	7,968
- (Decrease)/ Increase in Trade Payables and Accruals	(3,144,805)	383,781
- Decrease in income tax liability	(1,014,604)	(2,703,406)
- Decrease in Deferred Tax Liabilities	(1,643,458)	151,798
Net cash provided by/(used in) In Operating Activities	<u>3,494,841</u>	<u>(6,810,797)</u>

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Note 9: Revenue from continuing operations

Accounting Policy:

Interest income is recognised on a time proportion basis using the effective interest method.

Dividend income is taken into revenue when the right to receive payment is established.

Shipping services (agency fees and commission income) are recognised when the right to receive payment is established. Revenue from freight forwarding is recognised upon shipment. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

AASB 15 Revenue from Contracts with Customers is applicable to annual reporting periods beginning on or after 1 January 2018 and does not have a material impact on Mercantile Investment Company Limited's financial statements as the entity has no revenue in which the accounting standard applies.

	2020	2019
	\$	\$
From Continuing operating activities		
Dividends received	1,708,396	881,421
Trust Distributions Received	1,330,718	1,349,199
Interest income	2,471,355	2,460,067
Total Revenue	5,510,469	4,690,687
 Shipping Services income	 1,937,168	 2,152,663
	7,447,637	6,843,350

	2020	2019
	\$	\$
Dividends Received		
Financial assets through other comprehensive income:		
- Investments held in portfolio at 30 June	778,941	357,833
- Investments sold during the year	57,122	1,680
Financial assets through profit and loss	872,333	521,908
	1,708,396	881,421

Note 10: Other Income

Accounting Policy:

Other income represents gains or losses made on:

- *changes in fair value for financial assets at fair value through profit and loss.*
- *realised gains on disposal*

	2020	2019
	\$	\$
Realised (losses)/ gains on trading equities fair valued through profit and loss	(9,184,763)	2,060,363
Unrealised losses on trading equities fair valued through profit and loss	(1,199,424)	(310,269)
Foreign exchange movement	(188,191)	446,991
Sundry income	343,282	368,410
Total other income	(10,229,096)	2,565,495

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**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 11: Expenses

Accounting Policy:

Impairment of non-financial assets

Impairment charges are non-cash expenses and are recognised when the carrying value of an asset or group of assets is no longer recoverable either through the use or sale of the asset. Recoverable value assessment for each asset class is discussed within the notes for each asset.

An impairment expense recognised on goodwill or a long-term equity investment is permanent and is prohibited from being reversed.

Employee benefits expense

Employee benefits expense includes the payment of salary and wages (including the value of non-cash benefits such as share-based payments), sick leave and accruals for annual leave and long service leave.

	2020	2019
	\$	\$
(Loss)/ Profit before income tax expenses includes the following specific expenses:		
Impairment charges		
Loans and advances	1,950,535	2,194,529
Loss on acquisition	-	1,049,386
	<u>1,950,535</u>	<u>3,243,915</u>
Parent employee benefits expenses		
Directors' fees	28,029	66,068
Bonus expense	233,699	268,932
Superannuation expenses	3,093	4,650
	<u>264,821</u>	<u>339,650</u>
Subsidiary employee benefits expenses		
Directors' fees	587,705	84,626
Superannuation expenses	259,165	258,181
Wages and salaries	609,436	1,290,360
	<u>1,456,306</u>	<u>1,633,167</u>
Total employee benefit expenses	<u>1,721,127</u>	<u>1,972,817</u>
Finance Costs		
Directors interest	42,412	148,850
MVT note interest	1,787,154	1,784,696
MVT note expense amortisation	143,838	156,940
	<u>1,973,404</u>	<u>2,090,486</u>

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Note 12: Income Tax

The income tax expense or benefit for the period represents the tax payable on the current period's taxable income based on the Australian corporate income tax rate (27.5%) adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Tax consolidation legislation

Wholly owned Australian entities within the group have formed tax consolidated groups under the tax consolidation regime. The Australian Tax Office has been notified of these decisions.

Controlled entities within the relevant tax consolidated groups, continue to be responsible under tax funding agreements, for funding their share of tax payments that are required to be made by the head entity in their tax consolidation group. These tax amounts are measured as if each entity within the tax consolidated group, continues to be a stand-alone tax payer in their own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreements are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

On the 3rd of the December 2019, MVT and all its subsidiaries became part of the tax consolidated group of SNC under the tax consolidated regime. The tax agreement is effective from the 3rd of December 2019 for the income year ending 30 June 2020 and future years. The Australian Taxation Office has been notified of this decision. As a result of tax consolidation, adjustments were required for the reset of tax bases of assets of the subsidiaries.

Controlled entities within the relevant tax consolidated group continue to be responsible under the Company's tax funding agreement for funding their share of tax payments that are required to be made by the Company. These tax amounts are measured as if each entity within the tax consolidated group continues to be a stand-alone tax payer in their own right.

	2020	2019
	\$	\$
(a) Income tax (benefit) / expense recognised in profit or loss		
- Current tax movement	(1,652,204)	545,292
- Deferred tax movement	(1,330,621)	207,608
	<u>(2,982,825)</u>	<u>752,900</u>

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**Notes to the Financial Statements
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Note 12: Income Tax (continued)

	2020	2019
	\$	\$
(b) The prima facie tax on loss from ordinary activities before income tax is as follows:		
Loss before income tax	(10,483,483)	(1,364,522)
Prima facie tax payable on loss before income tax at 27.5%*	(2,882,958)	(375,244)
Tax effects of amounts which are not deductible (taxable) in calculating taxable income:		
- Imputation credit gross up	107,633	69,135
- Franking credits received	(391,391)	(251,401)
- Other assessable / non-assessable items	717,034	886,518
- Gain on reset of tax cost on SNC acquisition	(352,139)	-
- Gain on acquisition of a controlled entity	-	1,049,386
- Impairment of goodwill in IPE Limited	-	(1,049,386)
- Prior year losses utilised not previously recognised	(31,252)	-
- Share based payment expense	-	310,000
- Other	(149,752)	113,892
	<u>(2,982,825)</u>	<u>752,900</u>

*The corporate tax rates are 27.5%, 28% and 17% for Australian, New Zealand and Singapore derived income, respectively (2019: no changes in any of the respective tax rates).

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Note 13: Deferred Tax Assets and Deferred Tax Liabilities

Accounting Policy:

Deferred tax assets and liabilities are calculated on the differences (temporary differences) between the carrying amount of assets and liabilities as recognised in the consolidated financial statements and their tax cost base multiplied by the tax rate expected to apply when these assets are recovered, or liabilities are settled. The current Australian corporate tax rate for MVT is 27.5%.

Deferred tax asset or liabilities are provided in full, using the liability method. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2020

	Opening Balance Restated \$	(Charged)/credited			Closing Balance \$
		- to profit or loss \$	- to other comprehensive income \$	- directly to equity \$	
Deferred Tax Assets					
Capitalised share issue costs	66,988	6,658	-	-	73,646
Expensed borrowing costs	1,840	(920)	-	-	920
Accrued expenses	59,007	65,253	-	-	124,260
Financial assets at fair value through other comprehensive income	1,380,843	-	(881,692)	-	499,151
Financial assets at fair value through profit or loss (trading assets)	-	241,846	-	-	241,846
Balance as at 30 June 2020	1,508,678	312,837	(881,692)	-	939,823

	Opening Balance Restated \$	Charged/ (credited)			Closing Balance \$
		- to profit or loss \$	- to other comprehensive income \$	- directly to equity \$	
Deferred Tax Liability					
Accrued income	79,829	(78,498)	-	-	1,331
Financial assets at fair value through profit or loss (trading assets)	1,564,960	(1,564,960)	-	-	-
Other	10,903	-	-	-	10,903
Balance as at 30 June 2020	1,655,692	(1,643,458)	-	-	12,234

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Note 13: Deferred Tax Assets and Deferred Tax Liabilities (continued)

2019	Opening Balance Restated \$	(Charged)/credited			Closing Balance \$
		- to profit or loss \$	- to other comprehensive income \$	- directly to equity \$	
Deferred Tax Assets					
Capitalised share issue costs	42,002	24,986	-	-	66,988
Expensed borrowing costs	3,010	(1,170)	-	-	1,840
Accrued expensed	138,633	(79,626)	-	-	59,007
Financial assets at fair value through other comprehensive income	731,650	-	649,193	-	1,380,843
Financial assets at fair value through profit or loss (trading assets)	-	-	-	-	-
Balance as at 30 June 2019	915,295	(55,810)	649,193	-	1,508,678

	Opening Balance Restated \$	Charged/ (credited)			Closing Balance \$
		- to profit or loss \$	- to other comprehensive income \$	- directly to equity \$	
Deferred Tax Liability					
Accrued income	174	79,655	-	-	79,829
Financial assets at fair value through profit or loss (trading assets)	1,492,817	72,143	-	-	1,564,960
Other	10,903	-	-	-	10,903
Balance as at 30 June 2019	1,503,894	151,798	-	-	1,655,692

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Note 14: Financial Risk Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, price risk and foreign currency risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous year. The Group's financial assets and liabilities are carried at amounts that are approximate to their fair value. Fair values are those amounts that an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Initial Recognition and Measurement

The consolidated entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity transfers the financial assets to another party without retaining control or substantially all risks and rewards of the assets. Any interest in transferred financial assets that is created or retained by the consolidated entity is recognised as a separate asset or liability.

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Financial Assets Through Profit or Loss (FVTPL)

Financial assets are classified at FVTPL when they are held for trading. Realised and unrealised gains and losses arising from changes in fair value are included in the Statement of Financial performance in the period in which they arise.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking;

Financial Assets Through Other Comprehensive Income (FVTOCI)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the asset revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to reserves. The Group has designated all investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Debt instruments classified as at FVTOCI

Notes held by the Group are classified as at FVTOCI. The notes are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these notes as a result of foreign exchange gains and losses, impairment losses and interest income are recognised in profit or loss.

All other changes in the carrying amount of these redeemable notes are recognised in other comprehensive income. When these notes are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

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Note 14: Financial Risk Management (continued)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

	Note	2020 \$	2019 \$
The Group holds the following financial instruments:			
Financial assets at amortised cost			
Cash and cash equivalents	7	5,039,484	6,505,698
Trade and other receivables	18	535,203	1,883,536
Loans and advances	15	3,146,000	3,455,099
Financial assets at fair value through profit and loss			
Trading equities	14	25,462,498	38,810,623
Financial assets at fair value through other comprehensive income			
Long term equity investments	14	22,747,083	39,251,847
Total financial assets		<u>56,930,268</u>	<u>89,906,803</u>
Financial liabilities at amortised cost			
Trade and other payables	19	2,421,420	11,289,766
Unsecured notes	16	22,055,932	21,929,601
Total financial liabilities		<u>24,477,352</u>	<u>33,219,367</u>

a) Market Risk

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the fair value of future cash flows of the Group's financial instruments.

By its nature, as a listed investment company that invests in tradeable securities, the Group will always be subject to market risk as it invests its capital in securities whose market prices may fluctuate.

The Group is exposed to share price risk through its investment holdings on the Australian Securities Exchange (ASX), the New Zealand Stock Exchange (NZX) and the London Stock Exchange (LSE).

The market risk is inherent and can be partially managed by the skill of the manager. Further, the Manager tends to invest in a concentrated portfolio of securities, this offers some diversification benefits but may not be as diverse as a broad market exposure.

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**Notes to the Financial Statements
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Note 14: Financial Risk Management (continued)

a) Market Risk (continued)

i) Foreign exchange risk

As at 30 June 2020, the Group is exposed to fluctuations in the British Pound (GBP), the New Zealand Dollar (NZD), the Singaporean Dollar (SGD) and the United States Dollar (USD) exchange rates arising from the Company's international investments and trade and other receivables.

The Company has the ability to hedge foreign exchange exposure. During the financial year 2020 the Company foreign exchange exposure was not hedged.

The Group's exposure to foreign currency risk at the reporting date was as follows:

Foreign exchange risk

	2020	2019
	AUD\$	AUD\$
Financial Assets		
<u>Cash and Cash equivalent</u>		
United States Dollar	3,597,102	5,896,633
Singapore Dollar	1,270,108	176,909
New Zealand Dollar	3,824	1,376
	<u>4,871,034</u>	<u>6,074,918</u>
<u>Trade and other receivables</u>		
Singapore Dollar	117,245	1,357,894
New Zealand Dollar	-	7,391
	<u>117,245</u>	<u>1,365,285</u>
<u>Trading equities</u>		
British Pound	10,684,687	12,642,391
New Zealand Dollar	1,460,690	3,271,203
	<u>12,145,377</u>	<u>15,913,594</u>
<u>Long term equity investments</u>		
British Pound	983,461	911,684
New Zealand Dollar	5,345,652	7,700,925
	<u>6,329,113</u>	<u>8,612,609</u>
Total financial assets exposure to foreign exchange	<u>23,462,769</u>	<u>31,966,406</u>
Financial Liabilities		
<u>Trade and other payables</u>		
Singapore Dollar	1,061,173	3,517,030
New Zealand Dollar	69,173	36,838
Total financial liabilities exposure to foreign exchange	<u>1,124,346</u>	<u>3,553,868</u>

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Note 14: Financial Risk Management (continued)

a) Market Risk (continued)

ii) Foreign exchange risk (continued)

Sensitivity analysis

The following table summarises the financial impacts of a hypothetical 5% increase and decrease in the foreign currency which are recognised through the reserves.

	Impact on reserves	
	2020	2019
Financial Asset		
Change to Foreign Currency Reserve	\$	\$
Increase in foreign currency by 5%	170,486	212,622
Decrease in foreign currency by 5%	(170,486)	(212,622)
Change to Trade and other receivables		
Increase in foreign currency by 5%	4,104	47,785
Decrease in foreign currency by 5%	(4,104)	(47,785)
Change to Trading equities		
Increase in foreign currency by 5%	425,088	556,976
Decrease in foreign currency by 5%	(425,088)	(556,976)
Change to Long term equity investments		
Increase in foreign currency by 5%	221,519	301,441
Decrease in foreign currency by 5%	(221,519)	(301,441)
Financial Liabilities		
Trade and other payables		
Increase in foreign currency by 5%	39,352	124,385
Decrease in foreign currency by 5%	(39,352)	(124,385)

iii) Other Price Risk

The Group is an investment company and is exposed to securities price risk. The majority of the Group's investments are publicly traded on the ASX, NZX and LSE.

The Investment Manager mitigates this price risk through its disciplined stock selection and portfolio construction process and adherence to the Company's investment guidelines.

The Company's investments are monitored on a regular basis by the Investment Manager.

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**Notes to the Financial Statements
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Note 14: Financial Risk Management (continued)

a) Market Risk (continued)

iii) Other Price Risk (continued)

Sensitivity analysis

The following table summarises the financial impacts of a hypothetical 5% increase and decrease in the market value of those investments (financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income) that are carried at fair value as at reporting date. For long term equity investments, a 5% increase in market values would have no impact on the income statement as all increases are recognised through other comprehensive income.

	Impact to post-tax profit		Impact on reserves	
	2020	2019	2020	2019
	\$	\$	\$	\$
Trading equities				
Increase in fair value in trading equities by 5%	891,187	1,358,372	-	-
Decrease in fair value in trading equities by 5%	(891,187)	(1,358,372)	-	-
Long term equity investments				
Increase in fair value in long term equities by 5%	-	-	(796,148)	1,373,815
Decrease in fair value in long term, equities by 5%	-	-	796,148	(1,373,815)

iv) Interest Rate Risk

The Group's exposure to interest rate risk, which is the risk that financial instrument's value will fluctuate as a result of change in market interest rates.

The value of the Company's investment in Foundation Life is exposed to an insurance company whose value is sensitive to interest rates (in New Zealand and elsewhere). Determining this sensitivity is difficult as the Company does not have access to all the relevant information about the composition of Foundation Life's investments and life policy liabilities.

Generally, a change in interest rates will have an effect on the assets and liabilities of an insurance company. For example, as interest rates increase, all other things being equal, the present value of a life company's liabilities (its obligation to pay out life insurance policies) will fall, while at the same time, the value of the investment portfolio will also fall. The maturity of the life insurance policies will affect the impact and change in interest rates will have on the present value of the life policy liabilities.

The effect of these changes on the shareholders equity (and the Company's investment) will depend on the composition of the investment portfolio. The impact will depend on a number of factors, including but not limited to the proportion of its portfolio in interest rate sensitive investments and the duration of such investments.

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Note 14: Financial Risk Management (continued)

a) Market Risk (continued)

iv) Interest Rate Risk (continued)

The Group's weighted average interest rate on financial assets was 0.05% and financial liabilities was 8% (Unsecured Notes).

	Weighted average effective interest	Floating interest rate	Fixed rate interest	Non- interest bearing	Total
2020	\$	\$	\$		
Financial assets					
Cash and cash equivalents	0.05%	5,039,484	-	-	5,039,484
Total financial assets exposure		5,039,484	-	-	5,039,484

Financial liabilities					
Unsecured Notes	8%	-	21,929,601	-	21,929,601
Loan payable to Director		-	-	-	-
Total financial liability exposure		-	21,929,601	-	21,929,601

	Weighted average effective interest	Floating interest rate	Fixed rate interest	Non- interest bearing	Total
2019	\$	\$	\$		
Financial assets					
Cash and cash equivalents	0.05%	6,505,698	-	-	6,505,698
Total financial assets exposure		6,505,698	-	-	6,505,698

Financial liabilities					
Unsecured Notes	8%	-	21,929,601	-	21,929,601
Loan payable to Director	1.5%	-	6,000,000	-	6,000,000
Total financial liability exposure		-	27,929,601	-	27,929,601

b) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise equity investments, cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Cash is invested with high rated financial institutions in Australia, New Zealand and Singapore.

Receivable balances are monitored on an ongoing basis and the Group has no external debts past due or impaired, excluding those in Note 15 (loan book).

The Group recognises a loss allowance for expected credit losses on investments in loans and advances of \$1,868,566 (2019: \$2,194,529). Refer to Note 15: Net Loan and Advances. No impairment losses are recognised in respect to any equity instruments measured at fair value.

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Note 14: Financial Risk Management (continued)

b) Market Risk (continued)

The Group determines expected credit losses (both 12-month and lifetime) based on the Group's historical credit loss experience, adjusted for factors that are specific to the financial asset as well as current and future expected economic conditions relevant to the financial asset. When material, the time value of money is incorporated into the measurement of expected credit losses.

The Group assesses whether the credit risk on a financial asset has increased significantly based on the change in the risk of default since initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The Group regularly monitors the effectiveness of the criteria it uses to determine whether there has been a significant increase in credit risk and, when necessary, amends the criteria accordingly.

c) Liquidity Risk

The Group's objective is to maintain sufficient cash and cash equivalents to meet the needs of its operations through cash flow monitoring and forecasting, which is done on a monthly basis.

Liquidity risk is the risk that an entity is unable to meet its financial obligations as they fall due. Prudent liquidity risk management is adopted by the Group through maintaining sufficient cash and marketable securities, the ability to borrow funds from credit providers and to close-out market positions.

The Group entities manage liquidity risk by continually monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

All the trade and other payables are typically settled within 30 days.

d) Maturity of financial liabilities

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 12 Months	Greater than 12 Months	Total
2020	\$	\$	\$
Trade and other payables	2,421,420	-	2,421,420
Current Tax Liability	-	-	-
Lease Liability	196,961	394,387	591,348
Unsecured Notes	-	22,055,932	22,055,932
Total	2,618,379	22,450,319	25,068,700

	Less than 12 Months	Greater than 12 Months	Total
2019	\$	\$	\$
Trade and other payables	11,289,766	-	11,289,766
Current Tax Liability	1,022,240	-	1,022,240
Unsecured Notes	-	21,929,602	21,929,602
Total	12,312,006	21,929,602	34,241,608

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Note 15: Fair Value Estimation

Fair Value Hierarchy

Judgements and estimates are made in determining the fair values of assets and liabilities. To provide an indication of the reliability of the inputs used in determining fair value, the Group categorises each asset and liability into one of the following three levels as prescribed by accounting standards:

Level 1: Fair value is determined by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities as at the end of the reporting period.

Level 2: Fair value is determined by using valuation techniques incorporating observable market data inputs.

Level 3: Fair value is determined by using valuation techniques that rely on inputs that are not based on observable market data.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As at 30 June 2020				
Financial assets through other comprehensive income:				
- Listed domestic and international	17,061,739	334,892	-	17,396,631
- Unlisted domestic investments	-	-	4,800	4,800
- Unlisted international investments	-	-	5,345,652	5,345,652
	<u>17,061,739</u>	<u>334,893</u>	<u>5,350,452</u>	<u>22,747,083</u>
Financial assets through profit and loss:				
- Listed domestic and international investments	21,025,998	-	-	21,025,998
- Unlisted domestic and international investments	-	-	4,436,500	4,436,500
	<u>21,025,998</u>	<u>-</u>	<u>4,436,500</u>	<u>25,462,498</u>
Total assets	<u>38,087,737</u>	<u>334,893</u>	<u>9,786,952</u>	<u>48,209,581</u>

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Note 15: Fair Value Estimation (continued)

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As at 30 June 2019				
Financial assets through other comprehensive income:				
- Listed domestic and international	32,346,970	270,000	-	32,616,970
- Unlisted domestic investments	-	-	4,800	4,800
- Unlisted international investments	-	-	6,630,077	6,630,077
	<u>32,346,970</u>	<u>270,000</u>	<u>6,634,877</u>	<u>39,251,847</u>
Financial assets through profit and loss:				
- Listed domestic and international investments	31,199,934	-	-	31,199,934
- Unlisted domestic and international investments	-	-	7,610,689	7,610,689
	<u>31,199,934</u>	<u>-</u>	<u>7,610,689</u>	<u>38,810,623</u>
Total assets	<u>63,546,904</u>	<u>270,000</u>	<u>14,245,566</u>	<u>78,062,470</u>

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the closing quoted last sale prices at the end of the reporting period, excluding transaction costs.

Level 2 assets consist of listed securities which are based on quoted prices in inactive markets.

Level 3 of the hierarchy are unlisted securities such as shares in private companies, trusts and unlisted foreign notes. In order to determine the fair value of these investments, valuation techniques such as comparisons to similar investments for which market observable inputs are available, latest available net tangible assets per share, the adjusted last sale price or the fair value of the expected redemption value in the notes have been adopted.

The Company's investment in Foundation Life valued at \$5,345,652 (2019: \$6,630,077) is based on its share of Foundation Life's shareholder equity and notes. This value is reported in Foundation Life's reviewed half yearly and audited full year accounts (in March and September respectively). The method of fair value of the investment is consistent with prior years.

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**Notes to the Financial Statements
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Note 15: Fair Value Estimation (continued)

Level 3 Assets during the current and previous financial year are set out below:

	Unlisted domestic investments \$	Unlisted international investments \$	Total \$
Consolidation			
Balance at 1 July 2018	-	280,634	280,634
Acquisition of IPE portfolio	8,594,101	-	8,594,101
Loss recognised in profit and loss	(1,264,046)	-	(1,264,046)
Balance at 30 June 2019	7,330,055	280,634	7,610,689
Return of Capital	1,043,340	-	1,043,340
Loss recognised in profit and loss	(4,056,521)	(161,008)	(4,217,529)
Balance at 30 June 2020	4,316,874	119,626	4,436,500

	Unlisted domestic investments \$	Unlisted international investments \$	Total \$
Consolidation			
Balance at 1 July 2018	611,961	4,458,149	5,070,110
Sale of investments	(373,500)		(373,500)
Return of Capital	(233,661)		(233,661)
Gain recognised in other comprehensive income	-	2,171,928	2,171,928
Balance at 30 June 2019	4,800	6,630,077	6,634,877
Sale of investments	-	-	-
Return of Capital	-	-	-
Loss recognised in other comprehensive income	-	(1,284,425)	(1,284,425)
Balance at 30 June 2020	4,800	5,345,652	5,350,452

The level 3 assets unobservable inputs and sensitivity are as follows:

	Impact to post-tax profit		Impact on reserves	
	2020 \$	2019 \$	2020 \$	2019 \$
Trading equities				
Increase in fair value in trading equities by 5%	160,823	257,887	-	-
Decrease in fair value in trading equities by 5%	(160,823)	(257,887)	-	-
Long term equity investments				
Increase in fair value in long term equities by 5%	-	-	193,954	240,514
Decrease in fair value in long term, equities by 5%	-	-	(193,954)	(240,514)

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**Notes to the Financial Statements
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Note 16: Net Loans and Advances

Accounting Policy:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is recognised.

AASB 9 requires all equity instruments to be carried at fair value through profit and loss, unless an entity chooses on an instrument-by-instrument basis on initial recognition to present fair value changes to other comprehensive income.

Impairment

AASB 9 requires the Company to record expected credit losses on all its financial assets measured at amortised cost of FVTOCI and financial guarantees. The Company previously recorded impairment based on the incurred loss model when there is objective evidence that a financial asset is impaired.

Transition

The changes in accounting policies have been applied retrospectively and the Company had elected to apply the limited exemption in AASB 9 and had not restated comparative periods in the year of initial application.

The following are the qualitative information regarding the reclassification between categories of financial instruments at the date of initial application of AASB 9.

Expected credit losses

For expected credit losses (ECL) on financial assets, the three stage approach in the financial reporting standard on financial instruments is used to measure the impairment allowance. Under this approach, the financial assets move through the three stages as their credit quality changes. However, a simplified approach is permitted by the financial reporting standard on financial instruments for financial assets that do not have a significant financing component, such as loan receivables. On initial recognition, a day 1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

For credit on loans receivables on ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limited are made. Renewals and review of credits are subject to the same review process.

	2020	2019
	\$	\$
Family law	8,113,092	6,788,852
Disbursement funding	-	135,566
Personal Injury	-	3,552,929
Other	-	1,561,107
Allowance for expected losses/impairment	(4,967,092)	(8,583,355)
Total	3,146,000	3,455,099

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**Notes to the Financial Statements
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Note 16: Net Loans and Advances

The movement in the provision for impairment in respect of loans and advances during the periods is as follows:

	2020	2019
	\$	\$
Opening balance	3,455,099	3,533,231
Additions	1,975,751	2,216,397
Recoveries	(477,095)	(100,000)
Write off	60,812	-
Allowance of expected credit losses	(1,868,567)	(2,194,529)
Provision write-offs	-	-
Total	3,146,000	3,455,099

The net loans and advances were acquired by the group as part of the acquisition of AKF on 4 September 2015.

Impaired loans and advances

Credit Impairment in respect of these loans continues to be determined on an individual case basis after taking into account the likely time of settlement, potential further deterioration in asset pool values and/or a decrease in the prospects of an individual borrower succeeding in their respective claims in court. For the year ended 30 June 2020, AKF management have assessed a further impairment of \$1,868,566 (2019: \$2,194,529).

The entity's write-off policy is dependent on the litigation proceedings and court rulings for each case to determine if the amount will be recoverable.

The assumptions and estimations are based on the litigation proceedings and court rulings for each case taking into consideration how much the borrower would be ordered to pay to AKF and whether their asset pool value / collateral is capable of paying out that amount. Default is considered as the restructuring of an amount due to the Company, on terms that the Company would not consider otherwise, and indications that a debtor will enter bankruptcy or the disappearance of an active market for a security.

Credit risk – Loans and Advances

The credit risk associated with the loans and advances is managed by the AKF's lending model under which monies are advanced against the anticipation of a specified future event with the loan risks and credit assessment fundamentally related to the outcome of that specified event and with repayment sourced from the resultant agreed or judicially determined settlement outcome and proceeds. The principal amount advanced was limited to a maximum of 30% of the lower range of the expected settlement outcome, which is calculated through a known formula and methodology utilised within the judicial system.

The group has the following credit risk exposures concentrated to a single borrower or legal practice:

A single matrimonial loan in Western Australia (security held are Mortgage, Caveat and Guarantees from borrower and related parties) – balance as at 30 June 2020 of \$2.8 million (2019: \$2.8 million).

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**Notes to the Financial Statements
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Note 17: Unsecured Notes

Accounting Policy:

Unsecured Notes are initially recognised at fair value, net of any transaction costs incurred. These balances are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the liability using the effective interest method.

	2020	2019
	\$	\$
Unsecured notes	22,308,700	22,308,700
Less: capitalised costs	(252,768)	(379,098)
Non-current unsecured – notes at amortised cost	22,055,932	21,929,602

At 30 June 2020, the face value of the unsecured notes was \$22,308,700. Interest is scheduled to be paid semi-annually, with the first interest payment made on 31 December 2016. The maturity date of the notes is 10 July 2021. Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustee Ltd. Further details of the note terms are available in the Replacement Prospectus dated 3 June 2016.

Note 18: Contingent Liabilities

There are no contingent liabilities as at 30 June 2020.

Note 19: Trade and Other Receivables

Accounting Policy:

Trade receivables are recognised initially at fair value and subsequently at amortised cost, using the effective interest rate method, less provision for impairment. Trade receivables are due for settlement between 30 and 45 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off (impaired) by reducing the carrying amount directly.

Richfield has only 7 major customers which can be graded as low risk individually. The trade receivables below are subject to the expected credit loss model under the financial reporting standard on financial instruments. The trade receivables are considered to have low credit risk individually. At the end of the financial year, a loss allowance is recognised at an amount equal to 12 months expected credit losses because there has not been a significant increase in credit risk since initial recognition. No loss allowance is necessary. There is no collateral held as security and other credit enhancement for the trade receivables. As at the end of the financial reporting period, there were no amounts that were impaired.

	2020	2019
	\$	\$
Current assets		
Trade receivables	352,849	110,927
Less: Allowance of expected credit losses	-	-
	<u>352,849</u>	<u>110,927</u>
Trade receivables	460,841	1,883,536
Other current assets	74,362	81,313
	<u>535,203</u>	<u>1,964,849</u>

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Note 20: Trade and Other Payables

Accounting Policy:

Trade and other payables are carried at their amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid.

	2020	2019
	\$	\$
Unclaimed shareholder payments – secured *	1,137,882	1,137,882
Trade payables	488,837	2,036,080
Escrowed Port of Singapore	787,238	1,586,391
Loan from director^	-	6,000,000
Sundry payables	7,461	529,410
Unsettled trades	-	-
Total current trade and other payables	2,421,418	11,289,763

* The balance of this liability relates to the MMX capital return payments which were returned to the Company by the Share Registry during the year, pending claims from previous MMX shareholders or remission to the Office of State Revenue. The balance is secured against the cash and cash equivalents of the Company.

^ In prior financial years, Sir Ron Brierley provided short-term, unsecured loans the Company to fund purchases of investments. The Company repaid the amount \$6,000,000 (2019: \$8.0m) with interest of \$206,466 in the 2020 financial year. Interest was paid at the RBA cash rate per annum. There are no further loans or interest owing to Sir Ron Brierley.

Note 21: Lease liabilities

Accounting Policy:

AASB 16 Leases will be applicable for annual reporting commencing 01 January 2019 and it is the date on which the company expects to first apply AASB 16. The standard removes the classification of leases as either operating or finance leases, effectively treating all leases as finance leases and move all off-balance sheet operating leases onto the balance sheet.

During this financial year, RMA entered a lease of a new office premises and 2 units of photocopiers.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	2020	2019
	\$	\$
Current	196,961	-
Non-current	394,387	-
Total lease liabilities	591,348	-

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Note 22: Share Based Payments

Accounting Policy:

Share-based compensation benefits are provided to employees of Mercantile Investment Company Limited (the Parent company) via an employee incentive scheme. A summary of the scheme is provided below.

The fair value of options and rights granted is recognised as an employee benefits expense with a corresponding increase in the share-based payment reserve within equity.

The fair value is measured at grant date.

	Note	Opening Balance	Options Issued	Sale of Option to Parent Company	Closing Balance
Options 2020		\$	\$	\$	\$
Gabriel Radzynski		506,000	235,750	(741,750)	-
Other employees		287,500	74,250	(361,750)	-
	4	793,500	310,000	(1,103,500)	-

		Opening Balance	Options Issued	Sale of Option to Parent Company	Closing Balance
Options 2019		\$	\$	\$	\$
Gabriel Radzynski		506,000	235,750	-	741,750
Other employees		175,500	74,250	-	361,750
	4	681,500	310,000	-	1,103,500

The Board has issued Mr Gabriel Radzynski the following options at nil consideration:

Option Issued/Sale Date	Exercise price \$ per option	Expiration date	No. of Options	No. Options exercised	Sale of Option to Parent Company	Fair Value of the Option \$
2 December 2016	0.20	31 December 2020	10,000,000	-	-	342,000
21 November 2018	0.23	31 December 2021	10,000,000	-	-	90,000
21 November 2018	0.24	31 December 2022	13,250,000	-	-	145,750
24 June 2019	-	-	-	-	(33,250,000)	(577,750)
			33,250,000	-	(33,250,000)	-

The weighted average exercise price is \$0.22.

As part of the SNC acquisition of the Company, SNC entered into agreements to acquire Mercantile options issued to Mr Gabriel Radzynski. Mr Radzynski received a consideration of \$237,930 in cash and 285,826 SNC shares at an issue price of \$0.9507. The value of these options was determined by an independent valuation commissioned by the independent directors of SNC.

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Note 22: Share Based Payments (continued)

The Board has issued to an employee of Sandon Capital Pty Ltd (an entity associated with Gabriel Radzynski which provides investment management services and accounting services to MVT) with the following options at nil consideration:

Option Issued Date	Exercise price \$ per option	Expiration date	No. of Options	No. Options exercised	Sale of Option to Parent Company	Fair Value at grant date \$
7 October 2016	0.20	31 December 2020	5,000,000	-		175,500
12 December 2017	0.23	31 December 2021	5,000,000	-		112,000
21 November 2018	0.24	31 December 2022	6,750,000	-		74,250
24 June 2019	-	-	-	-	(16,750,000)	(361,750)
			16,750,000	-	(16,750,000)	-

The weighted average exercise price is \$0.23.

The value of the Options was calculated using Black-Scholes Model. It is used to calculate the theoretical value of Options using current stock prices, expected dividends, the option's strike price, expected interest rates, time to expiration, expected and implied volatility (30%), and risk free rate (1.5%).

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Note 23: Related Parties

Transactions with related parties	2020 \$	2019 \$
Sandon Capital Pty Ltd is an entity associated with Mr Gabriel Radzynski. Sandon Capital Pty Ltd provided general consulting, corporate advisory and accounting services to Mercantile Investment. All dealings are conducted at arm's length on normal commercial terms. The following amount was paid to Sandon Capital Pty Ltd.	187,054	566,500
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Daniel Weiss were paid to Ariadne Australia Limited.	9,164	18,067
The Board awarded a discretionary cash bonus to Mr Radzynski of \$125,000 (inclusive of super) in November 2019. The bonus was paid in two equal instalments within the 2020 Financial Year.	125,000	125,000
In prior financial years, Sir Ron Brierley provided short-term, unsecured loans the Company to fund purchases of investments. The Company repaid the amount \$6.0m (2019: \$8.0m) in the 2020 financial year. Interest was paid at the RBA cash rate per annum. The balance represents the interest paid to Sir Ron Brierley. There are no further loans or interest owing to Sir Ron Brierley.	206,466	164,055
Sir Ron Brierley subscribed for 30,000 MVTHA notes (\$3,000,000) in partial repayment of the short-term debt facility which was in operation during the 2016 financial year. At the date of Sir Ron Brierley's retirement on 19 December 2019, interest paid on these notes was \$nil (2019: \$240,000)	-	240,000
The Company loaned to its Parent entity for the amount of \$15,330,000 (2019:nil). It is anticipated the loan will be repaid within the next 12 months.	15,330,000	-
Gabriel Radzynski subscribed for 250 MVTHA notes (\$25,000) during the 2017 financial year. Interest paid on these notes at 30 June 2020 was \$2,000 (2019: \$2,000)	2,000	2,000

KMP Compensation

Elements of Remuneration

The Directors are the only people considered to be key management personnel of the company.

Remuneration for Mr Daniel Weiss was not paid to Mr Weiss but was paid to Ariadne Australia Limited (inclusive of irrecoverable GST). Mr Weiss is an employee of and remunerated separately by Ariadne Australia Limited.

Remuneration for Mr Radzynski reflects director's fees of \$3,750 plus superannuation paid up to 13 September 2019. After this date, Mr Radzynski was no longer paid any director fees as a director of MVT.

In the 2019 financial year, the Board approved a cash bonus payment of \$125,000 (inclusive of super) payable in 2 tranches of \$62,500. The first tranche was paid in November 2019 and the second tranche was paid to Mr Radzynski in February 2020.

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**Note 23: Related Parties (continued)
Elements of Remuneration (continued)**

The Board has issued Mr Gabriel Radzynski the following options at nil consideration as disclosed in Note 20.

Options and bonuses were awarded to executives on a discretionary basis by the Nomination & Remuneration Committee. This committee had regard to the overall performance of the company and the committee's assessment of an executive's contribution to performance.

The quantum and exercise price of these options (which is above current market price) were designed to provide further alignment of outcomes between Mr Radzynski and shareholders.

The options don't have any rights to participate in share issues and are fully vested at balance date.

The remuneration policy was been tailored to align the interest between shareholders, executive directors and non-executive.

The number of shares in the company held during the financial year by each director of the group, including their personal related parties, is set out below:

	Balance at the start of the year No.	Received as part of remuneration No.	Additions No.	Disposals/ other No.	Balance at the end of the year No.
30 June 2020					
Ordinary shares					
Mr Gabriel Radzynski	1,803,171	-	-	(1,803,171)	-
Mr Peter Velez	-	-	-	-	-
Ms Melinda Snowden	-	-	-	-	-
Sir Ron Brierley	69,430,338	-	-	(69,430,338)	-
Mr James Chirnside	175,000	-	-	(175,000)	-
Mr Daniel Weiss	-	-	-	-	-
Ms Katrina Langley	-	-	-	-	-
Dr Gary Weiss	15,455,001	-	-	(15,455,001)	-
	86,863,510	-	-	(86,863,510)	-

	Short-term Cash & Salary \$	Post Employment Benefits \$	Share based payments \$	Total \$
30 June 2020	153,738	1,860	-	155,598
30 June 2019	245,897	4,544	235,750	486,191

* During the year, \$15,000 was paid to the independent non-executive directors for services beyond the normal expectations of a non-executive director arising from the takeover of MVT.

**Mercantile Investment Company Limited
And Controlled Entities
ABN 15 121 415 576**

**Notes to the Financial Statements
For the year ended 30 June 2020**

Other Statutory Information

The number of shares and options in the company held during the financial year by each director of the group, including their personal related parties, are disclosed in the Directors Remuneration report.

Loans to KMP

No loans have been made to the Directors of MVT.

Other Related party transactions

A no interest loan was provided to Sandon Capital Investments Limited during the year. This balance is expected to be repaid in full within the next 12 months. At year end this balance was \$15,330,000. No other related party transactions occurred other than those disclosed in this note.

Note 24: Contingencies and commitments

Accounting Policy:

AASB 16 Leases will be applicable for this financial reporting period ending 30 June 2020.

The standard removes the classification of leases as either operating or finance leases, effectively treating all leases as finance leases and move all off-balance sheet operating leases onto the balance sheet.

a) Operating lease commitments – as lessee

RMA commenced a lease of an office premises and office equipment during the financial year from a non-related parties under non-cancellable operating lease agreements. The lease has varying terms escalation clauses and renewal rights.

	2020 \$	2019 \$
Lease commitments		
Commitments for minimum payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	-	172,751
Later than one year but not later than five years	-	13,206
	<u>-</u>	<u>185,957</u>

b) Lease liabilities

The carrying amounts of lease liabilities and the maturity analysis are disclosure at Note 20 and Note 13, respectively.

Note 25: Right-of-use assets

	Office Equipment \$	Office Premises \$	Total
1 July 2019	-	183,168	183,168
Additions	151,893	499,731	651,624
Accumulated depreciation	(18,987)	(224,812)	(243,799)
30 June 2020	<u>132,906</u>	<u>458,087</u>	<u>590,993</u>

**Mercantile Investment Company Limited
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 26: Auditors Remuneration

During the year the following fees were paid or payable for services provided by the auditor.

	2020	2019
	\$	\$
Audit services		
Grant Thornton Sydney for audit and review of financial reports and other work under the <i>Corporations Act 2001</i>	70,000	-
Non-assurance services	-	-
 Pitcher Partners Sydney for audit and review of financial reports and other work under the <i>Corporations Act 2001</i>	 143,562	 196,090
Non-assurance services	-	-
	<u>213,562</u>	<u>196,090</u>

Note 27: Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	2020	2019
	\$	\$
Loss attributable to members	(7,452,281)	(1,977,033)
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	280,700,000	280,700,000
Basic and diluted loss per share (cents per share)	<u>(2.65)</u>	<u>(0.70)</u>

The consolidated entity currently has no outstanding options on issue (2019: 20,000,000).

**Mercantile Investment Company Limited
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**Notes to the Financial Statements
For the year ended 30 June 2020**

Note 28: Other Operating Costs

	2020	2019
	\$	\$
Other operating expenses is made up of the following:		
Parent operating expenses		
Rent	3,818	17,373
Office expenses	19,540	27,427
Corporate expenses	-	3,040
Travel	1,070	4,713
Foreign exchange losses	(10,487)	10,437
Fees and commissions	38,370	25,845
Miscellaneous expenses	580	1,101
	<hr/> 52,891	<hr/> 89,936
Subsidiary operating expenses		
Rent	14,256	233,995
Office Expenses	128,947	219,151
Travel	5,825	21,178
Bank fees	11,059	9,573
Depreciation	250,098	11,548
Entertainment	34,823	35,713
Miscellaneous expenses	37,939	471,699
	<hr/> 482,947	<hr/> 1,002,857
Total other operating costs	<hr/> 535,838	<hr/> 1,092,793

Note: Rent and office expense ceases to be incurred by the Parent following the completion of the takeover by SNC.

**Mercantile Investment Company Limited
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ABN 15 121 415 576**

Directors' Declaration

In accordance with a resolution of the Directors of Mercantile Investment Company Limited, the Directors of the Group declare that:

1. the financial statements and notes, as set out on pages 19 to 59, are in accordance with *the Corporations Act 2001*, and:
 - (a) comply with Australian Accounting Standards, which, as stated in the basis of preparation section on page 21, constitutes compliance with International Financial Reporting Standards (IFRS), the Corporations Regulations 2001 and other mandatory reporting requirements; and
 - (b) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Consolidated Group;
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
3. the Directors have been given the declarations required by section 295A of *the Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

This declaration is made in accordance with a resolution of the Board of Directors.



Gabriel Radzynski
Executive Director

2 November 2020

Independent Auditor's Report

To the Members of Mercantile Investments Company Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Mercantile Investments Company Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter
How our audit addressed the key audit matter
Valuation of financial assets (Note 14)

The investment portfolio consists of listed securities and unlisted securities. The fair value of financial assets traded in active markets are based on their quoted market prices. The fair value of financial assets that are not traded in an active market are determined using valuation techniques.

Investments that involved significant judgement included those with unobservable inputs. Where observable data is not available, estimates must be developed based on the most appropriate source of data.

We determined this to be a key audit matter given the size of the balance and the inherent judgement involved in determining the fair value of financial instruments.

Our procedures included, amongst others:

- Obtaining an understanding and evaluating the investment management processes and controls;
- Reviewing and evaluating ASAE 3402 Assurance Reports and bridging letters for Custodians;
- Obtaining confirmation on investment holdings directly from Custodians;
- Where readily observable data was available, performing independent price checks, recalculating the valuation and comparing it to the company's valuation;
- For investments where there was limited or no observable inputs, we obtained confirmations of cost of the initial investment and assessed other relevant information supporting the fair value of the underlying net assets;
- Reviewing significant investment additions and sales in the period back to contract notes, evaluating accuracy of the initial cost and sale;
- Reviewing the last day traded on level 1 investments to assess whether the investments were actively traded; and
- Assessing the adequacy of the financial statement disclosures.

Deferred tax balances (Note 13)

Taxation for the Group is considered to be complex as the Group operates in several jurisdictions with different laws, regulations and authorities resulting in complex tax calculations and judgements.

Taxation is a key audit matter due to its complex nature.

We determined this to be a key audit matter given the complexity of the tax computations.

Our procedures included, amongst others:

- Obtaining copies of management's tax calculations for the year ended 30 June 2020 and prior periods that were prepared by management's expert.
- Evaluating the qualification of management's expert in order to assess their professional competence and capabilities as they relate to the work undertaken.
- Testing the tax calculation model to ensure mathematical accuracy and completeness.
- Agreeing significant input in the tax calculations to supporting documentation.
- Considering and challenging the assumptions made by the Group in determining the tax calculations, including assessing the rationale on which deferred tax assets and liabilities were recognised.
- Consulting with an auditor's expert to assess the reasonableness of key tax assumptions used by management's expert in the tax provision calculations.
- Evaluating management's processes and controls to determine if they appropriately addressed the risks.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 13 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Mercantile Investments Company Limited, for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Grant Thornton Audit Pty Ltd
Chartered Accountants



A J Sheridan
Partner – Audit & Assurance

Sydney, 2 November 2020