

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

APPENDIX 4E - PRELIMINARY FINAL REPORT
For the year ended 30 June 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET
(Comparative figures being the year ended 30 June 2015)

Earnings	June 2016	Movement	
	\$	up/down	%
Revenue from ordinary activities	6,438,782	Up	459%
Profit from operating activities after tax, attributable to members	1,905,094	Up	292%
Total comprehensive income after tax, attributable to members	6,503,421	Up	247%
		30 June 2016	30 June 2015
		\$	\$
Net Tangible Asset Backing Per Share (NTA)			
NTA before tax		0.180	0.152
NTA after tax		0.165	0.142

Commentary on results and changes in the consolidated entity

Mercantile Investment Company Limited ("the Company" or "the consolidated entity") has continued to invest in ASX listed and other investment opportunities that the Directors consider offer the prospect of attractive risk adjusted returns.

The consolidated revenue for the period has increased 459% to \$6,438,782, with pre-tax profit of \$2,307,319. This compares well to the result reported last year. The increase in revenue was due to the performance of the trading portfolio. During the reported year three takeover offers were made, Ask Funding Limited ("AKF") being successful, and the other two, under revised offers, are likely to succeed in the 2016-17 financial year.

On 4 September 2015, Mercantile OFM Pty Limited, a wholly owned subsidiary of Mercantile Investment Company Limited, acquired 71.74% of Ask Funding Limited shares by way of an off-market market takeover bid. The consolidated results for the year ended 30 June 2016 includes AKF's results from 4 September 2015. However, the comparative results for 2015 do not include AKF's results.

On 24 June 2016, the Company announced the issue of 156,457 unsecured notes each with a face value of \$100, which commenced trading on 30 June 2016. These notes carry an interest entitlement of 8% per annum. At 30 June 2016, the face value of the unsecured notes was \$15,645,700. These notes are traded on the Australian Stock Exchange, code MVTHA.

For further details, please refer to the commentary provided in the Chairman's Review.

Dividends

No dividends were paid during the period (2015: nil) and no dividends are proposed for the full-year ended 30 June 2016.

This report is presented in Australian dollars, which is Mercantile Investment Company Limited's functional and presentation currency.

This report is based on the Annual Report which is in the process of being audited. All the documents comprise the information required by Listing Rule 4.3A.

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

FOR THE YEAR ENDED 30 JUNE 2016

Chairman's Review 2016

The Directors have pleasure in presenting the Results and Preliminary Financial Report of Mercantile Investment Company Limited (MVT) and subsidiaries for the year ended 30 June 2016.

Since 2012 when the new Board took control of the Company, net assets per share have increased from 6.4c to 16.5c (after tax) which represents a compound return for the four and a half years in excess of 23% per annum.

The latest year has again been a busy and largely productive one:

- We made three takeover offers, one of which was successful (Ask Funding Ltd) and two were unsuccessful.
- Since balance date we have made revised offers for Wellington Merchants Ltd (formerly Kirkcaldie & Stains Ltd) which sold its retail business to David Jones Ltd and for Richfield International Ltd which operates a shipping agency in Singapore. Both offers seem likely to succeed and those companies will become subsidiaries of MVT.
- Earlier this year, MVT acquired a portfolio of UK stocks which has performed quite well in the short time we have owned it.
- A note issue intended to raise \$25 million attracted a somewhat disappointing response of only \$15.6 million. The 8% coupon is a good return in the present climate and well covered by returns from our conservatively managed investments.

Overall, MVT's portfolio has expanded quite considerably and the number of stocks is at, or close to, an optimum level. Our largest investment, Ingenia Communities Ltd continues to account for more than 35% of the total portfolio.

We anticipate another successful year in 2016/17.

Yours sincerely,

Ron Brierley
Chairman

Sydney
31 August 2016

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	30 June 2016 \$	30 June 2015 \$
Revenue			
Dividends, return of capital & distribution income		4,422,600	1,421,187
Net realised loss on trading portfolio		(234,376)	(26,882)
Net unrealised gains / (loss) on trading portfolio		887,120	(1,436,524)
(Loss) / gain on acquisition of a controlled entity	12	(596,786)	713,103
Interest income		1,592,543	391,097
Other revenue		367,681	89,961
		<u>6,438,782</u>	<u>1,151,942</u>
Expenses			
Remuneration expenses		(318,437)	(182,491)
Accounting fees		(157,580)	(67,348)
Audit fees		(169,470)	(37,420)
Taxation service fees		(99,095)	(135,677)
Service agreement fees		(202,670)	(168,636)
Company secretary fees		(42,039)	(53,016)
Share registry fees		(119,207)	(59,526)
Brokerage		(53,623)	(31,280)
Impairment of loans and advances	13	(1,653,415)	-
Loan recovery costs		(295,925)	-
Legal and professional fees		(329,988)	(88,189)
ASIC and ASX charges		(67,115)	(52,939)
Share based payments		(164,000)	-
Finance costs		(100,426)	(46,982)
Insurance		(167,348)	(130,450)
Other operating costs		(191,126)	(103,053)
		<u>(4,131,463)</u>	<u>(1,157,007)</u>
Profit / (Loss) Before Income Tax		2,307,319	(5,065)
Income tax (expense) / benefit	6	(657,726)	490,776
Profit for the Period		<u>1,649,593</u>	<u>485,711</u>
Other Comprehensive Income / (Loss)			
Items that will not be reclassified to profit or loss:			
Movement in fair value of long term equity investments, net of tax		<u>4,598,327</u>	<u>1,388,343</u>
Total Comprehensive Income / (Loss) for the Period		<u>6,247,920</u>	<u>1,874,054</u>
Profit / (Loss) Attributable to:			
Members of the parent entity		1,905,094	485,711
Non-controlling interest		(255,501)	-
		<u>1,649,593</u>	<u>485,711</u>
Total Comprehensive Income / (Loss) attributable to:			
Members of the parent entity		6,503,421	1,874,054
Non-controlling interest		(255,501)	-
		<u>6,247,920</u>	<u>1,874,054</u>
Earnings Per Share		Cents	Cents
- Basic earnings per share	3	0.70	0.18
- Diluted earnings per share	3	0.70	0.18

The above consolidated 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 2016**

	Notes	30 June 2016 \$	30 June 2015 \$
Assets			
Current Assets			
Cash and cash equivalents	4	7,933,953	6,117,624
Trade and other receivables		134,751	84,098
Net loans and advances	13	3,599,171	-
Financial assets at fair value through profit or loss	7	15,738,106	3,278,374
Other current assets		118,505	43,582
Total Current Assets		<u>27,524,486</u>	<u>9,523,678</u>
Non-Current Assets			
Available-for-sale financial assets	7	40,664,016	32,420,440
Trade and other receivables		624,443	713,558
Property, plant and equipment		1,039	3,065
Deferred tax assets	9	229,936	243,861
Total Non-Current Assets		<u>41,519,434</u>	<u>33,380,924</u>
Total Assets		<u>69,043,920</u>	<u>42,904,602</u>
Liabilities			
Current Liabilities			
Trade and other payables	5	1,676,527	1,764,491
Current tax liability		466,836	473,096
Total Current Liabilities		<u>2,143,363</u>	<u>2,237,587</u>
Non-Current Liabilities			
Unsecured notes	14	15,107,926	-
Deferred tax liabilities	9	4,326,616	2,455,990
Total Non-Current Liabilities		<u>19,434,542</u>	<u>2,455,990</u>
Total Liabilities		<u>21,577,905</u>	<u>4,693,577</u>
Net Assets		<u>47,466,015</u>	<u>38,211,025</u>
Equity			
Issued capital	10	28,717,120	27,404,109
Accumulated losses		(5,237,356)	(7,142,450)
Profits reserve	11	12,548,822	12,083,545
Asset revaluation reserve	11	9,998,871	5,865,821
Shared based payment reserve		164,000	-
Parent entity interest		46,191,457	38,211,025
Non-controlling interest		1,274,558	-
Total Equity		<u>47,466,015</u>	<u>38,211,025</u>

The above consolidated 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 2016**

	Notes	Issued Share Capital - Ordinary	Accumulated Losses	Profits Reserve	Asset Revaluation Reserve	Share Based Payment Reserve	Non- Controlling Interests	Total Equity
		\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2014		24,773,530	(7,628,161)	5,665,434	10,895,589	-	-	33,706,392
Profit for the Year		-	485,711	-	-	-	-	485,711
<u>Other Comprehensive Income for the Year:</u>								
Movements in fair value of long term equity investments, net of tax	11	-	-	-	1,388,343	-	-	1,388,343
Realised gains on sale of investments	11	-	-	6,418,111	(6,418,111)	-	-	-
<u>Transactions with Owners:</u>								
Shares issued under MMX Scheme of Arrangement	10	2,769,874	-	-	-	-	-	2,769,874
Capitalised share issue costs	10	(139,295)	-	-	-	-	-	(139,295)
Balance at 30 June 2015		27,404,109	(7,142,450)	12,083,545	5,865,821	-	-	38,211,025
Balance at 1 July 2015		27,404,109	(7,142,450)	12,083,545	5,865,821	-	-	38,211,025
Profit for the Year		-	1,905,094	-	-	-	(255,501)	1,649,593
<u>Other Comprehensive Income for the Year:</u>								
Movement in fair value of long term equity investments, net of tax	11	-	-	-	4,598,327	-	-	4,598,327
Realised gain on sale of investments	11	-	-	465,277	(465,277)	-	-	-
<u>Transactions with Owners:</u>								
Shares issued via placement	10	1,315,046	-	-	-	-	-	1,315,046
Capitalised share issue costs	10	(2,035)	-	-	-	-	-	(2,035)
Non-controlling interests on acquisition of subsidiary	12	-	-	-	-	-	1,530,060	1,530,060
Share options issued		-	-	-	-	164,000	-	164,000
Balance at 30 June 2016		28,717,120	(5,237,356)	12,548,822	9,998,871	164,000	1,274,558	47,466,015

The above consolidated 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 2016**

	Note	30 June 2016 \$	30 June 2015 \$
Cash Flows from Operating Activities			
Dividends, distributions and other investment income received		4,511,578	1,447,082
Other payments in the course of ordinary operations		(2,219,406)	(873,601)
Proceeds from sale of trading securities		3,786,866	95,507
Payments for trading securities		(15,418,604)	(2,750,384)
Interest received		478,192	351,061
Interest paid		(100,426)	(46,982)
Loan repayments received		140,351	-
Income tax paid		(511,950)	-
Net Cash used in Operating Activities		(9,333,399)	(1,777,317)
Cash Flows from Investing Activities			
Proceeds from disposal of available-for-sale investments		833,850	9,132,594
Payments for available-for-sale investments		(5,177,710)	(7,796,448)
Net cash acquired on acquisition of a controlled entity		(1,531,498)	3,795,961
Proceeds from return of capital		604,149	463,689
Net Cash (used in) / provided by Investing Activities		(5,271,209)	5,595,796
Cash Flows from Financing Activities			
Loan repayments received		-	289,362
Proceeds from unsecured notes		12,645,700	-
Borrowing costs		(537,774)	-
Proceeds from borrowings		9,884,736	-
Repayment of borrowings		(6,884,736)	(2,912,241)
Proceeds from share registry - MMX capital return unpaid		-	1,162,187
Share issue transaction costs		(2,035)	(139,295)
Proceeds from Issue of Shares		1,315,046	2,769,874
Net Cash provided by Financing Activities		16,420,937	1,169,887
Net Increase in Cash and Cash Equivalents Held		1,816,329	4,988,366
Cash and Cash Equivalents at the Beginning of Financial Year		6,117,624	1,129,258
Cash and Cash Equivalents at End of Financial Year		7,933,953	6,117,624
Summary of Non-cash transactions			
Unsecured notes issued (refer to note 14)		3,000,000	-

The above consolidated 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 CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Mercantile Investment Company Limited is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Mercantile Investment Company Limited (the "consolidated entity") is a listed public company, incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensure that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of this financial report have been consistently applied, unless otherwise stated.

Except for cash flow information, the financial report has been prepared on an accruals basis. Financial assets and liabilities are measured at fair value. All amounts are presented in Australian dollars.

The accounting policies are consistent with those applied by the consolidated entity in the 30 June 2015 Amended Annual Report. The following additional accounting policies apply for the year ended 30 June 2016 upon the acquisition of Ask Funding Limited.

Significant accounting policies of controlled entity acquired during the period

Financial instruments

Non-derivative financial assets

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 asset. Any interest in transferred financial assets that is created or retained by the consolidated entity is recognised as a separate asset or liability.

Impairment of loans and advances

All loans are subject to continuous management review to assess whether there is any objective evidence that any loan or group of loans is impaired.

The impairment loss is measured as the difference between the carrying amount of the loan or advance, including the security held and the expected future cash flows.

Specific provision

Impairment losses on loans and advances are determined on a case by case basis. Each borrower is subjected to a regular and intensive assessment for the identification and quantification of impairment. Following this assessment, if there is evidence that a loan or advance is impaired, then a specific impairment is raised. Any subsequent write-offs are then made against the specific provision for unrecoverable loans.

Revenue

Fee income

Fee income, including account servicing and reassessment fees are recognised as the related services are performed. Notwithstanding the fact that consolidated entity policy is to determine all fees received by reference to reimbursement of actual costs, for accounting purposes ascertainable fees are received are recognised as interest income under the effective interest rate method.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

The consolidated entity now operates in the business segment of consumer finance predominately within Australasia as a result of the acquisition of Ask Funding Limited during the period.

Critical accounting estimates and judgements

Impairment of loan and advances and other receivables

The consolidated entity continually assesses whether loans and advances and other receivables are impaired. Provisions for impairment are raised where there is objective evidence of impairment and full recovery is considered doubtful. These calculations may involve an estimate of the litigation risk, the settlement proceeds and underlying asset values in order to determine the estimate of the recoverable amount.

NOTE 2: DIVIDENDS

No dividends were paid or provided for during the year (2015: Nil)

The ability for Mercantile Investments Company Limited to pay franked dividends is dependent upon the availability of franking. The Company's franking account balance at 30 June 2016 was \$1,430,644.

	30 June 2016	30 June 2015
	\$	\$
Opening balance	848,970	641,904
Tax payment	511,950	-
Franking credits on dividends received	69,724	207,066
	<u>1,430,644</u>	<u>848,970</u>

NOTE 3: EARNINGS PER SHARE

	Cents	Cents
Basic and diluted earnings per share (cents)	0.70	0.18
Profit after income tax attributable to members used in the calculation of basic and diluted earnings per share	<u>1,905,094</u>	<u>485,711</u>
	No. shares	No. shares
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	273,497,548	268,415,880

The consolidated entity currently has 10,000,000 outstanding options that were issued to Gabriel Radzynski for nil consideration on 11 November 2015 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.17 per option and expire on 31 December 2017. As the average share price of MVT from the date of issue to 30 June 2016 did not exceed the exercise price of the options, they are not dilutive in nature and therefore have not been considered in the calculation of the diluted earnings per share.

	30 June 2016	30 June 2015
	\$	\$
Cash at bank	6,824,553	6,117,624
Money held in lawyers trust account	1,109,400	-
	<u>7,933,953</u>	<u>6,117,624</u>

NOTE 5: TRADE AND OTHER PAYABLES

Unclaimed shareholder payments - secured	1,145,231	1,162,187
Trade payables	290,238	311,703
Sundry payables	241,058	290,601
	<u>1,676,527</u>	<u>1,764,491</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 6: INCOME TAX EXPENSE / (BENEFIT)	30 June 2016	30 June 2015
	\$	\$
(a) Income tax expense / (benefit) recognised in profit or loss		
- Current tax movement	466,836	473,096
- Deferred tax movement	190,890	(963,872)
	<u>657,726</u>	<u>(490,776)</u>
(b) The prima facie tax on profit / (loss) from ordinary activities before income tax is as follows		
Profit / (loss) from continuing operations before income tax expense	2,307,319	(5,065)
Prima facie tax payable on profit / (loss) from ordinary activities before income tax at 30% (2015: 30%):	692,196	(1,520)
- Imputation credit gross up	20,917	62,120
- Franking credits received	(69,724)	(207,066)
- Other assessable / non assessable items	207,144	(130,379)
- Loss / (gain) on acquisition of a controlled entity	179,036	(213,931)
- Deferred tax asset not recognised on losses	271,233	-
- Deferred tax asset recognised on prior year losses	(928,043)	-
- Prior year under provision	284,967	-
	<u>657,726</u>	<u>(490,776)</u>
Effective tax rate	28.5%	

The Board of Directors are currently considering the formation of a tax consolidated group for Mercantile Investment Company Limited and its wholly owned subsidiaries. Should this proceed, it is likely to give rise to future tax benefits for the Company that can be utilised against tax liabilities (where applicable) but it is not expected to have a material impact to these financial statements.

NOTE 7: FINANCIAL ASSETS	30 June 2016	30 June 2015
	\$	\$
Current - financial assets held for trading	15,738,106	3,278,374
Non current - available-for-sale financial assets	40,664,016	32,420,440
	<u>56,402,122</u>	<u>35,698,814</u>
(a) Financial assets held for trading comprise:		
CURRENT		
Shares in domestic and international listed	15,118,637	3,278,374
Shares in unlisted corporations	619,469	-
	<u>15,738,106</u>	<u>3,278,374</u>
(b) Available for sale financial assets comprise:		
Shares in domestic and international listed/unlisted corporations	32,871,497	28,475,252
Unit/notes in foreign companies	7,792,519	3,945,188
	<u>40,664,016</u>	<u>32,420,440</u>

NOTE 8: FAIR VALUE MEASUREMENTS

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Available-for-sale financial assets
- Held-for-trading financial assets

Fair Value Hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurements hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level 2 financial assets have been valued using observable inputs such as the current net tangible assets balance or current level of cash backing, extracted from the audited financial statements where applicable.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 8: FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Company's assets and liabilities measured and recognised at fair value:

30 June 2016	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets:				
Available-for-sale financial assets				
- Listed domestic and international	36,507,805	-	-	36,507,805
- Unlisted domestic investments	-	233,661	-	233,661
- Unlisted international investments	-	3,922,550	-	3,922,550
	36,507,805	4,156,211	-	40,664,016
Held-for-trading financial assets				
- Listed domestic and international investments	15,118,637	-	-	15,118,637
- Unlisted domestic/international investments	-	619,469	-	619,469
	15,118,637	619,469	-	15,738,106
Total investments	51,626,442	4,775,680	-	56,402,122
30 June 2015	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets:				
Available-for-sale financial assets				
- Listed domestic and international investments	26,882,947	-	-	26,882,947
- Unlisted domestic investments	-	1,592,305	-	1,592,305
- Unlisted international investments	-	3,945,188	-	3,945,188
	26,882,947	5,537,493	-	32,420,440
Held-for-trading financial assets				
- Listed domestic and international investments	3,278,374	-	-	3,278,374
	3,278,374	-	-	3,278,374
Total investments	30,161,321	5,537,493	-	35,698,814

NOTE 9: DEFERRED TAX

	Opening Balance	Charged to	Charged	Closing
	\$	Income	Directly to	Balance
	\$	\$	Equity	\$
2016				
Deferred Tax Assets				
Capitalised share issue costs	146,748	(5,108)	-	141,640
Accrued expense movements	97,113	(8,817)	-	88,296
Balance as at 2016	243,861	(13,925)	-	229,936
Deferred Tax Liability				
Accrued income movements	54,587	17,442	-	72,029
Fair value gain	2,401,403	159,523	1,693,661	4,254,587
Balance as at 2016	2,455,990	176,965	1,693,661	4,326,616
2015				
Deferred Tax Assets				
Capitalised share issue costs	36,218	-	110,530	146,748
Accrued expense movements	-	97,113	-	97,113
Balance as at 2015	36,218	97,113	110,530	243,861
Deferred Tax Liability				
Accrued income movements	-	54,587	-	54,587
Fair value gain	4,830,215	(810,814)	(1,617,998)	2,401,403
Balance as at 2015	4,830,215	(756,227)	(1,617,998)	2,455,990

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 10: ISSUED CAPITAL

	30 June 2016 \$	30 June 2016 Number	30 June 2015 \$	30 June 2015 Number
Share Capital				
Fully paid ordinary shares	28,717,120	280,000,000	27,404,109	268,764,671
Movements in Shares on Issue:				
Opening balance	27,404,109	268,764,671	24,773,530	250,577,700
Shares issued via placement*	1,315,046	11,235,329	-	-
Shares issued under MMX scheme of arrangement	-	-	2,769,874	18,186,971
Capital raising costs, net of tax	(2,035)	-	(139,295)	-
Closing Balance	<u>28,717,120</u>	<u>280,000,000</u>	<u>27,404,109</u>	<u>268,764,671</u>

* Shares issued through a placement on the New Zealand Exchange on 22 December 2015.

The Board issued 10,000,000 options to Gabriel Radzynski for nil consideration on 11 November 2015 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.17 per option and expire on 31 December 2017.

NOTE 11: RESERVES

	30 June 2016 \$	30 June 2015 \$
Asset revaluation reserve	9,998,871	5,865,821
Profits reserve	12,548,822	12,083,545
(a) Asset Revaluation Reserve		
Opening balance at 1 July	5,865,821	10,895,589
Movement in fair value of long term equity investments, net of tax	4,598,327	1,388,343
Realised gains on disposal of investments	(465,277)	(6,418,111)
Closing balance at 30 June	<u>9,998,871</u>	<u>5,865,821</u>

The asset revaluation reserve records revaluations of available-for-sale investments.

(b) Profits Reserve

Opening balance at 1 July	12,083,545	5,665,434
Realised gains on sale of investments	465,277	6,418,111
Closing balance at 30 June	<u>12,548,822</u>	<u>12,083,545</u>

Upon disposal of investments, the net realised gain or loss is transferred from the Asset Revaluation Reserve to the Profits Reserve.

NOTE 12: CONTROLLED ENTITIES ACQUIRED DURING THE PERIOD

During the reported period, the consolidated entity acquired a controlling interest in Ask Funding Limited. Further details of the acquisition are provided below:

On 4 June 2015, the Company announced to the ASX an off-market takeover offer by Mercantile OFM Pty Ltd, a wholly owned subsidiary of the Company, for all of the ordinary shares in ASX listed Ask Funding Limited that the Company did not own for an acquisition price of \$0.08 (8 cents per share).

The offer closed on 14 August 2015 and Mercantile OFM received acceptances totalling 71.74%. Offer consideration of \$2,656,009 was paid on 4 September 2015, thereafter the Company obtained control of AKF.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 12: CONTROLLED ENTITIES ACQUIRED DURING THE PERIOD (continued)

	30 June 2016
	\$
The assets and liabilities recognised as a result of the acquisition are as follows:	
Cash	1,124,510
Net loans and receivables	4,278,586
Other receivables	824
Prepayments	54,223
Trade creditors	(41,885)
Net identifiable assets acquired	5,416,258
Less non-controlling interest on acquisition	(1,530,060)
Net identifiable assets acquired attributable to shareholders of Mercantile	<u>3,886,198</u>
Purchase consideration	
Fair value of previously held interest	1,114,992
Revaluation of previous held interest to \$0.08 per share	14,114
Cash paid	<u>2,656,009</u>
	<u>3,785,115</u>
(i) Reconciliation of loss on acquisition of controlled entity	
Fair value of previously held interest	1,114,992
Revaluation of previous held interest to \$0.08 per share	14,114
Book value of previously held interest	(1,826,975)
Net identifiable assets acquired attributable to shareholders of Mercantile	3,886,198
Purchase consideration	<u>(3,785,115)</u>
	<u>(596,786)</u>
(ii) Reconciliation of amount included in statement of cash flows	
Outflow of cash to acquire subsidiary, net of cash acquired	
Total cash consideration	2,656,009
Less: cash balances acquired	(1,124,510)
Outflow of cash - investing activities	<u>1,531,499</u>
(iii) Profit contribution	
Revenue contribution from date of acquisition to 30 June 2016	1,436,069
Expenditure contribution from date of acquisition to 30 June 2016	<u>(2,340,180)</u>
	<u>(904,111)</u>

From the date of acquisition to 30 June 2016, the Company's share of AKF's net loss after tax is \$648,610.

Acquisition related costs

There were no external acquisition costs included in other expenses in the income statement and in operating cash flows in the statement of cash flows.

Details of acquisitions completed during the prior period include:

In the prior period, on 8 July 2014 Mercantile Investment Company Limited acquired 100% of Murchison Metals Limited (MMX) by way of a scheme of arrangement. MMX Shareholders had the opportunity to exchange their shares for either cash, MVT shares or a combination of both. The scheme resulted in the issue of 18,186,971 new MVT shares.

The implementation of the merger with MMX was completed on 8 July 2014.

The Scheme Consideration was issued as follows:

- Scrip consideration – 0.3171 new shares were issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new MVT shares were issued at a price of \$0.1523 per share.
- Cash consideration – \$0.0483 was distributed for each MMX share held by Scheme participants as at 1 July 2014. The total Cash Consideration was distributed as a cheque or direct deposit on 8 July 2014.

Net assets acquired on acquisition of MMX was \$3,656,961 and primarily relate to cash and cash equivalents.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 13: NET LOANS AND ADVANCES

	30 June 2016
	\$
Family law	4,861,672
Disbursement funding	268,484
Personal injury	2,556,646
Other	831,508
Provision for impairment	(4,919,139)
Total	<u>3,599,171</u>

The net loans and advances were acquired by the consolidated entity as part of the acquisition of Ask Funding Limited on 4 September 2015. Please refer to Note 12 for further information.

Impaired loans and advances

All loans and advances whether or not due for repayment are subject to continuous management review and an impairment loss is recognised as soon as there is objective evidence that a particular loan or advance is impaired and that reasonable doubt exists over the collectability of principal or interest and fees in accordance with the loan agreement.

From the date of acquisition to 30 June 2016, Ask Funding Limited management have assessed a further impairment of \$1,653,415 with respect to the net loans and advances recognised due to objective evidence obtained and doubt existing over the collectability of principal and interest. The impairment loss impacted the result attributable to members by \$1,186,160 for the year ended 30 June 2016.

NOTE 14: UNSECURED NOTES

	30 June 2016
	\$
Unsecured - notes	15,645,700
Less: capitalised costs	(537,774)
Non-current unsecured - notes at amortised cost	<u>15,107,926</u>

On 24 June 2016, the Company announced the issue of 156,457 unsecured notes each with a face value of \$100, which commenced trading on 30 June 2016. These notes carry an interest entitlement of 8% per annum. At 30 June 2016, the face value of the unsecured notes was \$15,645,700. Interest is scheduled to be paid semi-annually, with the first interest payment to be 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.

Sir Ron Brierley subscribed for 30,000 notes (\$3,000,000) in repayment of the short term debt facility which was in operation during the period.

NOTE 15: EVENTS SUBSEQUENT TO BALANCE DATE

On 11 August 2016, the Company announced an unconditional cash offer of \$0.34 per share to acquire all the shares it and its associates did not own in Richfield International Ltd by way of an on-market bid by Mercantile OFM, a fully owned subsidiary of Mercantile. Refer to the Bidder's Statement dated 11 August 2016 on the Australian Securities Exchange for more details of the takeover bid. As at the date of this report, Mercantile OFM and its associates had secured 92.74% of Richfield International Limited up from 26.89% prior to the launch of the bid.

On 11 August 2016, the Company announced to the NZX a full takeover for 100% of the fully paid ordinary shares of Wellington Merchants Limited, formerly Kirkaldie & Stains, through Mercantile NZ Limited, a wholly owned subsidiary of Mercantile. Mercantile NZ Limited offers to purchase all of the ordinary shares in Wellington Merchants Limited not already owned by Mercantile for NZD\$3.45 per share in cash on the terms and conditions contained in the offer document lodged with the announcement.

Both takeover offers are to be funded using the Company's cash reserves and drawing down on the short term debt facility the Company has with Sir Ron Brierley. On 11 August 2016 \$7,000,000 was drawn down under this facility. On 23 and 24 August 2016 a further \$8,100,000 was drawn down. Interest is payable at the RBA Cash Rate of 1.50% per annum. The loan and interest are expected to be re-paid in full, within the 2016/17 financial year.

Apart from the above, no events have occurred subsequent to the balance date that would require adjustment to, or disclosure in, the interim financial report.

NOTE 16: CONTINGENCIES AND COMMITMENTS

Apart from the above mentioned items in the events subsequent to balance date, there are no contingent assets or liabilities as at 30 June 2016 (2015: nil).