

**MERCANTILE INVESTMENT COMPANY LIMITED**  
**ABN 15 121 415 576**

**Annual Report**  
**30 June 2016**

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

**Annual Report  
30 June 2016**

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

**Portfolio Composition  
As at 30 June 2016**

<b>Australian Securities Exchange Listed Investments</b>	<b>Total Value \$</b>
<b>Listed Domestic Investments</b>	
Ingenia Communities Group	19,993,858
Afterpay Holdings Ltd	3,600,000
Richfield International Limited	3,382,726
Unity Pacific Group	2,889,900
Stanmore Coal Limited	2,585,350
Fitzroy River Corporation Limited	1,660,781
Fleetwood Corporation Limited	1,176,540
Joyce Corporation Limited	1,060,000
IPE Limited	717,315
Cellnet Group Limited	703,409
Altona Mining Limited	390,000
Myer Holdings Limited	336,000
Phosphate Australia Limited	260,737
YPB Group Limited	256,790
Buru Energy Limited	250,000
Alternative Investment Trust	230,000
Paperlinx SPS Trust	182,000
Aurora Minerals Limited	158,319
Boom Logistics Limited	156,716
Neometals Limited	135,000
Karoon Gas Australia Limited	128,500
Triangle Energy (Global) Limited	117,033
Reverse Corporation Limited	107,214
Viking Mines Limited	100,000
Armour Energy Limited	95,018
Bauxite Resources Limited	82,483
Alliance Resources Limited	80,000
Elementos Limited	80,000
Toptung Limited	69,000
Bone Medical Limited	68,898
Panoramic Resources Limited	67,500
Timpetra Resources Limited	57,855
White Energy Company Limited	55,000
Pura Vida Energy NL	54,000
Metgasco Limited	43,648
Livetiles Limited	43,000
New Standard Energy Limited	30,364
Entek Energy Limited	30,000
Galileo Japan Trust	25,500
Yancoal Australia Limited	8,500
Wolfstrike Rentals Group Limited	8,000
Trustees Australia Limited	2,832
Oriental Technologies Investment Limited	1,260
<b>Sub-total</b>	<b><u>41,482,046</u></b>

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Portfolio Composition  
As at 30 June 2016 – *continued***

	<b>Total Value \$</b>
<b>Listed International Investments</b>	
Smiths City Group Limited (NZ)	2,104,433
Impact Holdings (UK) PLC	972,013
Hydro Hotel Eastbourne PLC (UK)	898,755
Kirkcaldie & Stains Limited (NZ)	634,197
European Real Estate Investment Trust (UK)	477,893
Smart (J.) & Co. (Contractors) PLC (UK)	356,655
Public Service Properties Investments Limited (UK)	310,071
Electronic Data Processing PLC (UK)	223,300
Data & Research Services PLC (UK)	158,860
Northamber PLC (UK)	<u>138,250</u>
<b>Sub-total</b>	<b><u>6,274,427</u></b>
<b>Unlisted Domestic Investments</b>	
Ezeatm Corporation Limited	344,469
Multiplex European Property Fund	275,000
Asset Backed Yield Trust	<u>233,661</u>
<b>Sub-total</b>	<b><u>853,130</u></b>
<b>Unlisted International Investments</b>	
Foundation Life (NZ) Holdings Limited	3,922,550
Worsley Investors PLC (UK)	<u>3,869,969</u>
<b>Sub-total</b>	<b><u>7,792,519</u></b>
<b>Total Portfolio Position at 30 June 2016</b>	<b><u><u>56,402,122</u></u></b>

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Directors' Report  
For the year ended 30 June 2016**

The Directors of Mercantile Investment Company Limited ("the Company" or "the consolidated entity") present their report together with the financial statements of the Company and its controlled entities for the year ended 30 June 2016.

**Directors**

The names of Directors in office at any time during or since the end of the year are:

Sir Ron Brierley	Chairman & Non-Executive Director
Mr Gabriel Radzynski	Executive Director
Mr James Chirnside	Independent Non-Executive Director
Mr Ronald Langley	Independent Non-Executive Director
Mr Daniel Weiss	Non-Executive Director
Dr Gary Weiss	Alternate Director for Mr Daniel Weiss

**Company Secretary**

Mark Licciardo	Company Secretary
Matthew Rowe	Joint Company Secretary (resigned 30 June 2016)
Chris Lobb	Joint Company Secretary (appointed 16 September 2016)

**Principal Activities**

The principal activities of the Company 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.

There was no significant change in the nature of the entity's principal activities during the financial year.

**Operating Results**

The company generated total comprehensive income for the year ended 30 June 2016 of \$6.25m (2015: \$1.87m), and a net profit after tax of \$1.65m (2015: \$0.49m).

The net profit after tax arises primarily as a result of investment related income offset by a loss on acquisition of Ask Funding Limited ("AKF"). The increase in revenue was due to the performance of the trading portfolio.

Total comprehensive income per share was 2.38 cents (2015: 0.70 cents). The market price of the Company's shares increased over the year from 12.5 cents per share at 30 June 2015 to 14.5 cents per share at 30 June 2016 (2015: decreased from 13.5 cents per share to 12.5 cents per share).

During the year the net tangible assets (after tax) per share increased from 14.2 cents to 16.5 cents (2015: increase from 13.5 cents to 14.2 cents).

The increase in NTA is primarily due to the increase in the market value of the Company's investments in listed securities as well as interest, dividend and other income received during the year.

**Dividends Paid or Recommended**

No dividends were paid or are payable for the year ended 30 June 2016.

**Review of operations**

During the year, the Company continued to invest in listed securities which are expected to provide attractive risk adjusted returns, including profit making ventures and holding of shares for dividend yield/long term capital appreciation, as deemed appropriate.

On 4 June 2015 Mercantile announced to the ASX an off-market takeover offer by Mercantile OFM Pty Ltd (Mercantile OFM), a wholly owned subsidiary of Mercantile, for all of the ordinary shares in ASX listed Ask Funding Limited (ASX code AKF) that Mercantile did not own. The off-market takeover offer for AKF closed on 14 August 2015 and the Company received acceptances totalling 71.74%. Offer consideration totalling \$2,656,009 was paid on or about 4 September 2015. The consolidated results for the year ended 30 June 2016 include AKF's results from the 4 September 2015. However, the comparative results for 2015 do not include AKF's results.

On 6 July 2015, the Company's shares began trading, following a compliance listing, on the NZX Main Board. The NZX code is MVT.

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Review of operations (continued)**

On 27 August 2015, a short term loan of \$3,000,000 was advanced to the Company by Sir Ron Brierley to fund the purchase of investments. Additional amounts up to \$7,000,000 were advanced by Sir Ron Brierley to the Company between December 2015 and March 2016 to fund the purchase of investments. Interest is payable at the RBA cash rate per annum. The loan and interest was re-paid in full within the financial year.

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. Mr Radzynski does not have any right by virtue of the options to participate in any share issue of the company.

On 22 December 2015 the Company announced that it had undertaken a placement to raise NZ\$1,400,000 (approximately A\$1,300,000 ) by the issue of 11,235,329 new fully paid ordinary shares at an issue price of NZ\$0.125 (A\$0.12) per share from wholesale investors in New Zealand.

On 23 December 2015, a wholly owned subsidiary of MVT, Mercantile OFM, announced an unconditional cash offer at \$0.20 per share to acquire all of the shares it did not own in Richfield International Ltd by way of an on-market takeover bid.

The Takeover Offer closed on 8 February 2016, with Mercantile OFM and its associates securing 26.89% of Richfield International Ltd (up from 19.9% prior to the launch of the bid).

On 26 February 2016, Mercantile announced to the NZX a full takeover for 100% of the fully paid ordinary shares of Kirkcaldie & Stains Limited (K&S) through Mercantile NZ Limited, a wholly owned subsidiary of Mercantile.

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 ASX 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 listed on the Australian Stock Exchange, under the code MVTHA.

**Events occurring after the reporting period**

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 wholly owned subsidiary of Mercantile. As at the date of this report, Mercantile OFM had secured over 90% of Richfield International Limited and intends to compulsorily acquire any RIS shares that had not accepted its takeover offer.

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 (WML), formerly Kirkcaldie & Stains Ltd, through Mercantile NZ Limited, a wholly owned subsidiary of Mercantile. Mercantile NZ Limited offers to purchase all of the ordinary shares in WML 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. At the date of this report, this offer has gone unconditional, as the company has received acceptances above the 50% minimum acceptance condition. The Company will pay for and acquire WML shares under acceptances received up to 16 September 2016.

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 per annum. The loan and interest are expected to be re-paid in full, within the 2016/17 financial year.

At the August 2016 Board meeting the Directors awarded to Mr Radzynski, a discretionary cash bonus of \$200,000 payable in two tranches. \$100,000 payable immediately and \$100,000 payable in 12 months time. This bonus was awarded by the Board in recognition of Mr Radzynski contribution to the Company. 10,000,000 options have been granted to Mr Radzynski subject to shareholder approval at the annual general meeting. The options have a strike price of 20 cents and a 31 December 2020 maturity dates.

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Events occurring after the reporting period (continued)**

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

**Future Developments, Prospects and Business Strategies**

The Company will continue to selectively invest in the share market and other investment opportunities that the Directors consider offer the prospect for attractive risk-adjusted returns both domestically and internationally.

**Environmental regulations**

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

**Information on Directors and Company Secretary**

**Sir Ron Brierley (Chairman and Non-Executive Director)**

Sir Ron founded Brierley Investments Ltd in 1961 and as Chairman of that company implemented his investment approach successfully over the next 30 years, retiring as a director in 2001. Sir Ron was appointed Chairman of Guinness Peat Group PLC (GPG) in 1990 where he also applied his investment approach. GPG was renamed (Coats Group PLC) on 6 March 2015. Sir Ron stepped down as a director of Coats Group PLC on 21 April 2015.

Interest in Shares and Options - 103,764,634 ordinary shares beneficially held by Siblow Pty Ltd and 18,646,486 ordinary shares beneficially held by McNeil Nominees Pty Ltd.

**Mr Gabriel Radzynski - BA (Hons), MCom (Executive Director)**

**Experience and special responsibilities**

Gabriel is the founder and Managing Director of Sandon Capital Pty Ltd, a boutique investment management and advisory firm. He is the portfolio manager of the Sandon Capital Activist Fund, a fund targeting underperforming companies. Sandon Capital also provides advisory services to shareholders seeking to implement activist strategies.

He is Chairman of Sandon Capital Investments Limited and is a non-executive director of Ask Funding Limited and Future Generation Investment Company Limited.

Interest in Shares and Options – 10,000,000 options.

**Mr James Chirnside (Independent Non-Executive Director)**

**Experience and special responsibilities**

James has worked in financial markets for 32 years - mainly as an equities fund manager across a broad range of markets and sectors. James is currently Chairman and Managing Director of ASX listed Dart Mining NL. Dart is a junior mining and exploration company with operations in North-east Victoria. The principal focus and activities include gold, lithium, and base metals. Historically James has worked as a fund manager, proprietary metals trader, and derivatives broker in Sydney, Hong Kong, London, and Melbourne.

James operated Asia Pacific Asset Management between 2002 and 2012. APAM was an Australian and Asian equities fund manager. From 2000-2001 James worked for Challenger Financial Group in Sydney as a product manager, responsible for hedge fund development and investments. During the 1990's James managed frontier and emerging market hedge funds in Hong Kong and London for Regent Fund Management (now known as Charlemagne Capital). He was primarily focused in the resources sector spanning Russia and Eastern Europe as well as more developed markets in Asia including Japan.

Between 1988 and 1992 James ran a Proprietary trading book for County NatWest Investment Bank, based in London. At County he was focussed on closed-end Country Funds, Energy products and derivative arbitrage strategies. James also worked for Bell Commodities in Melbourne and London and commodity trader - NYSE listed - Bunge Inc.

He is the Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee. James holds directorships in Cadence Capital Limited, WAM Capital Limited, Dart Mining NL and Ask Funding Limited.

Interest in Shares and Options – nil.

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Mr Ronald Langley - BCom (Hons) (Independent Non-Executive Director)**

**Experience and special responsibilities**

Ron has been an international value investor for the past 36 years and has held directorships in companies in several countries around the world. After living in the US for 25 years and building 2 substantial businesses, Ron returned to Sydney in 2009 and manages a personal investment fund which includes some unlisted emerging companies. Ron holds a directorship in YPB Group Limited.

Ron is the Chairman of the Nomination & Remuneration Committee and a member of the Audit & Risk Committee.

Interest in Shares and Options - 12,500,000 fully paid ordinary shares.

**Mr Daniel Weiss - BCom, LLB (Non-Executive Director)**

**Experience and special responsibilities**

Daniel is the Investment Manager at Ariadne Australia Limited, an ASX-listed investment company. Prior to joining Ariadne in 2007, he worked in private equity and fund management in the United Kingdom. Daniel has a Bachelor of Commerce from the University of New South Wales and a Bachelor of Laws from the University of Sydney.

**Dr Gary Weiss - LLB (Hons), LLM, JSD (Alternate Director)**

**Experience and special responsibilities**

Gary is the Chairman Ridley Corporation Limited, Executive Director of Ariadne Australia Limited, and a director of Premier Investments Limited, Pro-Pac Packaging Limited and Victor Chang Cardiac Research Institute.

Gary has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions.

Gary resigned as a Non-Executive Director on 25 February 2015 and was appointed as an Alternate Director for Mr Daniel Weiss.

Interest in Shares and Options - 14,915,001 ordinary shares held by Portfolio Services Pty Limited and 540,000 held by HSBC Custody Nominees (Australia) Limited.

**Company Secretary**

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

**Experience and special responsibilities**

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 and the Australian Institute of Company Directors (AICD) and a Director of ASX listed Frontier Digital Ventures as well as several other public and private companies.

**Christopher Lobb – B Bus(Acc), FGIA,FCIS, CPA, MAICD (Appointed joint Company Secretary 16 September 2016)**

**Experience and special responsibilities**

Chris has recently been appointed the joint Company Secretary for Mercantile and is the Manger, Corporate Governance at Mertons Corporate Services Pty Ltd. Chris has over 20 years' experience as a company secretary having held the role for both for listed and unlisted entities, including CSG Limited, MSF Sugar Limited, Colonial First State Property Management and The Gandel Group. Chris is a former State Chairman of the Governance Institute of Australia and non-executive director of Box Hill Institute of TAFE.



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**Directors' Report  
For the year ended 30 June 2016**

**Remuneration Report (Audited)**

This report details the nature and amount of remuneration for each Director of the Company. The current employees of the Company are five Non-Executive Directors and one Executive Director. The Company Secretary is remunerated under a service agreement with Mertons Corporate Services Pty Ltd.

*Remuneration Policy*

The Board's policy is to remunerate Non-Executive and Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive and Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. 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.

However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in 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 Limited on arm's-length commercial terms.

Further details are contained in Note 20 with respect to payments made to related parties during the year.

*Directors' Remuneration*

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

	<b>Short Term Employee Benefits Cash &amp; Salary \$</b>	<b>Post Employment Benefits \$</b>	<b>Total \$</b>
<b>30 June 2016</b>			
<b>Directors</b>			
Sir Ron Brierley	-	-	-
Mr Gabriel Radzynski	129,155	12,269	141,424
Mr James Chirnside	18,000	1,710	19,710
Mr Ronald Langley	15,000	1,425	16,425
Mr Daniel Weiss *	18,067	-	18,067
	<u>180,222</u>	<u>15,404</u>	<u>195,626</u>
<b>30 June 2015</b>			
<b>Directors</b>			
Sir Ron Brierley	-	-	-
Mr Gabriel Radzynski	129,155	12,617	141,772
Mr James Chirnside	19,782	1,879	21,661
Mr Ronald Langley	15,000	1,425	16,425
Dr Gary Weiss	13,489	-	13,489
Mr Daniel Weiss*	4,517	-	4,517
	<u>181,943</u>	<u>15,921</u>	<u>197,864</u>

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

\*Remuneration shown above for Mr Daniel Weiss are not paid to Mr Weiss, but are paid to Ariadne Australia Limited (inclusive of irrecoverable GST). Mr Weiss's is an employee of and remunerated separately by Ariadne Australia Limited.

Remuneration shown above for Mr Radzynski reflect director's fees of \$15,000 plus superannuation. A cash bonus payment of \$125,000 (inclusive of super) was paid to Mr Radzynski on 31 March 2016. This bonus payment was the second instalment of a bonus awarded in the 2015 financial year. This bonus was awarded by the Board in recognition of Mr Radzynski's contribution over the two years prior to 2015.

The Board issued 10,000,000 options to Mr 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. These options equated to a value of \$164,000. The quantum and strike

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Remuneration Report (Audited) (continued)**

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

The Company also accepts unsecured loans or deposits from Directors from time to time, with interest being paid on normal commercial terms. Short-term, unsecured loans were advanced to the Company by Sir Ron Brierley in 2016 of \$9.9m to fund purchases of investments. Interest was payable at the RBA cash rate. The loan had been repaid in full at the end of the financial year. The total interest paid amounted to \$100,426.

*Additional disclosures relating to key management personnel*

*Shareholding*

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Sir Ron Brierley	122,411,120	-	-	-	122,411,120
Mr Gabriel Radzynski	-	-	-	-	-
Mr James Chirnside	-	-	-	-	-
Mr Ronald Langley	12,500,000	-	-	-	12,500,000
Dr Gary Weiss	15,455,001	-	-	-	15,455,001
Mr Daniel Weiss	-	-	-	-	-
	<u>150,366,121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,366,121</u>

*Other transactions with key management personnel and their related parties*

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
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.	382,034	228,636
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Dr Weiss and Mr Weiss were paid to Ariadne Australia Limited.	18,067	18,006
The Board awarded a discretionary cash bonus to Mr Radzynski of \$250,000 (inclusive of super) in 2015. The first instalment of \$125,000 was paid in March 2015. The second instalment of \$125,000 was paid in March 2016.	125,000	125,000
Short-term, unsecured loans were advanced to the Company by Sir Ron Brierley in 2016 (\$9.9m) to fund purchases of investments. Interest was paid at the RBA cash rate per annum. The loan has been repaid in full during the financial year.	100,426	-
Sir Ron Brierley subscribed for 30,000 notes (\$3,000,000) in partial repayment of the short term debt facility which was in operation during the period. No coupons have been paid on the notes.	-	-
Mr Gabriel Radzynski subscribed for 250 notes (\$25,000) during the period. Entities managed by Sandon Capital Pty Ltd, a related entity of Mr Radzynski, subscribed for 20,000 notes (\$2,000,000). No coupons have been paid on the notes.	-	-

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Remuneration Report (Audited) (continued)**

**30 June 2016      30 June 2015**  
**\$                      \$**

Mr Ronald Langley subscribed for 12,000 notes (\$1,200,000) during the period.  
No coupons have been paid on the notes.

-                      -

***This concludes the remuneration report, which has been audited.***

**Meetings of Directors**

The number of meetings of directors (including meetings of committees of directors) held during the financial year starting 1 July 2015 to 30 June 2016 were as follows:

	<b>Directors'</b>		<b>Committee Meetings</b>	
	<b>Meetings</b>		<b>Audit &amp; Risk</b>	
	Number of Eligible Meetings to Attend	Number Attended	Number of Eligible Meeting to Attend	Number Attended
Sir Ronald Brierley	6	6	4	3**
Mr James Chirnside	6	6	4	4
Mr Ronald Langley	6	6	4	4
Mr Gabriel Radzynski	6	6	4	4**
Mr Daniel Weiss	6	6	4	4

\*\*Directors attended Audit & Risk Committee Meetings by invitation.

**Rounding of amounts**

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest dollar.

**Indemnifying Officers or Auditor**

During or since the end of the financial year the Company has not given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums.

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company or the improper use by the Directors of their position.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed.

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company 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 7 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.

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**Directors' Report  
For the year ended 30 June 2016**

**Directors' Report (continued)**

**Non-Audit Services (continued)**

The directors are of the opinion that the services as disclosed in note 7 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 as required under s307c of the Corporations Act 2001 for the year ended 30 June 2016 is set out on page 12.

Signed in accordance with a resolution of the Board of Directors.



Gabriel Radzynski  
Executive Director

19 September 2016

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**Corporate Governance Statement**

**Introduction**

The Board of Directors of Mercantile Investment Company Limited ("MVT" or "the Company") is responsible for the corporate governance of the Company. The Board has chosen to prepare the Corporate Governance Statement ('CGS') in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be made available on a company's website.

Accordingly, a copy of the Company's CGS is available on the Company's website at [www.mercantileinvestment.com.au](http://www.mercantileinvestment.com.au) under the Governance section.

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

In relation to the independent audit for the year ended 30 June 2016, I declare that to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*;  
and
- (ii) no contraventions of any applicable code of professional conduct.

This declaration is in respect of Mercantile Investment Company Limited.



S M WHIDDETT  
Partner

PITCHER PARTNERS  
Sydney

19 September 2016

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

**Consolidated Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 30 June 2016**

	Note	30 June 2016	30 June 2015
<b>Income</b>		<b>\$</b>	<b>\$</b>
Dividends, return of capital & distribution income	3	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	24	(596,786)	713,103
Interest income		1,592,543	391,097
Other income		367,681	89,961
		<u>6,438,782</u>	<u>1,151,942</u>
<b>Expenses</b>			
Remuneration expenses	4	(318,437)	(182,491)
Accounting fees		(157,580)	(67,348)
Audit fees	7	(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	25	(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	4	(191,126)	(103,053)
		<u>(4,131,463)</u>	<u>(1,157,007)</u>
<b>Profit / (Loss) Before Income Tax</b>		2,307,319	(5,065)
Income tax (expense) / benefit	5	(657,726)	490,776
<b>Profit for the period</b>		<u>1,649,593</u>	<u>485,711</u>
<b>Other Comprehensive Income / (Loss)</b>			
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>
<b>Total Comprehensive Income for the Year</b>		<u>6,247,920</u>	<u>1,874,054</u>
<b>Profit / (Loss) Attributable to:</b>			
Members of the parent entity		1,905,094	485,711
Non-Controlling Interest		(255,501)	-
		<u>1,649,593</u>	<u>485,711</u>
<b>Total Comprehensive Income / (Loss) attributable to:</b>			
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>
<b>Earnings / (Loss) per Share</b>		<b>Cents</b>	<b>Cents</b>
- Basic earnings per share	9	0.70	0.18
- Diluted earnings per share	9	0.70	0.18

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 2016**

	Note	30 June 2016 \$	30 June 2015 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	10	7,933,953	6,117,624
Trade and other receivables	11	134,751	84,098
Net loans and advances	25	3,599,171	-
Financial assets at fair value through profit or loss	12	15,738,106	3,278,374
Other current assets		118,505	43,582
<b>Total Current Assets</b>		<b><u>27,524,486</u></b>	<b><u>9,523,678</u></b>
<b>Non - Current Assets</b>			
Financial assets at fair value through other comprehensive income	12	40,664,016	32,420,440
Trade and other receivables	11	624,443	713,558
Property, plant & equipment		1,039	3,065
Deferred tax assets	14	229,936	243,861
<b>Total Non-Current Assets</b>		<b><u>41,519,434</u></b>	<b><u>33,380,924</u></b>
<b>Total Assets</b>		<b><u>69,043,920</u></b>	<b><u>42,904,602</u></b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	1,676,527	1,764,491
Current tax liability		466,836	473,096
<b>Total Current Liabilities</b>		<b><u>2,143,363</u></b>	<b><u>2,237,587</u></b>
<b>Non-Current Liabilities</b>			
Unsecured notes	26	15,107,926	-
Deferred tax liabilities	14	4,326,616	2,455,990
<b>Total Non-Current Liabilities</b>		<b><u>19,434,542</u></b>	<b><u>2,455,990</u></b>
<b>Total Liabilities</b>		<b><u>21,577,905</u></b>	<b><u>4,693,577</u></b>
<b>Net Assets</b>		<b><u>47,466,015</u></b>	<b><u>38,211,025</u></b>
<b>Equity</b>			
Issued Capital	16	28,717,120	27,404,109
Accumulated losses		(5,237,356)	(7,142,450)
Profits reserve	17	12,548,822	12,083,545
Asset revaluation reserve	17	9,998,871	5,865,821
Share based payment reserve		164,000	-
Parent entity interest		46,191,457	38,211,025
Non-controlling interest		1,274,558	-
<b>Total Equity</b>		<b><u>47,466,015</u></b>	<b><u>38,211,025</u></b>

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 2016**

Notes	Issued Share Capital – Ordinary	Accumulated Losses	Profits Reserve	Asset Revaluation Reserve	Share Based Payment Reserve	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2014</b>	<b>24,773,530</b>	<b>(7,628,161)</b>	<b>5,665,434</b>	<b>10,895,589</b>	-	-	<b>33,706,392</b>
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	17	-	-	1,388,343	-	-	1,388,343
Realised gains on sale of investments	17	-	6,418,111	(6,418,111)	-	-	-
<u>Transactions with Owners:</u>							
Shares issued under MMX Scheme of Arrangement	16	2,769,874	-	-	-	-	2,769,874
Capitalised share issue costs	16	(139,295)	-	-	-	-	(139,295)
<b>Balance at 30 June 2015</b>	<b>27,404,109</b>	<b>(7,142,450)</b>	<b>12,083,545</b>	<b>5,865,821</b>	-	-	<b>38,211,025</b>
<b>Balance at 1 July 2015</b>	<b>27,404,109</b>	<b>(7,142,450)</b>	<b>12,083,545</b>	<b>5,865,821</b>	-	-	<b>38,211,025</b>
Profit for the Year	-	1,905,094	-	-	-	(255,501)	1,649,593
<u>Other Comprehensive Income for the Year:</u>							
Movements in fair value of long term equity investments, net of tax	17	-	-	4,598,327	-	-	4,598,327
Realised gains on sale of investments	17	-	465,277	(465,277)	-	-	-
<u>Transactions with Owners:</u>							
Shares issued via placement	16	1,315,046	-	-	-	-	1,315,046
Capitalised share issue costs	16	(2,035)	-	-	-	-	(2,035)
Non-controlling interests on acquisition of subsidiary	24	-	-	-	-	1,530,060	1,530,060
Share options issued	-	-	-	-	164,000	-	164,000
<b>Balance at 30 June 2016</b>	<b>28,717,120</b>	<b>(5,237,356)</b>	<b>12,548,822</b>	<b>9,998,871</b>	<b>164,000</b>	<b>1,274,558</b>	<b>47,466,015</b>

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 2016**

	Note	30 June 2016 \$	30 June 2015 \$
<b>Cash Flows from Operating Activities</b>			
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)	-
<b>Net Cash used in Operating Activities</b>	18	<b><u>(9,333,399)</u></b>	<b><u>(1,777,317)</u></b>
<b>Cash Flows from Investing Activities</b>			
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
<b>Net Cash Provided by / (Used in) Investing Activities</b>		<b><u>(5,271,209)</u></b>	<b><u>5,595,796</u></b>
<b>Cash Flows from Financing Activities</b>			
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
<b>Net Cash Provided by Financing Activities</b>		<b><u>16,420,937</u></b>	<b><u>1,169,887</u></b>
<b>Net Increase in Cash and Cash Equivalents Held</b>		<b>1,816,329</b>	<b>4,988,366</b>
<b>Cash and Cash Equivalents at the Beginning of Financial Year</b>		<b><u>6,117,624</u></b>	<b><u>1,129,258</u></b>
<b>Cash and Cash Equivalents at End of Financial Year</b>		<b><u><u>7,933,953</u></u></b>	<b><u><u>6,117,624</u></u></b>
<b>Summary of Non-cash transactions</b>			
Unsecured notes issued (refer to note 26)	26	3,000,000	

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 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 (the "consolidated entity") is a for-profit entity for financial reporting purposes under Australian Accounting Standards. It is a publicly listed company, incorporated and domiciled in Australia.

The financial report was authorised for issue with a resolution of the Board of Directors on 19 September 2016.

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.

The accounting policies are consistent with those applied by the consolidated entity in the 30 June 2015 amended annual report. Additional accounting policies apply for the year ended 30 June 2016 upon the acquisition of Ask Funding Limited.

**Reporting Basis and Conventions**

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

In preparing this financial report, the significant judgements made by management in applying the accounting policies and the key sources of estimates or uncertainty were the same as those that applied historically.

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 19.

**Accounting Policies**

**(a) Principles of Consolidation**

The consolidated financial report incorporates the assets, liabilities and results of subsidiaries controlled by the Company at the end of the reporting period. Subsidiaries are entities controlled by the parent entity. Control exists where the parent entity is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary. The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Company has the existing rights to direct the relevant activities of a subsidiary. Subsidiaries are included in the consolidated financial report from the date control commences until the date control ceases. Where the Group's interest is less than 100 per cent, the interest attributable to outside shareholders is reflected in non-controlling interests.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

A list of controlled entities is contained in Note 13 to the financial statements.

Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets.

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

**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Policies (Continued)**

**(a) Principles of Consolidation (continued)**

Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

**Business Combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

The acquisition method requires the acquirer of the business to be identified. The business combination will be accounted for as at acquisition date, which is the date that control over the acquiree, is obtained by the parent entity. At that date, the parent entity shall recognise in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be measured reliably.

Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entities incremental borrowing rate.

Goodwill arising on acquisition is recognised initially at the excess of cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(b) Foreign currency transactions**

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

**(c) Trade and Other Payables**

Trade and other payables represent the liabilities for services received by the entity that remain unpaid at the end of the reporting period. The balance is unsecured and is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**(d) Income Tax**

The income tax expense / (income) for the year comprises current income tax expense / (income) and deferred tax expense / (income). Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities / (assets) are measured at the amounts expected to be paid to/ (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense / (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss. Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

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.

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

**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Policies (Continued)**

**(d) Income Tax (Continued)**

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.

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**(e) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost, less where applicable, any accumulated depreciation and impairment losses. Currently no items of property, plant and equipment are carried at revalued amounts.

**Plant and Equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets are depreciated on a combination of prime cost and diminishing value basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and Equipment	10-25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(f) Financial Instruments**

***Initial Recognition and Measurement***

***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.

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.

***Classification and Subsequent Measurement***

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition, less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

***Financial assets at fair value through profit or loss***

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

***Loans and receivables***

Loans and receivables 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 derecognised.

***Financial assets at fair value through other comprehensive income***

Financial assets at fair value through other comprehensive income are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements recognised in other comprehensive income.

Financial assets at fair value through other comprehensive income are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All others are classified as current assets.

When a financial assets at fair value through other comprehensive income is disposed of, the cumulative gain or loss, net of tax thereon, is transferred from the asset revaluation reserve to the capital profits reserve.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Policies (Continued)**

**(f) Financial Instruments (continued)**

*Financial*

*liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**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.

**Determination of fair value**

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

The Company uses the last sale price as a basis of measuring fair value of its financial instruments. Refer to note 21 for further details regarding valuation techniques when the last sale price in an active market is not available.

**(g) Impairment of Assets**

At the end of each reporting period, the consolidated entity 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.

Impairment losses on loans and advances on Ask Funding Limited's loan book 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.

**(h) Investment in Subsidiaries**

Investment in subsidiary companies in the parent's financial statements is stated at cost, net of any impairment losses.

Details of investment in subsidiaries are provided in Note 13.

**(i) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other short-term highly liquid investments with original maturities of five months or less.

**(j) Trade and other Receivables**

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(f) for further discussion on the determination of impairment losses.

**(k) Earnings per Share (EPS)**

Basic earnings per share is determined by dividing the operating profit after tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Policies (Continued)**

**(l) Revenue and Other Income**

Interest revenue is recognised using the effective interest method. Dividend revenue is recognised when the right to receive a dividend has been established. All revenue is stated exclusive of the amount of goods and services tax (GST).

**(m) Operating Segments**

The Company operates predominantly in Australia and in the securities and consumer finance industries. Within the securities industry the company derives revenue from trust distribution, dividend income, interest income and from sale of its investment portfolio. Within the consumer finance industry the company derives revenue from interest income.

**(n) Critical Accounting Estimates and Judgements**

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Key Estimates – Impairment*

The available-for-sale and held-for-trading financial assets of the Company are valued at fair value. The Directors assess impairment of all other assets at each reporting date by evaluating conditions specific to the Group that may lead to impairment of these assets. Where an impairment trigger exists, the recoverable amount of the assets is determined.

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.

In accordance with AASB 112 Income Taxes, deferred tax assets/liabilities have been recognised for unrealised movements in the investment portfolio at current tax rates to the point that management believes that they will be utilised in future reporting periods.

**(o) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net 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 the expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to the ATO is included as part of 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.

**(p) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**(q) New Accounting Standards for Application in Future Periods**

AASB 9 which applies to annual reporting periods commencing on or after 1 January 2018, was early adopted by Mercantile Investment Company Limited in previous reporting periods. No other new accounting standards and interpretations that are available for early adoption but not yet adopted at 30 June 2016, will result in any material change in relation to the financial statements of Mercantile Investment Company Limited.



**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
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**NOTE 2: OPERATING SEGMENTS**

<b>Consolidated - 2016</b>	<b>Securities</b>	<b>Consumer Finance</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>	5,002,713	1,436,069	6,438,782
Expenses	(1,791,283)	(2,340,180)	(4,131,463)
Profit before tax	3,211,430	(904,111)	2,307,319
Profit after tax			1,649,593
<i>Material items include:</i>			
Impairment of loans		(1,653,415)	(1,653,415)
<b>Assets</b>			
Segment assets	64,336,075	3,599,171	67,935,246
Trade and other receivables			759,194
Other current assets			118,505
Property, plant & equipment			1,039
Deferred tax asset			229,936
			<u>69,043,920</u>
<b>Liabilities</b>			
Segment liabilities	(15,107,926)	-	(15,107,926)
Trade and other payables			(1,676,527)
Current tax liability			(466,836)
Deferred tax liability			(4,326,616)
			<u>(21,577,905)</u>

The Company only operated in one operating segment in the 2015 financial year, being the securities industry.

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**Notes to the Financial Statements  
For the year ended 30 June 2016**

	30 June 2016 \$	30 June 2015 \$
<b>NOTE 3: REVENUE AND OTHER INCOME</b>		
<b>Investment Income</b>		
- Dividends Received	507,534	702,757
- Trust Distributions Received	1,311,386	499,868
- Capital Returns	<u>2,603,680</u>	<u>218,562</u>
<b>Total Investment Income</b>	<u>4,422,600</u>	<u>1,421,187</u>
<b>Other Income</b>		
- Underwriting Fee	-	-
- Sundry Income	138,807	25,895
- Foreign Exchange Movement	<u>228,874</u>	<u>64,066</u>
<b>Total Other Income</b>	<u>367,681</u>	<u>89,961</u>
 <b>NOTE 4: EXPENSES</b>		
<b>Employee Benefits Expenditure</b>		
Directors Fees	180,222	181,943
Other Expenses	20,834	548
Consultant Fees	<u>117,381</u>	<u>-</u>
Remuneration Expenses	318,437	182,491
Superannuation	<u>15,404</u>	<u>15,921</u>
	<u>333,841</u>	<u>198,412</u>

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**Notes to the Financial Statements  
For the year ended 30 June 2016**

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 5: INCOME TAX EXPENSE / (BENEFIT)</b>		
<b>(a) Income tax expense / (benefit) recognised in profit or loss</b>		
- Current tax movement	466,836	473,096
- Deferred tax movement	190,890	(963,872)
	<u>657,726</u>	<u>(490,776)</u>
<b>(b) The prima facie tax on profit / (loss) from ordinary activities before income tax is as follows</b>		
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%	

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>Franking Account</b>		
Balance of franking account at year end arising from:		
Opening balance	848,970	641,904
Tax payment	511,950	-
Franking Credits received	69,724	207,066
	<u>1,430,644</u>	<u>848,970</u>

The ability for Mercantile Investment Company Limited to pay franked dividends is dependent upon the Company paying tax and the available franking account balance.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 6: KEY MANAGEMENT COMPENSATION**

**(a) Names and Positions held of key management personnel in office at any time during the financial year are:**

<b>Key Management Person</b>	<b>Position</b>
Sir Ron Brierley	Non-Executive Director & Chairman
Mr Gabriel Radzyninski	Executive Director
Mr James Chirnside	Independent Non-Executive Director
Mr Ronald Langley	Independent Non-Executive Director
Mr. Daniel Weiss	Non-Executive Director
Dr Gary Weiss	Alternate Director for Mr Daniel Weiss

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
<b>(b) Aggregate compensation made to Key Management Personnel</b>		
Short-Term Benefits	180,222	181,943
Post-Employment Benefits	15,404	15,921
Share based payment	164,000	-
	<u>359,626</u>	<u>197,864</u>

**(c) Shareholdings**

Number of Shares held directly, indirectly or beneficially by Key Management Personnel, or by entities to which they were related, were:

	<b>Balance 1 July 2015</b>	<b>Additions / (Disposals)</b>	<b>Balance 1 July 2016</b>
<b>2016</b>			
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzyninski	-	-	-
Sir Ron Brierley**	122,411,120	-	122,411,120
Dr Gary Weiss**	15,455,001	-	15,455,001
Mr Ronald Langley	12,500,000	-	12,500,000
Mr Daniel Weiss	-	-	-
	<u>150,366,121</u>	<u>-</u>	<u>150,366,121</u>
	<b>Balance 1 July 2014</b>	<b>Additions / (Disposals)</b>	<b>Balance 30 June 2015</b>
<b>2015</b>			
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzyninski	-	-	-
Sir Ron Brierley**	122,411,120	-	122,411,120
Dr Gary Weiss**	15,815,001	(360,000)	15,455,001
Mr Ronald Langley	12,500,000	-	12,500,000
Mr Daniel Weiss	-	-	-
	<u>150,726,121</u>	<u>(360,000)</u>	<u>150,366,121</u>

\*\* Held through indirect interests.

**(d) Options & Rights Holdings**

The Board issued 10,000,000 options to Gabriel Radzyninski 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.

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**Notes to the Financial Statements  
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<b>NOTE 7: AUDITORS REMUNERATION</b>	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>\$</b>	<b>\$</b>
Remuneration of the auditor of the entity for:		
MNSA Pty Limited		
- Audit and Review of the 2015 financial report	-	37,420
Pitcher Partners		
- Restated June 2015, and December 2015 half year financial accounts	96,085	-
- Year-end audit	55,375	-
- Other assurance services	16,500	-
Other audit firms for the audit or review of financial reports of another entity in the group	41,817	-

**NOTE 8: DIVIDENDS**

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

The Company's franking account balance at 30 June 2016 was \$1,430,644. (Note 4)

**NOTE 9: EARNINGS PER SHARE**

*(a) Reconciliation of earnings used in calculating basic and diluted earnings per share*

Profit / (Loss) attributable to members	<u>1,905,094</u>	<u>485,711</u>
Profit / (Loss) used in calculating basic and diluted EPS	<u>1,905,094</u>	<u>485,711</u>

*(b) Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS*

	273,497,548	268,415,880
Weighted average number of options outstanding	-	-
Weighted average number of ordinary shares and options outstanding during the year used in calculating diluted EPS	273,497,548	268,415,880

**Total Comprehensive Income:**

Profit / (Loss) for the year	1,905,094	485,711
Total Other Comprehensive Income for the year	<u>4,598,327</u>	<u>1,388,343</u>
Total Comprehensive Income for the year	<u>6,503,421</u>	<u>1,874,054</u>

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.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**30 June 2016      30 June 2015**  
**\$                      \$**

**NOTE 10: CASH AND CASH EQUIVALENTS**

Cash at bank and in hand	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>

**Reconciliation of Cash**

Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and Cash Equivalents	<u>7,933,953</u>	<u>6,117,624</u>
---------------------------	------------------	------------------

**NOTE 11: TRADE AND OTHER RECEIVABLES**

**Current**

Trade Receivables	124,132	74,961
Sundry Debtors	<u>10,619</u>	<u>9,137</u>
	<u>134,751</u>	<u>84,098</u>

There are no balances within trade and other receivables that contain assets that are impaired. Those balances past due are expected to be received in full. All assets are assessed for impairment and are provided for in full, where identified to be impaired.

**Non-Current**

Loan - Impact Holdings (UK)	<u>624,443</u>	<u>713,558</u>
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At year end the balance of the advance to Impact Holdings (UK) PLC is GBP 350,000. Interest is payable at the end of each quarter at a rate of 4.5% per annum. During the year, \$31,709 of interest payments were made by Impact Holdings (UK) PLC.

**Credit Risk – Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. The class of assets described as 'Non-Current' is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group's credit risk exposure is in United Kingdom due to the loan to Impact Holdings (UK). The Group's exposure to credit risk for receivables at reporting date in those regions is as follows:

	<b>30 June 2016</b>	<b>30 June 2015</b>
AUD (\$)	<b>\$</b>	<b>\$</b>
United Kingdom	624,443	713,558
Australia	<u>134,751</u>	<u>84,098</u>
	<u>759,194</u>	<u>797,656</u>

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trading terms (as detailed in the table) are considered to be of high credit quality.

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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 11: TRADE AND OTHER RECEIVABLES (Continued)**

	Gross Amount	Past due and Impaired	<30	31-60	61-90	>90	Within Initial Trade Terms
<b>2016</b>							
Trade and Other Receivables	759,194	-	134,751	-	-	-	624,443
	<u>759,194</u>	<u>-</u>	<u>134,751</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>624,443</u>
<b>2015</b>							
Trade and Other Receivables	797,656	-	84,098	-	-	-	713,558
	<u>797,656</u>	<u>-</u>	<u>84,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>713,558</u>

**NOTE 12: FINANCIAL ASSETS**

	30 June 2016 \$	30 June 2015 \$
<b>CURRENT &amp; NON-CURRENT</b>		
Current – financial assets at through profit and loss	15,738,106	3,278,374
Non-Current – financial assets through other comprehensive income	<u>40,664,016</u>	<u>32,420,440</u>
	<u>56,402,122</u>	<u>35,698,814</u>

**(a) Financial Assets At Fair Value Through Profit and Loss Comprise:**

**CURRENT**

Shares in domestic and international listed corporations	15,118,637	3,278,374
Shares in unlisted corporations	<u>619,469</u>	<u>-</u>
<b>Total Current Financial Assets</b>	<u>15,738,106</u>	<u>3,278,374</u>

**(b) Financial Assets At Fair Value Through Other Comprehensive Income Comprise:**

**NON-CURRENT**

Investments, at fair value:		
- Listed domestic and international investments	36,507,805	26,882,947
- Unlisted domestic investments	233,661	1,592,305
- Unlisted international investments	<u>3,922,550</u>	<u>3,945,188</u>
<b>Total Non-Current Financial Assets</b>	<u>40,664,016</u>	<u>32,420,440</u>

Those equity instruments which the company has designated as fair value through other comprehensive income are the equity instruments that are not held for trading purposes (i.e. held for long term gains).

The dividends and trust distributions recognised during the financial year relating to Financial Assets designated as fair value through other comprehensive income amounted to: \$1,549,673.

No instruments designated as fair value through other comprehensive income were disposed of during the financial year.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 13: CONTROLLED ENTITIES**

NOTE 10: CONTROLLED ENTITIES

		Percentage %	
Parent Entity	Country of Incorporation	June 2016	June 2015
Mercantile Investment Company Limited	Australia	100	100
Controlled Entities of Mercantile Investment Company Limited			
Ask Funding Limited*	Australia	72	-
Murchison Metals Ltd	Australia	100	100
Mercantile ADF Pty Ltd	Australia	100	100
Mercantile IAM Pty Ltd	Australia	100	100
Mercantile IAH Pty Ltd	Australia	100	100
Mercantile OFM Pty Ltd	Australia	100	100
ATL Exploration Pty Ltd	Australia	100	100
Jack Hills Holdings 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
Weld Range Mining Pty Ltd	Australia	100	100
Mercantile NZ Limited	New Zealand	100	100

*\*Not a controlled entity in the previous financial year.*

Percentage of voting power is in proportion to ownership.

The principal place of business for all entities is Level 11, 139 Macquarie Street Sydney NSW 2000.



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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 14: DEFERRED TAX**

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

	30 June 2016 \$	30 June 2015 \$
<b>NOTE 15: TRADE AND OTHER PAYABLES</b>		
Unclaimed shareholder payments - secured *	1,145,231	1,162,187
Trade payables	290,238	311,703
Sundry payables	241,058	290,601
<b>Total</b>	<u>1,676,527</u>	<u>1,764,491</u>

\* 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.

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**Notes to the Financial Statements  
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**NOTE 16: ISSUED CAPITAL**

**30 June 2016      30 June 2015**  
**\$                      \$**

280,000,000 (2015: 268,764,671) fully paid ordinary shares 28,717,120      27,404,109

**(a) Ordinary Shares**

	<b>2016 No.</b>	<b>2015 No.</b>	<b>2016 \$</b>	<b>2015 \$</b>
At the beginning of reporting period	268,764,671	250,577,700	27,404,109	24,773,530
<u>Movement in Shares on Issue:</u>				
Shares issued under MMX Scheme of Arrangement	-	18,186,971	-	2,769,874
Shares issued via placement*	11,235,329	-	1,315,046	-
Capital raising costs, net of tax	-	-	(2,035)	(139,295)
<b>Closing Balance at Reporting Date - 30 June</b>	<u>280,000,000</u>	<u>268,764,671</u>	<u>28,717,120</u>	<u>27,404,109</u>

\* Shares issued through 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.

**(b) Capital Management**

The Board managed 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 issued unsecured notes of \$15,645,700 during the year ended 30 June 2016 (Note 26).

**30 June 2016      30 June 2015**  
**\$                      \$**

**NOTE 17: RESERVES**

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 sale of investments	<u>(465,277)</u>	<u>(6,418,111)</u>
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	<u>465,277</u>	<u>6,418,111</u>
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.

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**Notes to the Financial Statements  
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	30 June 2016 \$	30 June 2015 \$
<b>NOTE 18: CASH FLOW INFORMATION</b>		
<b>(a) Reconciliation of Cash Flow from Operating Activities with Profit after Income Tax</b>		
<b>Profit after income tax</b>	<u>1,649,594</u>	<u>485,711</u>
Non-Cash Flows in Profit or Loss:		
- Net Movements on Financial Assets FVTPL	(12,284,481)	(1,260,700)
- Loss / (Gain) on Acquisition of a Controlled Entity	596,786	(716,103)
- Depreciation	2,026	2,765
- Impairment	1,653,415	-
- Share Based Payment Expense	164,000	-
- Interest Income	(1,592,543)	-
- Interest and Fees Received	539,064	-
- Loan Payments Received	140,351	-
- Other Non-Cash Items	(83,416)	-
<u>Changes in assets and liabilities:</u>		
- (Increase) / Decrease in Trade and Other Receivables	39,286	(49,174)
- (Increase) / Decrease in Deferred Tax Assets	(13,925)	(97,113)
- (Increase) / Decrease in Other Assets	(20,700)	149,538
- Increase / (Decrease) in Trade Payables and Accruals	(136,109)	463,986
- Increase / (Decrease) in Deferred Tax Liabilities	(14,597)	(756,227)
<b>Net Cash (Used In) / Provided by Operating Activities</b>	<u>(9,333,399)</u>	<u>(1,777,317)</u>
<b>NOTE 19: PARENT ENTITY</b>		
<b>Statements of Financial Position</b>		
<b>Assets</b>		
Current Assets	21,924,836	10,265,205
Non-Current Assets	<u>50,497,017</u>	<u>36,006,114</u>
<b>Total Assets</b>	<u>72,421,853</u>	<u>46,271,319</u>
<b>Liabilities</b>		
Current Liabilities	5,611,538	5,748,740
Non-Current Liabilities	<u>19,434,542</u>	<u>2,455,990</u>
<b>Total Liabilities</b>	<u>25,046,080</u>	<u>8,204,730</u>
<b>Net Assets</b>	<u>47,375,773</u>	<u>38,066,589</u>
<b>Equity</b>		
Issued Capital	28,716,880	27,404,109
Retained Earnings	(3,953,388)	(7,286,886)
Reserves	<u>22,612,281</u>	<u>17,949,366</u>
<b>Total Equity</b>	<u>47,375,773</u>	<u>38,066,589</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Profit for the Year	<u>3,405,849</u>	<u>345,931</u>
Total Comprehensive Income for the Year	<u>8,007,438</u>	<u>1,734,273</u>

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

	30 June 2016	30 June 2015
	\$	\$
<b>NOTE 20: RELATED PARTY TRANSACTIONS</b>		
<b>Transactions with related parties</b>		
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.	382,034	228,636
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Dr Weiss and Mr Weiss were paid to Ariadne Australia Limited.	18,067	18,006
The Board awarded a discretionary cash bonus to Mr Radzynski of \$250,000 (inclusive of super) in 2015. The first instalment of \$125,000 was paid in March 2015. The second instalment of \$125,000 was paid in March 2016.	125,000	125,000
Short-term, unsecured loans were advanced to the Company by Sir Ron Brierley in 2016 (\$9.9m) to fund purchases of investments. Interest was paid at the RBA cash rate per annum. The loan has been repaid in full during the financial year.	100,426	-
Sir Ron Brierley subscribed for 30,000 notes (\$3,000,000) in partial repayment of the short term debt facility which was in operation during the period. No coupons have been paid on the short term debt facility.	-	-
Mr Gabriel Radzynski subscribed for 250 notes (\$25,000) during the period. Entities managed by Sandon Capital Pty Ltd, a related entity of Mr Radzynski subscribed for 20,000 notes (\$2,000,000) No coupons have been paid on the notes.	-	-
Mr Ronald Langley subscribed for 12,000 notes (\$1,200,000) during the period. No coupons have been paid on the notes.	-	-

**NOTE 21: FINANCIAL RISK MANAGEMENT**

**Specific Financial Risk Exposures and 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 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 approximate 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.

**(a) Financial Instruments Measured at Fair Value**

AASB 13: Fair Value Measurement requires the disclosure of fair value information using a fair value hierarchy reflecting the significance of the inputs in making the measurements. The fair value hierarchy consists of the following levels:

- Level 1:** Quoted prices in active markets for identical assets or liabilities.
- Level 2:** 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 3:** Inputs for the asset or liability are not based on observable market data (unobservable inputs).

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.

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For the year ended 30 June 2016**

**NOTE 21: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Financial Instruments Measured at Fair Value (Continued)**

The majority of the investments included in Level 2 of the hierarchy for the current financial year include amounts in relation to recent subscriptions which have been valued at cost, based on the subscription price and the amount of securities subscribed for by the Company under the relevant offers. The remaining investments included in Level 2 of the hierarchy are unlisted securities which have been valued using techniques such as comparisons to similar investments for which market observable prices are available or the last sale price have been adopted to determine the fair value of these investments.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>2016</b>				
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
	<u>36,507,805</u>	<u>4,156,211</u>	<u>-</u>	<u>40,664,016</u>
Held-for-trading financial assets				
- Listed domestic and international investments	15,118,637	-	-	15,118,637
- Unlisted domestic and international investments	-	619,469	-	619,469
	<u>15,118,637</u>	<u>619,469</u>	<u>-</u>	<u>15,738,106</u>
<b>Total</b>	<u>51,626,442</u>	<u>4,775,680</u>	<u>-</u>	<u>56,402,122</u>
<b>2015</b>				
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
	<u>26,882,947</u>	<u>5,537,493</u>	<u>-</u>	<u>32,420,440</u>
Held-for-trading financial assets				
- Listed domestic and international investments	3,278,374	-	-	3,278,374
<b>Total</b>	<u>30,161,321</u>	<u>5,537,493</u>	<u>-</u>	<u>35,698,814</u>

**(b) 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 or future cash flows of the Company's financial instruments.

By its nature, as a listed investment company that invests in tradable securities, the Company will always be subject to market risk as it invests its capital in securities which are not risk free as the market price of these securities can fluctuate.

The Company is exposed to share price risk through its investment holdings on the Australian Securities Exchange, the New Zealand Exchange and the London Stock Exchange.

The Company manages this risk by diversification of its investment portfolio maintained in accordance with investment guidelines.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 21: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Market Risk (Continued)**

**(i) Foreign Currency Risk**

As at 30 June 2016, the Group is exposed to fluctuations in the British Pound (GBP) and New Zealand Dollar (NZD) exchange rate arising from the Company's international investments and trade and other receivables.

As at 30 June 2016, the Group had the following exposure (in Australian Dollars) to British Pounds (GBP) and New Zealand dollars (NZD) without any currency hedging:

	30 June 2016	30 June 2015
<b>Financial Assets</b>		
Loan Receivable – Impact Holdings (UK) PLC	624,443	713,558
International Investments:		
- Wellington Merchants Ltd, formally Kirkcaldie & Stains Ltd (NZD)	634,197	204,020
- Impact Holdings (UK) PLC (GBP)	972,013	1,111,162
- Foundation Life (NZ) Holdings Limited (NZD)	3,922,550	3,945,188
- Worsley Investors PLC (GBP)	3,869,969	-
- Smiths City (NZD)	2,104,433	-
- Other stock listed in the United Kingdom (GBP)	2,563,794	-
	<u>14,691,399</u>	<u>5,973,928</u>

**(ii) Interest Rate Risk**

The Company earns interest from its unsecured loan with Impact Holdings (UK) PLC. Interest is payable at the end of each quarter at a rate of 4.5% per annum.

The Group's exposure to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate	Floating Interest Rate		Fixed Interest Rate	
		\$		\$	
Consolidated		2016	2015	2016	2015
<b>Financial Assets:</b>					
Cash and Cash Equivalents	0.4%	7,933,953	6,117,624	-	-
Trade and Other Receivables	-	-	-	-	-
Loan Receivable	4.50%	-	-	624,443	713,558
<b>Total Financial Assets</b>	-	<u>7,933,953</u>	<u>6,117,624</u>	<u>624,443</u>	<u>713,558</u>
<b>Financial Liabilities:</b>					
Trade and Other Payables	-	-	-	-	-
Borrowings	8.0%	-	-	(15,107,926)	-
<b>Total Financial Liabilities</b>	-	-	-	<u>(15,107,926)</u>	-
<b>Net Exposure</b>	-	<u>7,933,953</u>	<u>6,117,624</u>	<u>(14,483,383)</u>	<u>713,558</u>

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 21: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity Risk**

The Company'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.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2016. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2016.

The table below reflects the maturity of financial assets and liabilities based on management's expectations. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

	Within 1 Year	1 to 5 Years	Over 5 Years	Total
	\$	\$	\$	\$
<b>2016</b>				
<b>Financial Liabilities - due for payment</b>				
Trade and Other Payables	1,676,527	-	-	1,676,527
Unsecured Notes	-	-	15,107,926	15,107,926
<b>Total Expected Outflows</b>	<u>1,676,527</u>	<u>-</u>	<u>15,107,926</u>	<u>16,784,453</u>
<b>Financial Assets - cash flows realisable</b>				
Trade and Other Receivables	134,751	-	-	134,751
Loan Receivable	-	624,443	-	624,443
Trading securities	15,738,106	-	-	15,738,106
Available-for-sale investments	-	40,664,016	-	40,664,016
<b>Total Expected Inflows</b>	<u>15,872,857</u>	<u>41,288,459</u>	<u>-</u>	<u>57,161,316</u>
<b>Net inflow on Financial Instruments</b>	<u>14,196,330</u>	<u>41,288,459</u>	<u>(15,107,926)</u>	<u>40,376,863</u>
<b>2015</b>				
<b>Financial Liabilities - due for payment</b>				
Trade and Other Payables	1,764,491	-	-	1,764,491
<b>Total Expected Outflows</b>	<u>1,764,491</u>	<u>-</u>	<u>-</u>	<u>1,764,491</u>
<b>Financial Assets - cash flows realisable</b>				
Trade and Other Receivables	84,098	-	-	84,098
Loan Receivable	-	713,558	-	713,558
Trading securities	3,278,374	-	-	3,278,374
Available-for-sale investments	-	32,420,440	-	32,420,440
<b>Total Expected Inflows</b>	<u>3,362,472</u>	<u>33,133,998</u>	<u>-</u>	<u>36,496,470</u>
<b>Net inflow on Financial Instruments</b>	<u>1,597,981</u>	<u>33,133,998</u>	<u>-</u>	<u>34,731,979</u>

The fair value of loans and advances cannot be measured reliably given the nature of the loans, the lack of a liquid market for comparable assets and the uncertainty as to the timing and collection of these loans (as many loans are subject to the outcome of litigation and/or the realisation of security) and hence have not been disclosed.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 21: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(d) 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 only invested with highly rated financial institutions in Australia.

Receivable balances are monitored on an ongoing basis and the Group has no external debts past due or impaired.

**(e) Sensitivity Analysis**

The Group has performed a sensitivity analysis relating to its exposure to price and interest rate risk, at the end of the reporting period. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

	30 June 2016 \$	30 June 2015 \$
<b><u>Price Risk</u></b>		
<b>Financial Assets at Fair Value Through Profit or Loss</b>		
Change in Profit		
- Increase in portfolio prices by 5.0%	786,905	163,918
- Decrease in portfolio prices by 5.0%	(786,905)	(163,918)
Change in Equity		
- Increase in portfolio prices by 5.0%	786,905	163,918
- Decrease in portfolio prices by 5.0%	(786,905)	(163,918)
Financial Assets at Fair Value through profit or loss are actively managed on a short term basis and are fair valued through the Statement of Profit or Loss and Other Comprehensive Income. Any movement in the portfolio price will be realised in the Statement of Profit or Loss and Other Comprehensive Income.		
<b>Available-for-sale Financial Assets</b>		
Change in Other Comprehensive Income		
- Increase in portfolio prices by 5.0%	2,033,201	1,621,022
- Decrease in portfolio prices by 5.0%	(2,033,201)	(1,621,022)
Change in Equity		
- Increase in portfolio prices by 5.0%	2,033,201	1,621,022
- Decrease in portfolio prices by 5.0%	(2,033,201)	(1,621,022)
Available-for-sale financial assets are passively managed on a longer term basis and are fair valued through Other Comprehensive Income.		
<b><u>Interest Rate Risk</u></b>		
Change in Profit		
- Increase in interest rate by 0.5%	39,670	30,588
- Decrease in interest rate by 0.5%	(39,670)	(30,588)
Change in Equity		
- Increase in interest rate by 0.5%	39,670	30,588
- Decrease in interest rate by 0.5%	(39,670)	(30,588)



**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 22: 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. As at the date of this report, Mercantile OFM had secured over 90% of Richfield International Limited and intends to compulsorily acquire any RIS shares that had not accepted its takeover offer.

On 11 August 2016, the Company announced to the NZX a takeover for all of the shares it and its associates did not own of the fully paid ordinary shares of Wellington Merchants Limited (WML), 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. At the date of this report, this offer has gone unconditional, as the company has received acceptances above the 50% minimum acceptance condition. The Company will pay for and acquire WML shares under acceptances received up to 16 September 2016.

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. The loan and interest are expected to be re-paid in full, within the 2016/17 financial year.

At the August 2016 Board meeting the Directors awarded to Mr Radzynski, a discretionary cash bonus of \$200,000 payable in two tranches. \$100,000 payable immediately and \$100,000 payable in 12 months time. This bonus was awarded by the Board in recognition of Mr Radzynski's contribution to the Company. 10,000,000 options have been granted to Mr Radzynski subject to shareholder approval at the annual general meeting. The options have a strike price of 20 cents and a 31 December 2020 maturity date.

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

The initial accounting for Richfield International Limited acquisition has commenced but has not been completed at the time the financial statements were finalised. The initial accounting of Wellington Merchants Limited has not commenced at the time the financial statements were finalised.

**NOTE 23: CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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).

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
For the year ended 30 June 2016**

**NOTE 24: CONTROLLED ENTITIES ACQUIRED DURING THE PERIOD**

During the reported period, the consolidated entity acquired a controlling interest in Ask Funding Limited ("AKF"). 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 AKF that the Company and its associates 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 totaling 71.74%. Offer consideration of \$2,656,009 was paid on 4 September 2015, thereafter the Company obtained control of AKF.

The assets and liabilities recognized as a result of the acquisition are as follows:

	<b>Fair Value \$</b>
Cash	1,124,510
Loans and receivables	7,943,972
Impairment on loans and receivables	(3,665,386)
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>

**30 June 2016  
\$**

***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 gain 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	<u>(1,124,510)</u>
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 and revenues of \$1,030,236.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
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**NOTE 24: CONTROLLED ENTITIES ACQUIRED DURING THE PERIOD (CONTINUED)**

**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.

**NOTE 25: NET LOANS AND ADVANCES**

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

The net loans and advances were acquired by the consolidated entity as part of the acquisition of Ask Funding Limited ("AKF") on 4 September 2015. Please refer to Note 24 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.

With reference to the repayment trigger (underlying specified event), at 30 June 2016, loans and advances of \$62,895 for the consolidated entity have been classified as past due but not impaired. That is, the loans and advances are due for repayment as the underlying specified event has settled but for which repayment has been delayed by either liquidation of real property now held by the borrower, transfer of legal title of assets to the borrower pursuant to a Court Order or as agreed between the parties, or receipt of claim proceeds from the insurance company or statutory body.

From the date of acquisition to 30 June 2016, AKF 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.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**Notes to the Financial Statements  
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**NOTE 25: NET LOANS AND ADVANCES (CONTINUED)**

**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 consolidated entity 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 2016 of \$3.8 million (Gross balance at 30 June 2015 \$3.2 million)

On 14th May 2015 AKF advised the Market that it had settled a legal dispute with a borrower and guarantors in relation to a large Single Matrimonial Loan on the following basis:

- that the borrower and the guarantor agreed to pay the sum of \$2.0 million on or before 15th January 2016;
- that in the event that this sum was not paid the borrower and the guarantors consented to judgment being entered against them in favour of the AKF for the sum of \$2.5 million;
- the security granted in favour of AKF by the borrower and guarantors remain in place.

On the 3 February 2016, AKF advised the Market that the borrower and the guarantors failed to pay the sum of the \$2.0 million on or before 15 January 2016. As a result, the Company has now entered a judgement against the borrower and the guarantors in the Supreme Court of Western Australia for the sum of \$2.5 million. The company is exploring the avenues available to satisfy this judgement.

**NOTE 26: UNSECURED NOTES**

	<b>30 June 2016</b>
	<b>\$</b>
Unsecured notes	15,645,700
Less: capitalised costs	<u>(537,774)</u>
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 partial repayment of the short term debt facility which was in operation during the period.

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**For the year ended 30 June 2016**

**DIRECTORS' DECLARATION**

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

1. the financial statements and notes, as set out on pages 13 to 42, are in accordance with the Corporations Act 2001, and:
  - (a) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, 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 2016 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 Company 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

19 September 2016

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

**Report on the Financial Report**

We have audited the accompanying consolidated financial report of Mercantile Investment Company Limited, which comprises the consolidated financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of Mercantile Investment Company Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state that, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements* that the financial statements comply with International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Opinion*

In our opinion:

- a) the consolidated financial report of Mercantile Investment Company Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's consolidated financial position as at 30 June 2016 and of its consolidated performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 8 of the directors' report for the year ended 30 June 2016. The directors of Mercantile Investment Company Limited 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.

*Opinion*

In our opinion the Remuneration Report of Mercantile Investment Company Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



S M WHIDDETT  
Partner

19 September 2016



PITCHER PARTNERS  
Sydney

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

**ASX ADDITIONAL INFORMATION  
For the year ended 30 June 2016**

**Information as at 31 August 2016**

**Shares (ASX: MVT)**

The number of investors holding shares within the ranges outlined in the table and the number of investors holding less than a marketable parcel of shares is shown below:

Range	Total Holders	No. of Shares	% of Issued Capital
1 – 1,000	663	235,664	0.08%
1,001 – 5,000	1,326	3,840,358	1.37%
5,001 – 10,000	484	3,667,198	1.31%
10,001 – 100,000	646	20,021,573	7.15%
100,001 and over	111	252,235,207	90.08%
Total	3,237	280,000,000	100%

**Unmarketable  
Parcels**

	Parcel Size	Holders	No. of Shares	% of Issued Capital
Minimum \$500 parcel	3,571	1,662	2,645,473	0.94%

**Top 20 Holders of Fully Paid Ordinary Shares**

Rank	Names	No. of Shares	% of Issued Capital
1	Siblow Pty Ltd	103,764,634	37.06
2	G W Holdings Pty Ltd <Edwina A/C>	25,750,522	9.20
3	McNeil Nominees Pty Ltd	18,646,486	6.66
4	Portfolio Services Pty Ltd	14,915,001	5.33
5	Mr Ronald Langley + Mrs Rhonda Elizabeth Langley	12,500,000	4.46
6	JP Morgan Nominees Australia Limited	10,053,321	3.59
7	Treasure Island Hire Boat Company Pty Ltd <Staff Super Fund Account>	8,000,000	2.86
8	LIC Investments Pty Ltd <LIC Investments Unit A/C>	6,000,000	.96
9	Abbawood Nominees Pty Ltd <Abbott Family S/F No.1 A/C>	3,700,000	1.32
10	HSBC Custody Nominees (Australia) Ltd	3,661,588	1.31
11	Forsyth Barr Custodial Ltd < Forsyth Barr Ltd - Nominee A/C>	2,551,212	0.91
12	K Q R Pty Ltd	2,279,041	0.91
13	Citicorp Nominees Pty Ltd	2,015,832	0.72
14	Investment Custodial Services Ltd	1,960,000	0.70
15	ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,537,446	0.55
16	Mr Edward James Stephen Dally + Mrs Selina Dally <EJ Dally Super Fund A/C>	1,320,334	0.47
17	Avenue 8 Pty Limited < Gan Super Fund A/C>	1,117,100	0.40
18	Mr Frederick Bruce Wareham	1,050,000	0.38
19	B W Rofe Pty Limited	870,000	0.31
20	Australian Minerals Corporation Pty Ltd <FEBP A/C>	858,990	0.31
		<u>222,551,507</u>	<u>79.48</u>

**Substantial Security Holders**

Names	No. of Shares	% of Issued Capital
Sir Ron Brierley	122,411,120	43.72
G W Holdings Pty Ltd <Edwina A/C>	25,750,522	9.20
Dr Gary Weiss	15,455,001	5.52

**Voting Rights**

On a show of hands, every shareholder present in person or by proxy holding a share in the Company shall have one vote and upon a poll each share shall have one vote.



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

**For the year ended 30 June 2016**

**CORPORATE DIRECTORY**

**MERCANTILE INVESTMENT COMPANY LIMITED  
ABN: 15 121 415 576**

Level 11, 139 Macquarie Street  
Sydney NSW 2000  
Telephone: +61 2 8014 1188  
Email: [info@mercinv.com.au](mailto:info@mercinv.com.au)  
Website: [www.mercantileinvestment.com.au](http://www.mercantileinvestment.com.au)

**Directors**

Sir Ron Brierley - Chairman & Non-Executive Director  
Mr Gabriel Radzynski - Non Executive Director  
Mr James Chirnside - Independent Non-Executive Director  
Mr Ronald Langley - Independent Non-Executive Director  
Mr Daniel Weiss - Non-Executive Director  
Dr Gary Weiss - Alternate Director

**Company Secretaries**

Mark Licciardo  
Chris Lobb  
Mertons Corporate Services Pty Ltd  
Level 7, 330 Collins Street  
Melbourne VIC 3000

**Auditor**

Pitcher Partners  
Level 22, MLC Centre  
19 Martin Place  
Sydney NSW 2000

**Share Registrar**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Telephone: +612 8280 7001 (Australia)  
Website: [www.linkmarketservice.com.au](http://www.linkmarketservice.com.au)

**The registered office and principal place of business of the Company:**

Mercantile Investment Company Limited  
Level 11, 139 Macquarie Street  
SYDNEY NSW 2000

**ASX Code:** **MVT** Fully paid ordinary shares.  
**MVTHA** 8% per annum unsecured notes, maturing 10 July 2021.