

# Mercantile Investment Company Limited

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## Mercantile Investment Company and Murchison Metals announce merger with Cash and/or Scrip consideration

Mercantile Investment Company Limited (**Mercantile**) and Murchison Metals Limited (**Murchison**) have today entered into a Scheme Implementation Agreement (**SIA**) that will see proposals put to Murchison shareholders for the two companies to merge by way of a scheme of arrangement, on terms considered to be value enhancing for shareholders of both Mercantile and Murchison.

The proposal involves Murchison undertaking a selective reduction of capital under which all of the Murchison shares (other than those held by Mercantile) will be cancelled. In consideration for the cancellation of their shares, Murchison shareholders will have the option of choosing to receive cash consideration (being the amount equal to the Murchison pre-tax net tangible assets (**NTA**) per share less any transaction costs associated with implementing the Scheme) for 100% of their shares or to exchange 100% of their shares for shares in Mercantile (calculated by reference to the relative pre-tax NTA backing per share of Murchison and Mercantile less any transaction costs associated with implementing the Scheme) or a 50/50 combination of both.

The combination will create a listed investment company with combined net tangible assets of \$51.9 million and over 4,000 shareholders.<sup>1</sup>

### Transaction highlights

Mercantile believes that the merged entity provides benefits for shareholders of the combined group including:

- a reduction in the fixed expenses as administrative expenses are spread across a larger asset base;
- satisfactory resolution for Murchison's future, following Murchison's recent capital management activities; and
- a potential increase in capital (which will depend on the proportion of Murchison shareholders electing to receive scrip consideration), thereby continuing to increase Mercantile's investment capacity.

### Transaction details

Under the terms of the agreement, Murchison will offer shareholders the option to elect to receive:

- 100% scrip in Mercantile;
- 100% cash for their Murchison shares; or
- a 50/50 combination of cash and scrip in Mercantile.

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<sup>1</sup> Based on combined pre-tax NTA as at 28 February 2014 for Mercantile and as at 31 December 2013 for Murchison. Assuming 100% scrip acceptance by Murchison shareholders.

Based on the most recently reported pre-tax monthly NTA for Mercantile as at 28 February 2014 excluding any deferred tax assets and liabilities, Murchison's net tangible assets as at 31 December 2013 and taking into account estimated transaction costs, each Murchison shareholder would receive approximately one (1) new Mercantile share for every three (3) Murchison shares they hold. If all Murchison shareholders were to accept the scrip alternative, they would hold shares equivalent to approximately 21% of the merged entity.

Further transaction details are set out in appendix A.

Mercantile has retained Watson Mangioni to assist with the transaction.

### **Board recommendation**

The independent directors of Murchison<sup>2</sup> believe the merger is in the best interests of Murchison shareholders.

### **Profile of the combined group**

The merged entity will have:

- combined assets of approximately \$51.9 million<sup>3</sup>;
- over 4,000 shareholders<sup>3</sup>.

### **Timetable and conditions**

The proposed merger is conditional on, among other things, certain regulatory approvals, certain approvals by Murchison shareholders and the sanction of the Supreme Court of New South Wales.

The indicative timetable for the scheme is set out below.

Scheme Implementation Agreement signed	17 March 2014
First Court Hearing	Late April 2014
Scheme Booklet Dispatch to Murchison shareholders	Early May 2014
General Meetings	Mid June 2014
Scheme Meeting	Mid June 2014
Second Court Hearing, Effective Date and Calculation Date	Mid June 2014
Implementation Date	Late June 2014

For further information, contact:

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<sup>2</sup> Given his board position in Mercantile, Mr Radzynski is not considered to be independent.

<sup>3</sup> Based on combined pre tax NTA as at 28 February 2014 for Mercantile and as at 31 December 2013 for Murchison. Assuming 100% scrip acceptance by Murchison shareholders.

## Appendix A

### KEY TERMS OF THE SCHEME IMPLEMENTATION AGREEMENT

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#### Transaction structure

1. Murchison will undertake a selective reduction of capital under which all of the shares in Murchison (other than the shares held by Mercantile) (**Scheme Shares**) will be cancelled.
2. As consideration for the Scheme Shares, Murchison shareholders can elect to receive.
  - (a) (**Cash Consideration**) cash for 100% their shares; or
  - (b) (**Scrip Consideration**) Mercantile shares for 100% of their shares. The number of new Mercantile shares to be issued to each shareholder who elects to receive Scrip Consideration will be calculated as set out in the announcement; or
  - (c) (**Combination**) a 50/50 combination of cash and scrip in Mercantile.
3. Following implementation of the Scheme, Murchison's board will be reconstituted with Mercantile nominees on the Implementation Date.
4. The Scheme Implementation Agreement (**SIA**) can be terminated by either party if the other party is in material breach of the SIA or a Court or Government Agency has taken action to restrain or prohibit the Scheme.

#### Conditions Precedent

1. Implementation of the Scheme is subject to the satisfaction or waiver of a number of conditions precedent including:
  - (a) **Scheme Meeting Approval:** Murchison shareholders agree to the Scheme at the Scheme meeting by the requisite majorities under the Corporations Act;
  - (b) **General Meetings Approvals:** Murchison shareholders approve the resolutions in respect of the selective capital reduction and the subscription for new Mercantile shares as contemplated by the SIA;
  - (c) **Murchison Material Adverse Change:** no Murchison Material Adverse Change occurs before the Second Court Date, including any event that would prevent or delay Murchison's ability to consummate the Scheme;
  - (d) **Mercantile Material Adverse Change:** no Mercantile Material Adverse Change occurs, before the Second Court Date, including any event that would prevent or delay Mercantile's ability to consummate the Scheme;
  - (e) **Murchison Prescribed Occurrence:** no Murchison Prescribed Occurrence occurs before the Second Court Date, including changes in the structure of Murchison's share capital, Murchison acquiring or disposing assets for more than \$100,000 or entering or terminating any contract involving revenue or expenditure of more than \$100,000 (without Mercantile's consent);
  - (f) **Mercantile Prescribed Occurrence:** no Mercantile Prescribed Occurrence occurs before the Second Court Date including Mercantile ceasing to carry on its business as it is currently conducted;
  - (g) **No breach of Murchison Warranty:** Murchison is satisfied that none of the Murchison Warranties is incorrect before the Second Court Date; and
  - (h) **No breach of Mercantile Warranty:** Mercantile is satisfied that none of the Mercantile Warranties is incorrect before the Second Court Date.

### **Recommendation of Murchison's independent directors**

1. The independent directors of Murchison must unanimously recommend that Murchison shareholders vote in favour of the Scheme unless they are required to do otherwise by law or because of their fiduciary duties.
2. The independent directors of Murchison must give Mercantile at least three business days notice before announcing any change of recommendation.

### **Break Fee**

1. The break fee payable by Mercantile is capped at \$150,000 and the break fee payable by Murchison is capped at \$100,000.

### **Exclusivity**

1. Under the SIA, Murchison has agreed to the following exclusivity arrangements until the earlier of termination of the SIA and the Effective Date:
  - (a) **(No shop restriction)** it will not solicit or invite competing transactions;
  - (b) **(No talk restriction)** it will not participate in any discussions or negotiations with any third party in relation to a competing transaction; and
  - (c) **(No due diligence)** it will not provide any due diligence information for the purposes of enabling a third party to make a competing transaction.
2. The 'no talk' and 'no due diligence' restrictions will not apply to a superior competing transaction that is not solicited in breach of the SIA if the fiduciary duties owed by the independent directors of Murchison require them to consider the superior proposal, or they are required to consider the superior proposal by law.

### **Representations and warranties**

1. Each of Mercantile and Murchison has given representations and warranties which are normal for a transaction of this nature.