

Mercantile Investment Company Limited

ABN 15 121 415 576
Level 11, 139 Macquarie Street
Sydney NSW 2000
Tel 02 8014 1188 Fax 02 8084 9918

6 July 2015
The Manager
Company Announcements
ASX Limited

Mercantile Investment Company Limited (Mercantile) (ASX: MVT)

In accordance with Listing Rule 3.17B please find attached a Business Profile that has been lodged with the NZX.

Mark Licciardo & Matthew Rowe
Company Secretaries

MERCANTILE INVESTMENT COMPANY LIMITED

NZX BUSINESS PROFILE

6 July 2015

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NOTICE

This Business Profile (*Profile*) is dated 6 July 2015. This Profile is not a product disclosure statement under the Financial Markets Conduct Act 2013, nor is it a registered prospectus or investment statement under the Securities Act 1978. No regulated offer or public offer of ordinary shares is being made.

This Profile has been prepared in connection with the proposed listing of Mercantile Investment Company Limited (*Mercantile*) as an overseas listed issuer with NZX Limited (*NZX*), and is being distributed by Mercantile in accordance with the requirements of NZX for the quotation of Mercantile's ordinary shares on the NZX Main Board of NZX.

An application has been made by Mercantile to NZX for permission to list Mercantile's ordinary shares, and all of the requirements of NZX relating to that listing that can be complied with on or before the date of this Profile have been duly complied with. NZX, however, accepts no responsibility for any statement in this Profile.

Overseas listed issuers are treated differently under the NZX Main Board Listing Rules (*NZX Listing Rules*). Under Rule 5.1.7 of the NZX Listing Rules, by listing as an overseas listed issuer on the NZX Main Board, Mercantile will be deemed (subject to Rule 5.1.8) to satisfy and comply with all the NZX Listing Rules so long as it remains listed on the Australian Stock Exchange (*ASX*) (subject to satisfying certain conditions). NZX may, however, in its discretion and at any time, declare that any of the Rules shall thereafter apply to Mercantile, whether or not the rules of the ASX contain a similar or analogous provision, and whether or not Mercantile is then complying with any such provision.

NZX is a licensed market operator and the NZX Main Board is a licensed market under the Financial Markets Conduct Act 2013.

No person or entity undertakes any liability in respect of, or guarantees, Mercantile's shares described in this Profile.

LISTING TIMETABLE

It is proposed that Mercantile will be listed, and its ordinary shares will be quoted on the NZX Main Board, from 6 July 2015.

CHAIRMAN'S LETTER

Dear Shareholder,

The directors of Mercantile determined in February 2015 to apply to become an overseas listed issuer on the NZX Main Board. It was a move that had been under consideration for some time.

The board identifies several benefits to shareholders from becoming an overseas listed issuer on the NZX Main Board. These include raising the profile of Mercantile in New Zealand providing access to, and the potential for, a broader number of potential investors. A quotation on the NZX Main Board may broaden investor interest and heighten general awareness of Mercantile's investment potential.

At this stage, there is no intention to raise additional capital. There is to be no increase in the number of shares on issue as a consequence of the proposed listing.

I am pleased that New Zealand investors now have the facility to become shareholders of Mercantile Investment Company Ltd.

Yours sincerely



Sir Ron Brierley
Chairman

THE COMPANY

Details of incorporation of Mercantile

Mercantile is an investment company incorporated in Australia and listed on the Australian Stock Exchange (ASX) (ASX Code: MVT) on 5 April 2007.

Mercantile's NZX code will be **MVT**.

Mercantile has its registered office and principal place of business at Level 11, 139 Macquarie Street, Sydney, NSW 2000, Australia.

Mercantile was initially incorporated under the Australian Corporations Act 2001 on 7 September 2006 under the name India Equities Fund Limited. The company changed its name to Mercantile Investment Company Limited on 2 April 2012.

The registered company number of Mercantile is ABN 15 121 415 576.

Current activities

Mercantile provides investors with exposure to a listed company with an investment strategy focused primarily on Australian listed securities. Mercantile has achieved total compound annual return on its share price of 19.2% per annum (calculated based on the change in share price) and total pre-tax Net Tangible Asset return of 30.4% per annum between 15 November 2011 and 25 May 2014.

Further information on Mercantile's historical share prices and dividends can be found at <http://www.asx.com.au/asx/research/companyInfo.do?by=asxCode&asxCode=MVT>.

Net Tangible Assets

Mercantile's total consolidated Net Tangible Assets was AUD \$40,050,397 as at 31 May 2015. Mercantile's Net Tangible Asset value per share (after all fees and expenses) as at 31 May 2015 was:

- Pre-tax AUD 14.90 cents per share
- Post-tax AUD 14.17 cents per share

Capital structure

As at the date of this Profile, Mercantile has 268,764,671 fully paid ordinary shares on issue. The Directors have no current plans for a further issue or allotment.

Details of the securities to be listed

268,764,671 fully paid ordinary shares (ISIN: AU000000MVT4) (the *Shares*).

Strategy

Mercantile has adopted a strategy since June 2011 of investing in listed securities it believes offer attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding shares for dividend yield/long term capital appreciation, as appropriate.

Mercantile does not target a particular level of leverage or diversification. Mercantile typically employs leverage for working capital purposes and to facilitate investments, and has typically borrowed for terms of less than 1 year. Mercantile does not target a particular level of diversification, and investors should be aware that Mercantile can, and

does, have a concentrated portfolio. Prospective shareholders should not consider an investment in Mercantile to offer broad market-like diversity.

Engagement with entities may come in various forms and will be appropriate for each circumstance, but can include and not limited to letters to the board, pressure for strategic and/or dividend policy change and the exercise of a shareholder's rights to request a general meeting.

Future developments, prospects and business strategies

Mercantile will continue to pursue the strategy outlined above by selectively investing in share market opportunities that the Directors consider offer the prospect for attractive risk-adjusted returns. Although the present focus is on the Australian market, as the Directors have extensive international investment knowledge, occasional overseas opportunities will arise and these sorts of opportunities are considered to be part of the normal activities of Mercantile.

History

Recapitalisation by Siblow Pty Limited

On 15 November 2011, Mercantile entered into a recapitalisation proposal with Siblow Pty Limited (*Siblow*), an entity controlled by Sir Ron Brierley. The sale agreement involved Mercantile issuing 103,764,634 shares at a price of 8 cents per share to acquire a portfolio of shares from Siblow worth AUD \$8.30 million. This was approved by shareholders on 6 January 2012 and as a result Siblow increased its interest in Mercantile from 14.8% to 54% and Sir Ron was appointed Chairman and Non-executive Director of Mercantile on 20 January 2012.

Merger with Murchison Metals Limited

On 8 July 2014, Mercantile obtained control of Murchison Metals Limited (*MMX*). The merger was effected on 17 March 2014 by the two companies entering into an agreement that merged them by way of a Scheme of Arrangement. On 23 June 2014, the Supreme Court of New South Wales approved the Scheme of Arrangement and the Court order was lodged with ASIC on 24 June 2014. The implementation of the merger with MMX was completed on 8 July 2014.

Takeover offer for Ask Funding Limited

On 4 June 2015 Mercantile announced to the ASX an off-market takeover offer by Mercantile OFM Pty Ltd (*Mercantile OFM*) (ACN 120 221 623), a wholly owned subsidiary of Mercantile, for all of the ordinary shares issued in ASX listed Ask Funding Limited (*AKF*) (ACN 094 503 385) (ASX code: AKF). Further details are available on the ASX website under Mercantile's recent announcements. Subject to regulatory approval it is intended that the offer period closes on or about 3 August 2015 unless extended by Mercantile under the Corporations Act 2001 (Cth).

The AKF takeover offer, if successful, will increase the MVT portfolio position in AFK from AUD \$1,028,254 as at 15 May 2015, to AUD \$4.6m at the present value offered of AUD \$0.07 per share (conditional upon MVT receiving 90% acceptance).

Employees

Mercantile has no full time employees. Sandon Capital Pty Ltd (*Sandon Capital*) provides general consulting, accounting and corporate advisory services to Mercantile. All dealings are conducted at arm's length on normal commercial terms.

Sandon Capital is an entity associated with Mr Gabriel Radzyninski (a Mercantile Non-Executive Director). In the year ended 30 June 2014 fees paid to Sandon Capital totalled AUD \$165,000. Sandon Capital is the investment manager of the ASX-listed Sandon Capital Investments Limited, an unlisted investment company and two other wholesale funds. Sandon Capital also provides corporate advisory services to select wholesale clients.

NZX X-Stream quotation

Mercantile’s ordinary shares will be listed on the NZX Main Board and quoted through the X-stream trading system.

Announcements

The announcements released by Mercantile on the ASX can be accessed at <http://www.asx.com.au/asx/research/companyInfo.do?by=asxCode&asxCode=MVT>.

Substantial product holders

As at the date of this Profile, the substantial product holders (as defined in the Financial Markets Conduct Act 2013) of the voting securities of Mercantile are:

Name	Number of Ordinary Shares	% of Securities
Siblow Pty Ltd	122,411,120	45.55%
G W Holdings Pty Ltd <Edwina A/C>	26,650,522	9.91%
Portfolio Services Pty Ltd (beneficially held for Dr Gary Weiss)	14,915,001	5.55%

Directors’ holdings of equity securities

As at the date of this Profile, the directors of Mercantile have the following interests in the equity securities of Mercantile:

Name	Number of Ordinary Shares	% of Securities
Sir Ron Brierley	122,411,120	45.55%
Dr Gary Weiss (acts as an alternative director for Mr Daniel Weiss)	15,455,001	5.75%
Ronald Langley	12,500,000	4.65%

Mercantile’s investment portfolio composition

Top Five constituents as at 14 May 2015:

Name	Total value AUD
Top 5 Australian Securities Exchange Listed Positions at 14 May 2015	
Ingenia Communities Group	\$16,607,830

Name	Total value AUD
Unity Pacific Group (Previously Trinity Group)	\$2,273,627
Fitzroy River Corporation Ltd	\$1,923,010
Joyce Corporation Limited	\$1,040,000
Ask Funding Ltd	\$1,028,254

Dividend policy

Mercantile does not expect to pay dividends in the short term as it focuses on growth in net assets per share. The Directors will consider paying dividends in the future as its franking account grows.

There is no dividend reinvestment plan.

RISKS OF INVESTING IN THE SHARES

Before deciding to buy shares, investors should consider whether the shares are a suitable investment for them. There are general risks associated with any investment in the stock market and particular risks in investing in any particular shares. The value of shares listed on NZX Main Board may rise or fall depending on a range of factors beyond the control of the issuer.

There may be tax implications arising from the purchase of shares, the receipt of dividends (both franked and unfranked) from Mercantile, participation in any dividend re-investment plan of Mercantile, participation in any on market share buy-back and on the disposal of Shares. Investors should carefully consider these tax implications and obtain advice from an accountant or other professional tax adviser in relation to the application of tax legislation.

New Zealand investors should note that as Mercantile is an Australian based ASX listed company, dividends will be paid in Australian dollars and New Zealand investors may not receive the benefit of Australian franking credits. This means that New Zealand investors will not receive any credit for tax paid by Mercantile in against any New Zealand tax liability they have on dividends paid by Mercantile.

Investors are strongly advised to regard any investment in Mercantile as a long term proposition and to be aware that, as with any equity investment, substantial fluctuations in the value of their investment may occur.

If you are in doubt as to whether you should buy Shares, you should seek advice from a stockbroker, solicitor, accountant or other professional adviser immediately.

The key risks of investing in shares in Mercantile are:

Key man risk

Sir Ron Brierley is Chairman of Mercantile, and has responsibility for Mercantile's investment portfolio. Mercantile is exposed to the risk that Sir Ron will cease managing Mercantile's portfolio.

Sandon Capital, a company associated with Gabriel Radzynski, provides services to Mercantile, include the services of Mr Radzynski. Mr Radzynski assists Sir Ron with the management of Mercantile. Mercantile is also exposed to the risk that Sandon Capital will cease to provide services to Mercantile.

In the event that Sir Ron ceased to manage the portfolio, this responsibility would be assumed by the Board. The Board counts a number of experienced investors and it currently reviews the management of the portfolio and makes recommendations as necessary.

Market risk

Investment returns are influenced by a range of factors that affect market performance generally and therefore the value of the assets in which Mercantile invests. These market factors include change in the economic (e.g. changes in interest rates), legislative (including tax) and political environment, as well as changes in investor sentiment. In addition, unexpected external shocks, political events, inflation, natural disasters, acts of terrorism, changes in technology and environmental events can (and sometimes do) add to equity market volatility as well as impact directly on individual entities. As a result, no guarantee can be given in respect of the future earnings of Mercantile or the earnings and capital appreciation of Mercantile's investments or appreciation of Mercantile's share price.

Industry risk

There are a number of industry risk factors that may affect the future operation or performance of Mercantile or the entities it invests in. These factors are outside of Mercantile's control. Such factors include increased regulatory and compliance costs and variations in legislation and government policies generally.

Equities risk

There is a risk that shares will fall in value over short or extended periods of time. Historically, shares have outperformed other traditional assets classes over the long term. Share markets tend to move in cycles, and individual share prices may fluctuate and under perform other asset classes over extended periods of times. Investors in Mercantile are exposed to this risk both through their holding in the Shares as well as through Mercantile's portfolio of investments.

Interest rates

Any variation in short and long term interest rates could materially affect the operating results of Mercantile.

Financial market volatility

A fall in global equity markets, global bond markets or lack of change in the value of the Australian dollar against other major currencies may discourage investors from moving money into or out of equity markets. This may have a negative effect on the price at which the Shares trade.

Performance of other asset classes

Good performance (or anticipated performance) with other assets classes can encourage individuals to divert money away from equity markets. This may have a negative impact on the price at which the Shares trade.

Liquidity risk

Mercantile will be a listed entity, therefore the ability to sell Shares will be a function of the turnover of Mercantile's shares at the time of sale. Turnover itself is a function of the size of Mercantile and also the cumulative investment intentions of all current and possible investors in Mercantile at any one point in time. In addition, there is no guarantee that Mercantile's investments will be liquid.

Operational risks

An investment in Mercantile may be affected by unexpected changes in Mercantile's operations, shareholder base, governance and/or ownership structure (specifically where shareholders have lodged their shares as collateral), business environment, or the company may become insolvent. This risk is mitigated (but not eliminated) by Mercantile performing due diligence, and each potential investment opportunity in a company is rigorously analysed before inclusion in Mercantile's portfolio.

Taxation risk

Tax laws (including Australian tax laws) are in a continual state of change and reform which may affect Mercantile and Shareholders.

Investing in Mercantile may have a different tax outcome than investing directly. Tax liabilities incurred as a consequence in investing in Mercantile are the responsibility of each individual Shareholder. Mercantile is not responsible either for taxation or penalties incurred by Shareholders. Shareholders should consult their own taxation advisers to ascertain the tax implications of their investment.

Regulatory risk

Mercantile is exposed to the risk of changes to applicable laws or their interpretation which have a negative effect on Mercantile, its investments or returns to Shareholders and the risk of non-compliance with reporting or other legal obligations.

Credit or counterparty risk

Mercantile's strategies rely on the successful performance of contracts with external counterparties, including securities brokers and issuers of securities to which Mercantile may have investment exposure. There is a risk that these counterparties may not meet their responsibilities, including as a result of the insolvency, financial distress or liquidation of the counterparty.

Forex/Foreign investment risk

Mercantile may invest in global securities. Foreign investments held by Mercantile may be subject to restrictions on the ability of foreign-domiciled companies to make payments of principal, dividends or interest to investors located outside the country, due to blockage of foreign currency exchanges, changes to tax laws, changes to local regulations or otherwise which could cause Mercantile to lose money on these investments.

Currency risk

As a portion of the underlying investments may be invested in overseas jurisdictions in foreign currencies, returns may be affected by movements between the other currencies and the Australian dollar (the *AUD*). If the *AUD* appreciates, the value of the foreign currency investments will drop (in *AUD* terms) which may have an adverse effect on the domestic value of international investments.

Risks associated with Mercantile's Investment Approach

As Mercantile employ's Sir Ron's investment methods, it is also exposed to risks particular to this type of investment. These risks include the following:

- **Investments and Strategy risk:** The performance of Mercantile is reliant on the success of the investment strategy developed by Sir Ron and the investment decisions made for Mercantile. There is no guarantee that any aspect of such an investment strategy or an investment decision will be successful. All investments have investment risk, and returns may be less than expected or negative.
- **Legal risk:** Mercantile will pursue an active strategy of engaging with those entities it invests in and other stakeholders to improve value. Engagement with entities may come in various forms and will be appropriate for each circumstance but can include and are not limited to: letters to the board, pressure for strategic and/or dividend policy change and the exercise of a member's rights to request a general meeting. There is a possibility this action may lead to litigation or other enforcement action. For example, Mercantile, the investments or management may be targeted by other stakeholders such as regulators and ASX. This can be costly and very time consuming.
- **Cost Risk:** Mercantile may incur non-recurrent expenses. These expenses may include, but are not limited to, litigation, legal and other expert's fees, travel and accommodation costs, and other expenses arising from managing Mercantile's engagement activities. Mercantile will be responsible for paying these additional costs associated with implementing its strategy. Mercantile will seek to ensure any such costs are appropriately managed but if they are material, then actual costs could be substantially higher than estimates of ongoing costs.
- **Limited diversification:** Mercantile's portfolio may be less diversified than other listed investment companies. Mercantile has flexibility to take significant positions in individual investments. This may reduce the diversity of the portfolio and therefore increase the exposure to abnormal falls in the market price of any single investment.

This list is not exhaustive and potential investors should, if they require further information on material risks, seek professional advice.

THE DIRECTORS

Mercantile has a board of directors of five directors who form an experienced team with the skills, standards of behaviour and accountability necessary for a publicly listed company.

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. Sir Ron stepped down as Chairman of GPG in 2010. GPG was renamed Coats PLC (*Coats*) on 6 March 2015. Sir Ron stepped down as a director of Coats on 21 April 2015.

He is the Chairman of the board of Mercantile.

Mr. Gabriel Radzynski – BA (Hons), MCom (Non-Executive Director)

Gabriel is the founder and Managing Director of Sandon Capital, a funds management and advisory firm specialising in activist investing. He is the portfolio manager of the Sandon Capital Activist Fund and Sandon Capital Investments Limited. 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 Chesser Resources Limited and Future Generation Investment Company Limited.

Mr. James Chirside – (Independent Non-Executive Director)

James has been exclusively focused on investment management for twenty-nine years in Sydney, Hong Kong, London and Melbourne.

James is a director of Mann Distribution Pty Limited, a marketing agent for Mannbio Holdings Limited. Mannbio Holdings Limited is a specialist Biopharma fund manager founded in the UK by investor Jim Mellon. James ran Asia Pacific Asset Management in 2002-2012. APAM was an Australian and Asian equities fund, and fund of funds manager. Between 2000 and 2001 James worked for Challenger Financial Group in Sydney as a product development manager responsible for hedge fund investments. During the 1990's, James managed emerging markets hedge funds in Hong Kong and London for Regent Fund Management, which is now an AIM listed Charlemagne Capital. Between 1988 and 1992 James ran a proprietary trading book for County NatWest Investment Bank, based in London. There he was primarily focused on country funds and derivative arbitrage strategies.

He is the Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee. James holds directorships in Cadence Capital Limited and WAM Capital Limited.

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

Ron has been an international value investor for the past 33 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 is the Chairman of the Nomination & Remuneration Committee and a member of the Audit & Risk Committee.

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

Daniel Weiss was appointed as a Non-Executive Director of Mercantile on 25 February 2015.

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 acts as an alternative director for Mr Daniel Weiss at any meetings of directors at which Daniel Weiss is not available to participate. Dr Gary Weiss is a former non-executive director of Mercantile who joined the Board in March 2012 and retired as a director on 25 February 2015.

COMPANY SECRETARIES

Mark Licciardo – B Bus(Acc), GradDip CSP, FGIA, GAICD (Joint Company Secretary)

Mr 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. Mr Licciardo is a former Chairman of the Governance Institute of Australia (*GIA*) in Victoria, a fellow of *GIA*, a member of the Australian Institute of Company Directors (*AICD*) and a director of several public and private companies.

Matthew Rowe – BA (Hons), MSc Corp Gov, AGIA, ACIS (Joint Company Secretary)

Mr Rowe is the Joint Company Secretary for Mercantile, and is a Corporate Governance Advisor with Mertons.

Prior to working at Mertons, Matthew managed the company Secretarial Team for a UK based fund manager specialising in investment companies listed on the Main Market, Alternative Investment Market and Specialist Funds Market of the London Stock Exchange, Euronext and Channel Island Stock Exchanges. Matthew has a Masters in Corporate Governance from Bournemouth University (UK).

AUDITORS, SECURITIES REGISTRAR, ORGANISING PARTICIPANT AND SOLICITORS

The names of Mercantile's auditors and securities registrar, and of the Organising Participant and solicitors who have been involved in the preparation of this Profile, are set out in section "Directory" of this Profile.

CORPORATE GOVERNANCE

The board of directors of Mercantile is responsible for the corporate governance of Mercantile. 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 Mercantile's CGS is available on Mercantile's website at www.mercantileinvestment.com.au under the Governance section.

FINANCIAL INFORMATION

A copy of Mercantile's most recent annual report and financial statements for the year ended 30 June 2014 is set out in **Appendix 1** and can also be viewed at www.mercantileinvestment.com.au.

The Half Yearly Report and Accounts to 31 December 2014 is set out in **Appendix 2** and can also be viewed at www.mercantileinvestment.com.au.

Mercantile's previous annual reports and financial statements can be viewed at www.mercantileinvestment.com.au.

DIRECTORS' CERTIFICATE

The board of directors of Mercantile, after due enquiry by them, are of the opinion that the Profile is complete and accurate, and confirm that the Profile contains all material information in relation to Mercantile.

Signed for and on behalf of

Mercantile Investment Company Limited

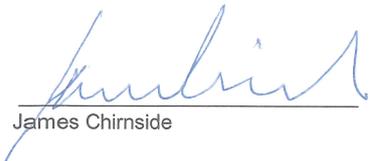
by:



Sir Ron Brierley



Gabriel Radzynski



James Chirside



Daniel Weiss



Ronald Langley

DIRECTORY

Registered Office of Mercantile

Level 11
139 Macquarie Street
Sydney
NSW 2000
Australia

Postal Address of Mercantile

Level 11
139 Macquarie Street
Sydney
NSW 2000
Australia

Tel: +61 2 8014 1188

Fax: +61 2 8084 9918

<http://www.mercantileinvestment.com.au/>

Directors

Sir Ron Brierley	(Chairman and Non-Executive Director)
Gabriel Radzyminski	(Executive Director)
James Chirnside	(Independent Non-Executive Director)
Daniel Weiss	(Independent Non-Executive Director)
Ronald Langley	(Independent Non-Executive Director)

Company Secretaries

Mark Licciardo and Matthew Rowe
Mertons Corporate Services Pty Limited
Level 7, 330 Collins Street
Melbourne, VIC 3000

Organising Participant and Solicitors

Chapman Tripp
Level 35
23-29 Albert Street
Auckland 1140

Auditors

MNSA Pty Limited
Level 1, 283 George Street
Sydney, NSW 2000

Share Registry

Link Market Services Limited (principal register)
Level 12, 680 George Street
Sydney NSW 200
Link Market Services Limited - Auckland New Zealand (branch register)
Level 7, 21 Queen Street
Auckland 1010.

**APPENDIX 1 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE
YEAR ENDED 30 JUNE 2014**

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576

**Appendix 4E
Annual Report 2014**

Mercantile Investment Company Limited

ABN 15 121 415 576
Level 11, 139 Macquarie Street
Sydney NSW 2000
Tel 02 8014 1188
Fax 02 8084 9918

25 August 2014

ASX RELEASE

ASX CODE: MVT

Appendix 4E

MERCANTILE INVESTMENT COMPANY LIMITED

Financial Report

Year ended 30 June 2014

“Results for announcement to the market”.

1. Details of the reporting period

The report details the results of MVT for the period ended 30 June 2014 and the previous corresponding period to the period ended 30 June 2013.

2. Results for announcement to the market

	Period to 30 June 2014	Period to 30 June 2013	Movement up/(down)	Movement up/(down)
	\$	\$	\$	%
2.1 Revenue from ordinary activities	849,134	485,064	364,070	75.06
2.2 Loss from operating activities after tax attributable to members	(108,562)	(216,005)	107,443	49.74
2.3 Comprehensive Income after tax for the period attributable to members	7,527,156	6,275,595	1,251,561	19.94
2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.	Nil	Nil		
2.5 The record date for determining entitlements to the dividends (if any).	Nil	Nil		

2.6 A brief explanation of any of the figures in 2.1 to 2.5 necessary to enable the figures to be understood.

The increase in Operating Profit arises primarily from the unrealised gains in movement of market value of investments held for trading.

The increase in other comprehensive income is as a result of gain on disposal of investments available for sale as well as the increase in market value of the Company's investments.

This report is based on the financial statements for the financial year ended 30 June 2014 which have been audited by the Company's auditor.

3. Net tangible assets per Share	Period to 30 June 2014	Period to 30 June 2013
- before tax	15.37 cents	11.54 cents
- after tax	13.45 cents	10.49 cents

4. Commentary on Results for the Period

During the year, the Company used most of its cash to purchase additional investments in ASX-listed securities. The net assets of the Company now consist predominantly of securities listed on the ASX.

It is the intention of the Directors that the Company will continue to selectively invest in ASX listed share market opportunities that Directors consider offer the prospect for attractive risk-adjusted returns.

Although the present focus is on the Australian market, as the Directors have extensive international investment knowledge, occasional overseas opportunities may arise as these sorts of opportunities are considered to be part of the normal activities of the Company.

The report is based on the audited financial statements for the period ended 30 June 2014 which form part of the Annual Report.

5. Key Events for the Period

On 17 March 2014, the Company and Murchison Metals Limited ('MMX') (in which the company held approximately 27.88% of shares on issue) entered into a Scheme Implementation Agreement ('SIA') that would merge the two companies by way of a scheme of arrangement. The scheme proposal involved MMX undertaking a selective reduction of capital under which all of the MMX shares (other than those held by the Company and its associates) would be cancelled. In consideration for the cancellation of their shares, MMX shareholders would have the option of either:

- choosing to receive cash consideration (being the amount equal to the MMX pre-tax net tangible assets ('NTA') per share less any transaction costs associated with implementing the Scheme) for 100% of their shares (Cash Consideration);
- to exchange 100% of their shares in the Company (calculated by reference to the relative pre-tax NTA backing per share of MMX and the Company less any transaction costs associated with implementing the scheme) (Scrip Consideration); or
- 50/50 combination of cash and scrip in Mercantile.

On 8 May 2014, the Supreme Court of New South Wales approved the release of the Scheme Booklet for the proposed merger with MMX. The Scheme Booklet incorporating the explanatory statement of the proposed merger, proxy forms for the Scheme Meeting, General Meeting and Class Meeting and election forms were dispatched to MMX shareholders on 15 May 2014.

The Scheme Meeting, General Meeting and Class Meeting of MMX shareholders were convened on 19 June 2014. MMX shareholders approved the scheme of arrangement at the various meetings.

At the Scheme Meeting, shareholders voted in favour of the Scheme. At the General Meeting, shareholders voted in favour of the subscription by MMX for new shares which will comprise the scrip consideration component under the Scheme. At the Class Meeting, shareholders voted in favour of a resolution to cancel all MMX shares other than those held by the Company and its associates.

On 23 June 2014, the Supreme Court of New South Wales approved the Scheme of Arrangement and the Court Order was lodged with ASIC on 24 June 2014.

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

5. Key Events for the Period (Continued)

The Scheme Consideration was issued as follows:

- Scrip Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been 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.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

As the merger scheme of arrangement has been approved by MMX shareholders, the Company believes that the increase in capital will increase the Company's investment capacity.

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

6. Annual Report - “attached”

7. 2014 Annual General Meeting

The AGM is expected to be held on 27 October 2014.

Signed on behalf of Mercantile Investment Company Limited



Sir Ron Brierley
Chairman

25 August 2014

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576

Annual Report 2014

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

ANNUAL FINANCIAL REPORT – 30 JUNE 2014

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MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Portfolio Composition As at 30 June 2014

Australian Securities Exchange Listed Positions at 30 June 2014

Name	Total Value \$
Ingenia Communities Group	24,509,434
Murchison Metals Limited	3,645,715
Trinity Group	2,273,628
Fitzroy River Corporation Limited	2,224,515
Australian Pharmaceutical Industries Limited	1,475,000
ASK Funding Limited	1,197,412
ING Private Equity Access Limited	1,065,438
Cellnet Group Limited	610,856
Joyce Corporation Limited	510,000
Alternative Investment Trust	250,000
White Energy Company Limited	150,000
Yancoal Australia Limited	25,000
TAG Limited	23,168
Dolomatrix International Limited	16,500
TOTAL	<u>37,976,666</u>

Australian Unlisted Investment Positions at 30 June 2014

Adelaide Managed Funds Asset Backed Yield Trust	<u>520,901</u>
TOTAL	<u>520,901</u>

United Kingdom Stock Exchange Listed Position at 30 June 2014

Impact Holdings (UK) PLC	<u>818,656</u>
TOTAL	<u>818,656</u>

Loans Receivable at 30 June 2014

Impact Holdings (UK) PLC	<u>871,534</u>
TOTAL	<u>871,534</u>

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

1. CHAIRMAN'S LETTER

25 August 2014

Dear Shareholder

I present you with the Annual Report and Accounts for the year ended 30 June 2014.

Mercantile Investment Co Ltd enjoyed a reasonably productive year to 30 June 2014.

The value of the share portfolio held up well and we made several moves which augur well for the future.

Since balance date, we have completed the full integration of Murchison Metals Ltd (MMX), issuing 18.19 million new shares in MVT in the process. This will assist our aim of achieving economies of scale and reaching optimum size for an ASX listed entity.

We are somewhat cautious regarding the overall level of the share market in the next 12 months but otherwise we expect another satisfactory result in 2014/15.

Yours sincerely



Ron Brierley
Chairman
25 August 2014

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT

Your Directors present their report on the Company for the year ended 30 June 2014.

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 Radzyminski	Executive Director
Mr James Chirnside	Independent Non-Executive Director
Mr Ronald Langley	Independent Non-Executive Director
Dr Gary Weiss	Non-Executive Director

The Company Secretary during the financial year:

Mark Licciardo

Principal Activities

The principal activities of the entity during the financial year were investment in cash and securities which will provide attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding shares for dividend yield/long term capital appreciation, as appropriate.

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

Operating Results

The Company generated Comprehensive Income, net of tax, for the year ended 30 June 2014 of \$7.53m (2013: Profit of \$6.28m), and an Operating Loss, net of tax of \$0.11m (2013: Loss of \$0.22m).

The reduction in Operating Loss arises primarily from the unrealised gains in movement of market value of investments held for trading.

Comprehensive Income per share is a profit of 3.00 cents (2013: 2.50 cents). The market price of the Company's shares increased over the year from \$0.10 per share at 30 June 2013 to \$0.135 per share at 30 June 2014 (2013: increased from \$0.08 per share to \$0.10 per share).

During the year the Net Tangible Assets (after tax) (NTA) increased from \$0.10 to \$0.13 (2013: increased from \$0.08 to \$0.10).

The increase in NTA is primarily due to the impact of increase in the market value of the Company's investments.

Dividends Paid or Recommended

No dividends were paid or are payable for the year ended 30 June 2014.

Financial Position

The net assets of the Company now consist of a predominance of listed securities; \$39.3m in listed and unlisted securities and \$1.1m in cash compared with \$28.1m in listed and unlisted securities and \$1.3m in cash at 30 June 2013.

During the year the total Financial Assets increased from \$29.9m to \$41.4m.

Review of Operations

During the year, the Company continued to invest in listed securities it believes offer attractive risk adjusted returns, including profit making ventures and holding shares for dividend yield/long term capital appreciation, as appropriate.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

On 17 March 2014, the Company and Murchison Metals Limited ('MMX') (in which the company held approximately 27.88% of shares on issue) entered into a Scheme Implementation Agreement ('SIA') that would merge the two companies by way of a scheme of arrangement. The scheme proposal involved MMX undertaking a selective reduction of capital under which all of the MMX shares (other than those held by the Company and its associates) would be cancelled. In consideration for the cancellation of their shares, MMX shareholders would have the option of either:

- choosing to receive cash consideration (being the amount equal to the MMX pre-tax net tangible assets ('NTA') per share less any transaction costs associated with implementing the Scheme) for 100% of their shares (Cash Consideration);
- to exchange 100% of their shares in the Company (calculated by reference to the relative pre-tax NTA backing per share of MMX and the Company less any transaction costs associated with implementing the scheme) (Scrip Consideration); or
- 50/50 combination of cash and scrip in Mercantile.

On 8 May 2014, the Supreme Court of New South Wales approved the release of the Scheme Booklet for the proposed merger with MMX. The Scheme Booklet incorporating the explanatory statement of the proposed merger, proxy forms for the Scheme Meeting, General Meeting and Class Meeting and election forms were dispatched to MMX shareholders on 15 May 2014.

The Scheme Meeting, General Meeting and Class Meeting of MMX shareholders were convened on 19 June 2014. MMX shareholders approved the scheme of arrangement at the various meetings.

At the Scheme Meeting, shareholders voted in favour of the Scheme. At the General Meeting, shareholders voted in favour of the subscription by MMX for new shares which will comprise the scrip consideration component under the Scheme. At the Class Meeting, shareholders voted in favour of a resolution to cancel all MMX shares other than those held by the Company and its associates.

On 23 June 2014, the Supreme Court of New South Wales approved the Scheme of Arrangement and the Court Order was lodged with ASIC on 24 June 2014.

After Balance Date Events

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 was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been 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.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

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

As the merger scheme of arrangement has been completed, the Company believes that the increase in capital will increase the Company's investment capacity.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT (CONTINUED)

Future Developments, Prospects and Business Strategies (Continued)

The Company will also continue to selectively invest in share market opportunities that Directors consider offer the prospect for attractive risk-adjusted returns. Although the present focus is on the Australian market, as the Directors have extensive international investment knowledge, occasional overseas opportunities will arise as these sorts of opportunities are considered to be part of the normal activities of the Company.

Environmental Issues

The Company's operations are such that they are not directly affected by environmental regulations.

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. Sir Ron stepped down as Chairman of GPG in 2010, and remains a non-executive director.

He is the Chairman of the Board and holds directorship in Guinness Peat Group PLC.

Interest in Shares and Options - 122,411,120 ordinary shares beneficially held by Siblow Pty Ltd.

Mr Gabriel Radzynski – BA (Hons), MCom (Executive Director)

Gabriel is the founder and Managing Director of Sandon Capital Pty Ltd, a funds management and advisory firm specialising in activist investing. He is the portfolio manager of the Sandon Capital Activist Fund and Sandon Capital Investments Limited. 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 Future Generation Investment Fund Limited. Gabriel is also a director of Sandon Capital Opportunities Pty Limited.

Mr James Chirnside – (Independent Non-Executive Director)

James has been exclusively focussed on investment management for twenty-nine years in Sydney, Hong Kong, London, and Melbourne.

James is a Director of Mann Distribution Pty Limited, a marketing agent for Mannbio Holdings Limited. Mannbio Holdings is a specialist Biopharma Fund Manager founded in the UK by investor Jim Mellon. James ran Asia Pacific Asset Management between 2002 and 2012. APAM was an Australian and Asian equities fund, and Fund of Fund manager. From 2000-2001 James worked for Challenger Financial Group in Sydney as a product development manager responsible for hedge fund investments. During the 1990's James managed emerging market hedge funds in Hong Kong and London for Regent Fund Management - now AIM listed Charlemagne Capital. Between 1988 and 1992 James ran a Proprietary trading book for County NatWest Investment Bank, based in London. Here he was primarily focussed on Country Funds and derivative arbitrage strategies.

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

James holds directorships in Cadence Capital Limited, Murchison Metals Limited and WAM Capital Limited.

Dr. Gary Weiss – LLB (Hons), LLM, JSD (Non-Executive Director)

Gary is the Chairman of Clearview Wealth Ltd and Secure Parking Pty Ltd, Executive Director of Ariadne Australia Limited, and a director of Premier Investments Limited, Ridley Corporation 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.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT (CONTINUED)

Information on Directors and Company Secretary (Continued)

Dr. Gary Weiss – LLB (Hons), LLM, JSD (Non-Executive Director)

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

Interest in Shares and Options - 14,915,001 ordinary shares beneficially held by Portfolio Services Pty Limited and 900,000 Fully Paid ordinary shares beneficially held by Bivaru Pty Limited (Superannuation Account).

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

Ron has been an international value investor for the past 35 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 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

Mark Licciardo – B Bus (Acc), GradDip CSP, FCIS, MAICD (Company Secretary)

Mr Licciardo is a Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed, unlisted public and private companies. Mark has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mr Licciardo is a former Chairman of the Chartered Secretaries Australia (CSA) in Victoria, a fellow of CSA, a member of the Australian Institute of Company Directors (AICD) and a director of several public and private companies.

This report details the nature and amount of remuneration for each Director of Mercantile Investment Company Limited. The current employees of the Company are one Executive Director and four Non-Executive Directors. 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 Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-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.

REMUNERATION REPORT (Audited)

Where specialist services beyond the normal expectations of a Non-Executive Director are provided to the company, payment will be made on a normal commercial basis. Works under this arrangement have been carried out by Gabriel Radzysinski through Sandon Capital Pty Limited at arm's-length market rates. Further details are contained in Note 23.

Directors' Remuneration

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

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (Audited) (Continued)

	Employee Short-Term Benefits		Post-Employment Benefits	Total
	Cash, Salary & Commissions		Superannuation	
	\$	\$	\$	
2014				
Directors				
Mr. James Chirnside	15,000	1,388		16,388
Mr. Gabriel Radzyninski	15,000	1,388		16,388
Mr. Ronald Langley	15,000	1,388		16,388
Dr. Gary Weiss (including GST)	17,985	-		17,985
Sir Ron Brierley	-	-		-
	62,985	4,164		67,149
2013				
Directors				
Mr. James Chirnside	15,000	1,350		16,350
Mr. Gabriel Radzyninski	15,000	1,350		16,350
Mr. Ronald Langley	15,000	1,688		16,688
Dr. Gary Weiss (including GST)	17,985	-		17,985
Sir Ron Brierley	-	-		-
	62,985	4,388		67,373

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

Cash, salary and superannuation shown above for Dr Weiss reflect monthly director's fees paid to Ariadne Australia Limited and include GST.

The total pool of Non-Executive Directors' Fees, excluding consultancy services, approved by the shareholders is currently \$200,000 p.a.

Meetings of Directors

During the period, four meetings of directors (and two committees of directors meetings) were held.

Attendances by each director during the year were as follows:

	Directors' Meetings		Committee Meetings			
	Number Eligible to Attend	Number Attended	Audit & Risk		Remuneration	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Gabriel Radzyninski	4	4	-	-	-	-
Mr James Chirnside	4	4	2	2	-	-
Dr Gary Weiss	4	3	2	2	-	-
Mr Ronald Langley	4	4	2	2	-	-
Sir Ron Brierley	4	4	-	-	-	-
Total Meetings Held	4		2		-	-

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

2. DIRECTORS' REPORT (CONTINUED)

Indemnifying Officers or Auditor

During or since the end of the financial period the company has 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 willful 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 period.

Non-Audit Services

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit & Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with the Corporations Act 2001 and APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No non-audit services were performed by the current auditors during the year ended 30 June 2014 (2013: Nil).

Auditors Independence Declaration

The lead auditor's independence declaration as required under s.307c of the Corporations Act 2001 for the year ended 30 June 2014 is set out on page 12.

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



Sir Ron Brierley
Chairman

Dated 25 August 2014

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

3. 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 under the Governance section.



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

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C
OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF MERCANTILE INVESTMENT COMPANY LIMITED
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro

Sydney

25 August 2014

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities

5. FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and other Comprehensive Income
For the year ended 30 June 2014

	Note	Consolidated	
		June 2014	June 2013
		\$	\$
Revenue	2	398,143	484,050
Realised (Loss)/ Gains on Trading Portfolio	2	(184)	93,421
Other Income	2	36,500	37,828
Unrealised Gains/ (Loss) on Market Value Movement	2	451,175	(92,407)
Fund Administration Expenses		(4,432)	(3,185)
Remuneration Costs	3	(67,324)	(67,636)
Listed Company Expenses	3	(717,444)	(555,777)
Marketing and Development Expenses		(5,387)	(13,456)
Occupancy Costs		(13,673)	(13,223)
Depreciation	13	(5,010)	(12,854)
Foreign Exchange Gains		39,014	2,572
Finance Costs		(84,589)	(5,287)
Loss on Disposal of Non-Current Assets		-	(18,503)
Profit/ (Loss) Before Income Tax		26,789	(164,457)
Income Tax Expense	4	(135,351)	(51,548)
Loss for the year		(108,562)	(216,005)
Other Comprehensive Income			
Gain on Revaluation of Available-for-sale Financial Assets			
Items that will not be reclassified to profit or loss:			
Gain on disposal of investments available for sale		3,150,200	956,666
Fair Value Adjustment		6,407,883	7,907,048
Deferred Tax Impact relating to items that will not be reclassified		(1,922,365)	(2,372,114)
Other Comprehensive Income for the Year, Net of Tax		7,635,718	6,491,600
Total Comprehensive Income for the Year		7,527,156	6,275,595
Loss Attributable to:			
Members of the Parent Entity		(108,562)	(216,005)
Non-Controlling Interest		-	-
		(108,562)	(216,005)
Total Comprehensive Income Attributable to:			
Members of the Parent Entity		7,527,156	6,275,595
Non-Controlling Interest		-	-
		7,527,156	6,275,595
Earnings per Share			
From Continuing Operations			
- Basic loss per share (cents per share)	8	(0.04)	(0.09)
- Diluted loss per share (cents per share)	8	(0.04)	(0.09)
From Comprehensive Income			
- Basic earnings per share (cents per share)	8	3.00	2.50
- Diluted earnings per share (cents per share)	8	3.00	2.50

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Financial Position

As at 30 June 2014

	Note	Consolidated	
		June 2014	June 2013
		\$	\$
Assets			
Current Assets			
Cash and Cash Equivalents	9	1,129,258	1,357,461
Trade and Other Receivables	10	34,924	489,293
Financial Assets	11	4,866,296	3,477,736
Other Current Assets	12	193,120	8,735
Current Tax Assets	15	59	59
Total Current Assets		6,223,657	5,333,284
Non-Current Assets			
Financial Assets	11	34,449,927	24,668,300
Trade and Other Receivables	10	871,534	-
Property, Plant & Equipment	13	5,830	7,648
Deferred Tax Assets	15	36,218	144,465
Total Non-Current Assets		35,363,509	24,820,413
Total Assets		41,587,166	30,153,697
Current Liabilities			
Trade and Other Payables	16	138,318	88,510
Borrowings	17	2,912,241	1,005,206
Total Current Liabilities		3,050,559	1,093,716
Non-Current Liabilities			
Deferred Tax Liabilities	15	4,830,215	2,772,498
Total Non-Current Liabilities		4,830,215	2,772,498
Total Liabilities		7,880,774	3,866,214
Net Assets		33,706,392	26,287,483
Equity			
Issued Capital	18	24,773,530	24,881,777
Reserves	19	16,561,023	8,925,305
Retained Earnings		(7,628,161)	(7,519,599)
Total Equity		33,706,392	26,287,483

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Cash Flows
 For the year ended 30 June 2014

		Consolidated	
		June	June
		2014	2013
	Note	\$	\$
Cash Flows from Operating Activities			
Dividends Received		357,174	338,880
Payments to Suppliers and Employees		(773,060)	(625,793)
Proceeds from Sale of Shares held for trading		3,005	2,108,100
Purchase of Shares held for trading		(940,573)	(3,853,322)
Capital Return Payments		-	460,000
Interest Received		33,695	23,249
Interest Paid		(89,794)	(82)
Trust Distributions Received		1,160,149	417,694
Underwriting Fee Received		36,500	37,828
Income Tax Paid		230,192	(267,367)
Net Cash Provided by/ (Used in) Operating Activities	21	<u>17,288</u>	<u>(1,360,813)</u>
Cash Flows from Investing Activities			
Proceeds from Sale of Investments		5,150,772	2,643,546
Purchase of Investments		(6,374,181)	(6,707,510)
Capital Return Payments		80,000	1,537,444
Purchase of Capital Assets		(3,192)	(2,134)
Net Cash (Used in) Investing Activities		<u>(1,146,601)</u>	<u>(2,528,654)</u>
Cash Flows from Financing Activities			
Loan Advanced		(826,351)	-
Loan Provided		1,912,241	1,000,000
Deposit paid for share purchase agreement		(184,780)	-
Net Cash Provided by Financing Activities		<u>901,110</u>	<u>1,000,000</u>
Net (Decrease) in Cash & Cash Equivalents Held		(228,203)	(2,889,467)
Cash & Cash Equivalents at Beginning of Financial Year		<u>1,357,461</u>	<u>4,246,928</u>
Cash & Cash Equivalents at End of Financial Year	9	<u>1,129,258</u>	<u>1,357,461</u>

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Changes in Equity
For the year ended 30 June 2014

Consolidated	Issued Share Capital – Ordinary \$	Retained Earnings \$	Realised Capital Profits Reserve \$	Asset Revaluation Reserve \$	Total \$
Balance at 1 July 2013	24,881,777	(7,519,599)	2,515,234	6,410,071	26,287,483
Loss for the Year	-	(108,562)	-	-	(108,562)
<i>Other Comprehensive Income for the Year</i>					
Gains on Disposal of Investments Available for Sale to 30 June 2014	-	-	3,150,200	-	3,150,200
Net unrealised gains for stocks held at 30 June 2014	-	-	-	4,485,518	4,485,518
Total Comprehensive Income for the Year	-	-	3,150,200	4,485,518	7,635,718
Deferred Tax Relating to Capital Raising Costs	(108,247)	-	-	-	(108,247)
Subtotal	24,773,530	(7,628,161)	5,665,434	10,895,589	33,706,392
Dividends Paid or Provided for	-	-	-	-	-
Balance at 30 June 2014	<u>24,773,530</u>	<u>(7,628,161)</u>	<u>5,665,434</u>	<u>10,895,589</u>	<u>33,706,392</u>
Balance at 1 July 2012	24,992,645	(7,303,594)	1,558,568	875,137	20,122,756
Loss for the Year	-	(216,005)	-	-	(216,005)
<i>Other Comprehensive Income for the Year</i>					
Gains on Disposal of Investments Available for Sale to 30 June 2013	-	-	956,666	-	956,666
Net unrealised gains for stocks held at 30 June 2013	-	-	-	5,534,934	5,534,934
Total Comprehensive Income for the Year	-	-	956,666	5,534,934	6,491,600
Deferred Tax Relating to Capital Raising Costs	(110,868)	-	-	-	(110,868)
Subtotal	24,881,777	(7,519,599)	2,515,234	6,410,071	26,287,483
Dividends Paid or Provided for	-	-	-	-	-
Balance at 30 June 2013	<u>24,881,777</u>	<u>(7,519,599)</u>	<u>2,515,234</u>	<u>6,410,071</u>	<u>26,287,483</u>

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001. Mercantile Investment Company Limited is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report includes the consolidated financial statements and notes of Mercantile Investment Company Limited and controlled entities ('Consolidated Group' or 'Group' or 'Company'). Mercantile Investment Company Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Mercantile Investment Company Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001.

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 ensures 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 are presented below and have been consistently applied, unless otherwise stated.

The financial report was approved for release by the Board of Directors on 25 August 2014.

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, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. 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.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial report incorporates the assets, liabilities and results of entities controlled by Mercantile Investment Company Limited at the end of the reporting period. A controlled entity is any entity over which Mercantile Investment Company Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

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 14 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. 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.

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(b) 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.

(c) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance 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.

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.

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(d) Income Tax (Continued)

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) a legally enforceable right of set-off exists and (b) 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 or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

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.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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 including buildings and capitalised lease assets, but excluding freehold land, is 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. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Class of Fixed Asset	Depreciation Rate
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
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(f) Financial Instruments

Initial Recognition and Measurement

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 (ie 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 effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

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.

Available-for-sale investments

Available-for-sale investments 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.

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(f) Financial Instruments (Continued)

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

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.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial assets.

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

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.

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(g) Impairment of Assets

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

(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 14.

(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 three 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(g) 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.

(l) Revenue and Other Income

Dividend revenue is recognised when the right to receive a dividend has been established.

Interest revenue is recognised using the effective interest method.

The realised gain or loss on disposal of investments is recognised at the date of transaction. All unrealised gains or losses which represent movements in the market value of the portfolio of listed investments are recognised through the Asset Revaluation Reserve on the Statement of Financial Position.

All revenue is stated net of the amount of goods and services tax (GST).

(m) Operating Segments

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from trust distribution, dividend income, interest income and from sale of its investment portfolio.

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(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 financial assets available-for-sale and held-for-trading of Mercantile Investment Company Limited 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.

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

Key Judgements - Impairment

There are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

GST is accounted for on a cash basis for activity statement purposes.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(p) Comparative Figures

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

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

(q) New and Amended Accounting Standards and Interpretations

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

AASB 10: Consolidated Financial Statements. This standard provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The assets, liabilities and non-controlling interests related to investments in businesses that are now assessed as being controlled by the Group, and were therefore not previously consolidated, are measured as if the investee had been consolidated.

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Policies (Continued)

(q) New and Amended Accounting Standards and Interpretations (Continued)

This standard did not result in any changes to the amounts reported in the Group's financial statements as the "controlled" status of the existing subsidiaries did not change, nor did it result in any new subsidiaries being included in the Group.

AASB 13: *Fair Value Measurement* and AASB 2011-8: *Amendments to Australian Accounting Standards arising from AASB 13*. This standard sets out a comprehensive framework for measuring the fair value of assets and liabilities and prescribes enhanced disclosures regarding all assets and liabilities measured at fair value.

This standard did not materially impact the fair value amounts reported in the Group's financial statements.

(r) New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's Directors have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

- AASB 9: *Financial Instruments* and associated amending standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

- AASB 2012-3: *Amendments to Australian Accounting Standards Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments.

- AASB 2013-3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment.

- AASB 2013-4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

- AASB 2013-5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required.

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

	Consolidated	
	June 2014	June 2013
	\$	\$
NOTE 2: REVENUE AND OTHER INCOME		
Revenue		
- Dividends Received	357,174	234,050
- Trust Distributions Received	-	226,751
- Interest Received	40,969	23,249
Total Revenue	398,143	484,050
Realised (Loss)/ Gains on Trading Portfolio	(184)	93,421
Unrealised Gains/ (Loss) on Market Value Movement	451,175	(92,407)
Other Income		
- Underwriting Fee	36,500	37,828
Total Other Income	36,500	37,828
Total Revenue and Other Income	885,634	522,892
NOTE 3: EXPENSES		
Remuneration Costs		
Director Fees	62,985	62,985
Superannuation	4,164	4,388
Other	175	263
	67,324	67,636
Listed Company Costs		
Accounting & Secretarial Costs	116,572	116,298
Audit Fees	35,640	38,500
Director & Officer Insurance	11,197	11,458
Legal and Professional Fees		
- Non Recurring Costs ¹	171,708	52,554
- Recurring Costs	-	1,195
ASIC & ASX Charges	32,429	29,107
Share Registry Costs	24,281	21,954
Corporate Work Costs	165,000	157,297
Taxation Services ²	160,617	127,414
	717,444	555,777

¹ A number of legal costs incurred during 2014 are not expected to recur, and are therefore considered non-recurring. These include costs relating to the proposed take-over offer of GLL which did not proceed as well as costs in relation to the merger Scheme of Arrangement with MMX.

² A large proportion of the taxation services costs were one-off and not expected to recur.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

Notes to the Financial Statements

	Consolidated	
	June	June
	2014	2013
	\$	\$
<hr/>		
NOTE 4: INCOME TAX EXPENSE		
(a) The components of tax expense comprise:		
- Deferred Tax	135,351	25,325
- Under Provision for Tax – Prior Year	-	26,223
	<hr/> 135,351	<hr/> 51,548
(b) The prima facie tax on (loss)/ profit from ordinary activities before income tax as follows:		
- Prima face tax payable on (loss)/ profit from ordinary activities before income tax at 30% (2013: 30%)	8,037	(49,337)
Add: Tax Effect of:		
- Franking Credits	43,994	30,092
- Other Assessable Income	1,171,354	340,046
- Non-Deductible Expenditure	67,011	53,586
Less: Tax Effect of:		
- Group Losses/ (Gains) not recognised	195	2,267
- Non-Assessable Income	(176,449)	(772)
- Tax Losses Utilised	(944,240)	(241,196)
- Other Allowable Items	(10,096)	(16,253)
- Rebateable Fully Franked Dividends	(43,994)	-
- Deduction under Sec 40-880	(115,812)	(118,433)
Under Provision for Tax – Prior Year	-	26,223
Deferred Tax	135,351	25,325
INCOME TAX EXPENSE	<hr/> 135,351	<hr/> 51,548

Approximate carried forward Revenue Losses as at 30 June 2014: \$4.9m (2013: \$8.1m). There were no capital losses to be carried forward at 30 June 2014 (30 June 2013 – Nil). The Company has determined that current year taxable profits will be offset against prior year carried forward revenue losses.

Deferred tax assets relating to capital raising costs have been recognised in the Statement of Financial Position totalling \$36,218.

Franking Credits

The ability for Mercantile Investment Company Limited to pay franked dividends is dependent upon the Company paying tax. At 30 June 2014 the Company was liable for tax on taxable profits and total imputation credits from the receipt of franked dividends of \$146,646 was used to reduce tax on taxable profits.

Balance of franking account at year end arising from:

Opening balance at 1 July	495,258	127,642
Payment of provision for income tax	-	267,309
Franking credits on dividends received	146,646	100,307
	<hr/> 641,904	<hr/> 495,258

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

Consolidated
June **June**
2014 **2013**
\$ **\$**

NOTE 5: KEY MANAGEMENT COMPENSATION

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

Key Management Person	Position
Sir Ron Brierley	Non-Executive Director & Chairman
Mr. Gabriel Radzyninski	Executive Director
Mr. James Chirnside	Independent Non-Executive Director
Dr. Gary Weiss	Non-Executive Director
Mr. Ronald Langley	Independent Non-Executive Director

(b) Aggregate compensation made to Key Management Personnel

Short-term Employee Benefits	62,985	62,985
Post-Employment Benefits	4,164	4,388
	67,149	67,373

(c) Shareholdings

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

2014	Balance 1 July 2013	Net Change Other	Balance 30 June 2014
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzyninski	-	-	-
Sir Ron Brierley**	122,411,120	-	122,411,120
Dr. Gary Weiss**	15,815,001	-	15,815,001
Mr. Ronald Langley	12,500,000	-	12,500,000
	150,726,121	-	150,726,121

** Held through Indirect Interest.

2013	Balance 1 July 2012	Net Change Other	Balance 30 June 2013
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzyninski	-	-	-
Sir Ron Brierley **	122,411,120	-	122,411,120
Dr. Gary Weiss **	15,815,001	-	15,815,001
Mr. Ronald Langley	12,500,000	-	12,500,000
	150,726,121	-	150,726,121

** Held through Indirect Interest.

(d) Options & Rights Holdings

There were no options held directly, indirectly or beneficially by Key Management Personnel, or by entities to which they were related for the year ended 30 June 2014.

NOTE 6: AUDITOR'S REMUNERATION

Remuneration of the auditor of the entity for:

- Audit and Review of Financial Report	35,640	38,500
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MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

	Consolidated	
	June 2014	June 2013
	\$	\$
NOTE 7: DIVIDENDS		
No dividends were paid or provided for during the year (2013: Nil).		
Listed Investment Company capital gains account		
Balance of the Listed Investment Company (LIC) capital gains account	5,665,434	2,515,234
This would equate to an attributable amount of	6,333,392	3,183,192
Distributable LIC capital gains may entitle certain shareholders to a special capital gains concession in their taxation return, as set out in the dividend statement. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains.		
NOTE 8: EARNINGS PER SHARE		
<i>(a) Reconciliation of earnings used in calculating basic and diluted earnings per share</i>		
Net loss attributable to members	<u>(108,562)</u>	(216,005)
Loss used in calculating basic and diluted EPS	<u>(108,562)</u>	(216,005)
<i>(b) Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS</i>		
	<u>250,577,700</u>	250,577,700
Weighted average number of options outstanding	<u>-</u>	-
Weighted average number of ordinary shares and options outstanding during the year used in calculating diluted EPS	<u>250,577,700</u>	250,577,700
Comprehensive Income:		
Loss for the year	<u>(108,562)</u>	(216,005)
Other Comprehensive Income for the year, Net of Tax	<u>7,635,718</u>	6,491,600
Total Comprehensive Income for the year	<u>7,527,156</u>	6,275,595
NOTE 9: CASH AND CASH EQUIVALENTS		
Cash at Bank and in Hand	<u>1,129,258</u>	1,357,461
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>1,129,258</u>	1,357,461

MERCANTILE INVESTMENT COMPANY LIMITED
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 For the year ended 30 June 2014

Notes to the Financial Statements

Consolidated
June **June**
2014 **2013**
\$ **\$**

NOTE 10: TRADE AND OTHER RECEIVABLES

Current – Loans & Receivables

Other Receivables	13,991	235,720
Amounts Receivable from:		
- Sundry Debtors	9,659	2,018
- Trust Distributions Receivable	11,274	251,555
	34,924	489,293

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 – Loans & Receivables

Loan – Impact Holdings (UK)	871,534	-
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On 11 July 2013, the Company advanced GBP500,000 to Impact Holdings (UK). Interest is payable at the end of each quarter at a rate of 4.5% per annum.

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 - Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group's significant credit risk exposure is in United Kingdom due to the loan to Impact Holdings (UK). The only credit risk exposure in India as at 30 June 2013 was the amount of tax refundable to the Company from prior years. The tax refund has been paid to the Company during the year. The Group's exposure to credit risk for receivables at reporting date in those regions is as follows:

AUD

United Kingdom	871,534	-
Australia	34,924	251,795
India	-	237,498
	906,458	489,293

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 high credit quality.

	Gross Amount	Past due and Impaired	Past due but not impaired				Within initial Trade Terms
			< 30	31-60	61 -90	>90	
2014							
Other Receivables	906,458	-	34,924	-	-	-	871,534
Total	906,458	-	34,924	-	-	-	871,534
2013							
Other Receivables	489,293	-	-	-	-	-	489,293
Total	489,293	-	-	-	-	-	489,293

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

		Consolidated	
	Note	June 2014	June 2013
		\$	\$
NOTE 11: FINANCIAL ASSETS			
CURRENT & NON-CURRENT			
Current - Financial Assets Held-for-Trading	11(a)	4,866,296	3,477,736
Non-Current - Available-for-Sale Financial Assets	11(b)	<u>34,449,927</u>	<u>24,668,300</u>
		<u>39,316,223</u>	<u>28,146,036</u>
(a) Financial Assets Held-for-Trading Comprise:			
CURRENT			
- Shares in listed corporations held-for-trading		<u>4,866,296</u>	<u>3,477,736</u>
Total Current Financial Assets		<u>4,866,296</u>	<u>3,477,736</u>
(b) Available-for-Sale Financial Assets comprise:			
NON-CURRENT			
Investments, at fair value		520,901	506,018
Units in unlisted trust available-for-sale		<u>33,929,026</u>	<u>24,162,282</u>
Shares in domestic and overseas listed corporations available-for-sale		<u>34,449,927</u>	<u>24,668,300</u>
Total Non-Current Financial Assets		<u>34,449,927</u>	<u>24,668,300</u>
NOTE 12: OTHER ASSETS			
Current			
Deposits paid ¹		184,780	-
Prepayments		<u>8,340</u>	<u>8,735</u>
Total Other Assets		<u>193,120</u>	<u>8,735</u>
¹ The Company is investing in an entity that is acquiring a NZ based life insurer. A deposit of \$184,780 was payable when the Unit holder Agreement was signed. If all regulatory approvals are received, the Company's total initial commitment to this investment will be NZD\$4.75m.			
NOTE 13: PROPERTY, PLANT AND EQUIPMENT			
PLANT AND EQUIPMENT			
Plant and Equipment:			
At Cost		23,279	23,279
Accumulated Depreciation		<u>(20,989)</u>	<u>(17,765)</u>
		<u>2,290</u>	<u>5,514</u>
Website Development Costs:			
At Cost		5,326	2,134
Accumulated Depreciation		<u>(1,786)</u>	<u>-</u>
		<u>3,540</u>	<u>2,134</u>
Total Plant and Equipment		<u>5,830</u>	<u>7,648</u>

MERCANTILE INVESTMENT COMPANY LIMITED
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 For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 13: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Movements in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment	Furniture and Fixtures	Website Development Costs	Total
	\$	\$	\$	\$
Consolidated:				
Balance at 1 July 2012	31,055	5,816	-	36,871
Additions	-	-	2,134	2,134
Write-offs	(14,976)	(3,527)	-	(18,503)
Depreciation Expense	(12,273)	(581)	-	(12,854)
Balance at 30 June 2013	<u>3,806</u>	<u>1,708</u>	<u>2,134</u>	<u>7,648</u>
Balance at 1 July 2013	3,806	1,708	2,134	7,648
Additions	-	-	3,192	3,192
Write-offs	-	-	-	-
Depreciation Expense	(3,001)	(223)	(1,786)	(5,010)
Balance at 30 June 2014	<u>805</u>	<u>1,485</u>	<u>3,540</u>	<u>5,830</u>

NOTE 14: CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%)	
		June 2014	June 2013
Parent Entity			
Mercantile Investment Company Limited	Australia	100	100
Controlled Entities of Mercantile Investment Company Limited:			
Asia Diversified Fund Pty Ltd	Australia	100	100
India Asset Management Pty Ltd	Australia	100	100
India Asset Holdings Pty Ltd	Australia	100	100
Olympus Funds Management Pty Ltd	Australia	100	100

Percentage of voting power is in proportion to ownership.
 Murchison Metals Limited became a controlled entity on 8 July 2014.

Opening balance	Charged to income	Charged directly to equity	Closing balance
\$	\$	\$	\$

NOTE 15: CURRENT & DEFERRED TAX

Consolidated

2014

Deferred Tax Liability				
Fair Value Gain	<u>2,772,498</u>	<u>135,351</u>	<u>1,922,366</u>	<u>4,830,215</u>
Balance at 30 June 2014	<u>2,772,498</u>	<u>135,351</u>	<u>1,922,366</u>	<u>4,830,215</u>
Deferred Tax Assets				
Transaction costs on equity issue	<u>144,465</u>	<u>-</u>	<u>(108,247)</u>	<u>36,218</u>
Balance at 30 June 2014	<u>144,465</u>	<u>-</u>	<u>(108,247)</u>	<u>36,218</u>

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

Consolidated

June **June**
2014 **2013**
\$ **\$**

NOTE 15: CURRENT & DEFERRED TAX (CONTINUED)

2013

Deferred Tax Liability

Fair Value Gain 375,059 25,325 2,372,114 2,772,498

Balance at 30 June 2013 375,059 25,325 2,372,114 2,772,498

Deferred Tax Assets

Transaction costs on equity issue 255,333 - (110,868) 144,465

Balance at 30 June 2013 255,333 - (110,868) 144,465

Deferred tax assets totalling \$36,218 relating to capital raising costs have been recognised in the Statement of Financial Position.

Consolidated

June **June**
2014 **2013**
\$ **\$**

Current Tax Asset 59 59

NOTE 16: TRADE AND OTHER PAYABLES

Current

Unsecured Liabilities

Trade Payables 66,828 35,859

Sundry Payables and Accrued Expenses 71,447 52,548

GST Payable 43 103

138,318 88,510

Due to the short term nature of trade payables, their carrying value is assumed to approximate their fair value.

NOTE 17: BORROWINGS

Current

Unsecured Short-Term Loan 2,912,241 1,005,206

Sir Ron Brierley provided an advance of \$1m on 24 May 2013 to fund the Company's purchase of shares in domestic and overseas corporations. An additional advance of \$1.9m was advanced in 2014. Interest is payable at 5% per annum. All interest payable on the loan was paid before 30 June 2014.

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Notes to the Financial Statements

	Note	Consolidated June 2014 \$	June 2013 \$
NOTE 18: ISSUED CAPITAL			
250,577,700 (2013: 250,577,700) fully paid securities		<u>24,773,530</u>	<u>24,881,777</u>
An additional 18,186,971 fully paid ordinary shares were issued on 8 July 2014 at a price of \$0.1523 per share.			
(a) Ordinary Shares			
At the beginning of reporting period		250,577,700	24,992,645
Movement in Ordinary Shares issued during period:			
Shares issued		-	-
Net share issue costs		(108,247)	(110,868)
At Reporting Date – 30 June		<u>250,577,700</u>	<u>24,881,777</u>

(b) Capital Management

Management controls 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 entity can fund its operations and continue as a going concern.

Mercantile Investment Company Limited does not have any externally imposed capital requirements.

Apart from the \$2.9m loan provided by Sir Ron Brierley, Mercantile Investment Company Limited does not have any debt at 30 June 2014 (2013: Nil).

NOTE 19: RESERVES

Asset Revaluation Reserve	19(a)	10,895,589	6,410,071
Realised Capital Gains Reserve	19(b)	<u>5,665,434</u>	<u>2,515,234</u>
		<u>16,561,023</u>	<u>8,925,305</u>

(a) Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets. This includes available-for-sale investments. Under certain circumstances dividends can be declared from this reserve.

Opening Balance at 1 July		6,410,071	875,137
Revaluation of Investment Portfolio		6,407,883	7,907,048
Provision for Tax on Unrealised Gains		<u>(1,922,365)</u>	<u>(2,372,114)</u>
Closing balance at 30 June		<u>10,895,589</u>	<u>6,410,071</u>

(b) Realised Capital Gains Reserve

The reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio. As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of the Directors.

The net capital gains on disposal of investments held for sale for the year was \$3,150,200 and has been transferred to the Realised Capital Gains Reserve.

Opening Balance at 1 July		2,515,234	1,558,568
Transfer from Retained Earnings		-	-
Gains on disposal of investments available for sale		<u>3,150,200</u>	<u>956,666</u>
Closing Balance at 30 June		<u>5,665,434</u>	<u>2,515,234</u>

MERCANTILE INVESTMENT COMPANY LIMITED
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Notes to the Financial Statements

	Consolidated	
Note	June 2014	June 2013
	\$	\$
NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS		
There are no contingent assets or liabilities as at 30 June 2014 (2013: Nil).		
NOTE 21: CASH FLOW INFORMATION		
(a) Reconciliation of Cash Flow from Operating Activities with Profit after Income Tax		
Loss after Income Tax	(108,562)	(216,005)
Non-Cash Flows in Profit:		
- Net Loss/ (Gains) on Disposal of Investments	184	(93,421)
- Unrealised (Gains) on Foreign Currency	(45,185)	(2,572)
- Realised Loss on Sale of Fixed Assets	-	18,503
- Depreciation	5,010	12,854
- Unrealised (Gains)/ Loss on Market Value Movement	(315,825)	117,731
- Tax-Deferred Portion on Trust Distributions Received	919,867	442,499
Changes in assets and liabilities:		
- Decrease/ (Increase) in Trade Receivables	454,370	(148,553)
- Decrease/ (Increase) in Other Assets	395	(935)
- (Increase) in Financial Investments	(937,568)	(1,285,222)
- (Decrease)/ Increase in Income Tax Payable	-	(241,144)
- Increase in Trade Payables & Accruals	44,602	35,452
Cash Flow from Operations	17,288	(1,360,813)
NOTE 22: PARENT ENTITY		
Statements of Financial Position		
Assets		
Current Assets	6,183,776	5,331,124
Non-Current Assets	35,397,804	24,819,729
Total Assets	41,581,580	30,150,853
Liabilities		
Current Liabilities	3,049,629	1,096,177
Non-Current Liabilities	4,830,215	2,772,498
Total Liabilities	7,879,844	3,868,675
Net Assets	33,701,736	26,282,178
Issued Capital	24,773,530	24,881,777
Retained Earnings	(7,632,817)	(7,524,904)
Reserves	16,561,023	8,925,305
Shareholders' Equity	33,701,736	26,282,178
Statement of Profit or Loss and Other Comprehensive Income		
Profit/ (Loss)	27,439	(156,902)
Total Comprehensive Income	7,663,157	6,334,698

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Notes to the Financial Statements

		Consolidated	
	Note	June 2014 \$	June 2013 \$
NOTE 23: RELATED PARTY TRANSACTIONS			
Transactions with related parties			
Sandon Capital Pty Ltd is an entity associated with Mr. Gabriel Radzyminski. Sandon Capital provided general consulting and corporate advisory services to Mercantile Investment. All dealings are conducted at arm's length on normal commercial terms.		165,000	157,297
Ariadne Australia Limited is an entity associated with Dr. Gary Weiss. Director's fees for Dr Gary Weiss were paid to Ariadne Australia Limited at the same rate as other Directors' of the Company but including GST.		17,985	17,985
A short-term loan was advanced to the Company by Sir Ron to fund purchases of investments. Interest is payable at 5% per annum. All Interest payable on loan advanced by Sir Ron was paid before 30 June 2014.		1,912,241	1,000,000
During the year, the Company paid management fees to Sandon Capital Pty Limited on behalf of MMX and they were reimbursed in full by MMX.			
NOTE 24: FINANCIAL RISK MANAGEMENT			
Financial Risk Management			
The Group's financial instruments consisted mainly of shares listed on the Australian Securities Exchange. Other financial instruments include deposits with banks, loans, accounts receivable and payable.			
The totals for each category of financial instruments measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:			
Financial Assets			
Cash and Cash Equivalents	9	1,129,258	1,357,461
Trade and Other Receivables	10	34,924	489,293
Financial assets at fair value through profit or loss			
Financial Assets Held-for-trading	11	4,866,296	3,477,736
Available-for-sale financial assets			
Units in unlisted trust	11	520,901	506,018
Shares in listed corporations	11	33,929,026	24,162,282
Loans	10	871,534	-
		41,351,939	29,992,790
Financial Liabilities			
Trade and Other Payables	16	138,318	88,510
Borrowings	17	2,912,241	1,005,206
		3,050,559	1,093,716

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Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial Risk Management Policies (Continued)

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
2014				
Financial Assets:				
Available-for-sale financial assets				
- Units in unlisted trust	-	-	520,901	520,901
- Shares in listed corporations	<u>33,929,026</u>	-	-	<u>33,929,026</u>
	<u>33,929,026</u>	-	<u>520,901</u>	<u>34,449,927</u>
Held-for trading Financial Assets				
- Listed Investments	<u>4,866,296</u>	-	-	<u>4,866,296</u>
2013				
Financial Assets:				
Available-for-sale financial assets				
- Units in unlisted trust	-	-	506,018	506,018
- Shares in listed corporations	24,162,282	-	-	24,162,282
	<u>24,162,282</u>	-	<u>506,018</u>	<u>24,668,300</u>
Held-for trading Financial Assets				
- Listed Investments	<u>3,477,736</u>	-	-	<u>3,477,736</u>

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.

(i) Price Risk

The Group is exposed to share price risk through its investment holdings on the Australian Securities Exchange. All equity investments (other than investment in AYT and Impact Holdings (IHUK)) are publicly traded on Australian Securities Exchange (ASX) and holdings are predominantly in small capitalisation companies with varying degrees of liquidity. AYT is an illiquid, unlisted investment. IHUK is listed on the London Stock Exchange (LSE).

The Group's exposure to price risk, which is the risk that an instruments value will fluctuate as a result of changes in a securities price on classes of financial assets and liabilities, is as follows:

	Consolidated	
	June 2014 \$	June 2013 \$
Financial Assets:		
Available-for-sale financial assets – Units in unlisted trust	520,901	506,018
Available-for-sale financial assets – Shares in listed domestic and overseas corporations	33,929,026	24,162,282
Financial assets held-for-trading	<u>4,866,296</u>	<u>3,477,736</u>
	<u>39,316,223</u>	<u>28,146,036</u>

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Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Specific Financial Risk Exposures and Management (Continued)

(ii) Foreign Currency Risk

As at 30 June 2014, the Group is exposed to fluctuations in the British Pound/Australian Dollar exchange rate arising only from the loan advanced to Impact Holdings (UK). At 30 June 2013, the Group was exposed to fluctuations in the Indian Rupee/Australian Dollar exchange rate arising only from the amount refundable from Indian tax authorities for tax paid in India for prior years.

The Directors monitor the appropriateness of their policy by periodically reviewing the continuing appropriateness of such an approach.

As at 30 June 2014, the Group had the following exposure in Australian Dollars to British Pounds without any currency hedging:

	Consolidated	
	June 2014	June 2013
	\$	\$
Financial Assets:		
Loans	871,534	-
Trade and Other Receivables	-	237,498
	871,534	237,498
Financial Liabilities:		
Trade and Other Payables	-	-
	-	-

(iii) Interest Rate Risk

At 30 June 2014 the Company had a loan of \$2,912,241 advanced by Sir Ron Brierley to fund the Company's purchase of shares in domestic and overseas corporations.

Interest is payable at 5% per annum on the loan from Sir Ron and the interest was repaid before 30 June 2014.

The Directors believe the exposure is relatively low and does not pose potential risk to the Company.

The Group's exposure to interest rate risk, which is the risk that the financial instruments 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	
	2014	2013	\$		\$	
Consolidated	2014	2013	2014	2013	2014	2013
Financial Assets:						
Cash and Cash Equivalents	0.40%	0.28%	1,129,258	1,357,461	-	-
Trade and Other Receivables			-	-	-	-
Loan Receivable			-	-	871,534	-
Total Financial Assets			1,129,258	1,357,461	871,534	-
Financial Liabilities:						
Trade and Other Payables			-	-	-	-
Borrowings	5.00%	5.00%	-	-	2,912,241	1,005,206
Total Financial Liabilities			-	-	2,912,241	1,005,206
Net Exposure			1,129,258	1,357,461	(2,040,707)	(1,005,206)

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Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Specific Financial Risk Exposures and Management (Continued)

(iii) Interest Rate Risk (Continued)

Consolidated	Non-Interest Bearing		Total	
	2014	2013	2014	2013
	\$			
Financial Assets:				
Cash and cash equivalents	-	-	1,129,258	1,357,461
Trade and Other Receivables	-	-	-	-
Loan Receivable	-	-	871,534	-
Total Financial Assets	-	-	2,000,792	1,357,461
Financial Liabilities:				
Trade and Other Payables	138,318	88,510	138,318	88,510
Borrowings	-	-	2,912,241	1,005,206
Total Financial Liabilities	138,318	88,510	3,050,559	1,093,716
Net Exposure	(138,318)	(88,510)	(1,049,767)	(263,745)

(iv) Liquidity Risk

The Group's objective is to maintain sufficient cash and cash equivalents to meet the needs of operations through cash flow monitoring and forecasting, which is done on a weekly basis. In addition, the focus of the investment portfolio on small cap and highly liquid securities ensures that the Group has access to significant proportion of its portfolio within a short time frame.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2014. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2014.

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.

Consolidated	Within 1 Year		1 to 5 Years		Over 5 Years		Total Contracted Cash Flows	
	\$		\$		\$		\$	
	2014	2013	2014	2013	2014	2013	2014	2013
Financial Liabilities due for payment								
Trade and Other Payables	138,318	1,093,716	2,912,241	-	-	-	3,050,559	1,093,716
Total Expected Outflows	138,318	1,093,716	2,912,241	-	-	-	3,050,559	1,093,716
Financial Assets – cash flows realisable								
Cash and Cash Equivalents	1,129,258	1,357,461	-	-	-	-	1,129,258	1,357,461
Trade and Other Receivables	34,924	489,293	-	-	-	-	34,924	489,293
Loan	-	-	871,534	-	-	-	871,534	-
Investments – Available-for-sale	-	-	34,449,927	24,668,300	-	-	34,449,927	24,668,300
Investments – Held-for-trading	4,866,296	3,477,736	-	-	-	-	4,866,296	3,477,736
Total anticipated inflows	6,030,478	5,324,490	35,321,461	24,668,300	-	-	41,351,939	29,992,790
Net Inflow on Financial Instruments	5,892,160	4,230,774	32,409,220	24,668,300	-	-	38,301,380	28,899,074

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Specific Financial Risk Exposures and Management (Continued)

(v) 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 counter party, with a maximum exposure equal to the carrying amount of these instruments.

Cash is only invested with highly rated international financial institutions in Australia.

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

Net Fair Values

The Group's financial assets and liabilities are carried at amounts that approximate their fair value.

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the Statement of Financial Position. 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.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities have been valued at the quoted market price at balance date adjusted for transaction costs expected to be incurred.

	Note	Net Carrying		Net Carrying	
		Value 2014	Net Fair Value 2014	Value 2013	Net Fair Value 2013
		\$	\$	\$	\$
Consolidated					
Financial Assets					
Cash and Cash Equivalents	i	1,129,258	1,129,258	1,357,461	1,357,461
Trade and Other Receivables	i	34,924	34,924	489,293	489,293
Loan	iii	871,534	871,534	-	-
Available for Sale Investments – Units in Unlisted Trust	ii	520,901	520,901	506,018	506,018
Available for Sale Investments – Shares in Listed Corporations	ii	33,929,026	33,929,026	24,162,282	24,162,282
Investments – held-for-trading	ii	4,866,296	4,866,296	3,477,736	3,477,736
Total Financial Assets		41,351,939	41,351,939	29,992,790	29,992,790
Financial Liabilities					
Trade and Other Payables	i	138,318	138,318	88,510	88,510
Borrowings	iii	2,912,241	2,912,241	1,005,206	1,005,206
Total Financial Liabilities		3,050,559	3,050,559	1,093,716	1,093,716

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- (ii) For listed available-for-sale and held-for-trading financial assets, closing quoted market prices at reporting date are used. The fair value of unlisted available-for-sale financial assets has been determined based on the audited net tangible asset value of that investment as at 30 June 2014.
- (iii) Borrowings and loans receivable are short-term in nature and recorded at fair value.

MERCANTILE INVESTMENT COMPANY LIMITED
 ABN 15 121 415 576 and Controlled Entities
 For the year ended 30 June 2014

Notes to the Financial Statements

Consolidated	
June	June
2014	2013
\$	\$

NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity Analysis

The Group has performed a sensitivity analysis relating to its exposure to price risk, foreign currency risk 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.

Price Risk

Held-for-trading financial assets

Change in Profit

- Increase in portfolio prices by 20.0%	973,259	695,547
- Decrease in portfolio prices by 20.0%	(973,259)	(695,547)

Held-for-trading financial assets are actively managed on a short term basis and are fair valued through the Statement of Comprehensive Income. Any movement in the portfolio price will be realised in the Statement of Comprehensive Income.

Available-for-sale financial assets

Change in Equity

- Increase in portfolio prices by 20.0%	6,889,985	4,933,660
- Decrease in portfolio prices by 20.0%	(6,889,985)	(4,933,660)

Available-for-sale financial assets are passively managed on a longer term basis and are fair valued through the equity reserves, with no effect on the Statement of Comprehensive Income unless sold or impaired.

Interest Rate Risk

Change in Profit

- Increase in interest rate by 0.5%	5,646	6,787
- Decrease in interest rate by 0.5%	(5,646)	(6,787)

Change in Equity

- Increase in interest rate by 0.5%	5,646	6,787
- Decrease in interest rate by 0.5%	(5,646)	(6,787)

NOTE 25: EVENTS SUBSEQUENT TO BALANCE DATE

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 was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been 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.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

Notes to the Financial Statements

NOTE 25: EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

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

NOTE 26: COMPANY DETAILS

The registered office of the Company is:

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

The principal place of business is:

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

MERCANTILE INVESTMENT COMPANY LIMITED
ABN 15 121 415 576 and Controlled Entities
For the year ended 30 June 2014

6. 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 41, 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); and
 - (b) give a true and fair view of the financial position as at 30 June 2014 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 S295A 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.



.....

Sir Ron Brierley
Director

Dated: 25 August 2014



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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MERCANTILE INVESTMENT COMPANY LIMITED AND CONTROLLED ENTITIES**

Report on the Financial Report

We have audited the accompanying financial report of Mercantile Investment Company Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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 the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, 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 judgment, 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 control relevant to the entity's preparation and fair presentation of the financial report 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 control. 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.

Independence

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

Auditor's Opinion

In our opinion:

- a) the 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 consolidated entity's financial position as at 30 June 2014 and of its 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 the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

Auditor's Opinion

In our opinion, the remuneration report of Mercantile Investment Company Limited for the year ended 30 June 2014, complies with s 300A of the *Corporations Act 2001*.

MNSA Pty Ltd

MNSA Pty Ltd



Mark Schiliro

Sydney

25 August 2014

8. ASX ADDITIONAL INFORMATION

Information as at 13 August 2014

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 on X August 2014 is shown below:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	697	254,361	0.09
1,001 - 5,000	1,454	4,348,694	1.62
5,001 - 10,000	538	4,278,372	1.59
10,001 - 100,000	764	24,565,857	9.14
100,001 - 999,999,999	117	235,317,387	87.56
1,000,000,000 - 9,999,999,999	0	0	0.00
Rounding			0.00
Total	3,570	268,764,671	100.00

Unmarketable Parcels

Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.1250 per unit	4,000	1,824
		3,064,074

Top 20 holders of FULLY PAID ORDINARY SHARES

Rank	Name	Units	% of Units
1	SIBLOW PTY LTD	122,411,120	45.55
2	G W HOLDINGS PTY LTD <EDWINA A/C>	26,150,522	9.73
3	PORTFOLIO SERVICES PTY LTD	14,915,001	5.55
4	MR RONALD LANGLEY + MS RHONDA ELIZABETH LANGLEY	12,500,000	4.65
5	TREASURE ISLAND HIRE BOAT COMPANY PTY LTD <STAFF SUPER FUND ACCOUNT>	7,066,842	2.63
6	MS FRANCISKA LASIC	3,737,896	1.39
7	LIC INVESTMENTS PTY LTD <LIC INVESTMENTS UNIT A/C>	3,474,645	1.29
8	CITICORP NOMINEES PTY LTD	2,702,172	1.01
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	2,170,054	0.81
10	ABBAWOOD NOMINEES PTY LTD <ABBOTT FAMILY S/F NO 1 A/C>	2,100,000	0.78
11	MR PHILIP JOHN GAVEY + MRS ELIZABETH GAVEY	1,499,000	0.56
12	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	1,297,527	0.48
13	AVENUE 8 PTY LIMITED <GAN SUPER FUND A/C>	1,117,100	0.42
14	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,107,812	0.41
15	MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C>	1,070,334	0.40
16	AUSTRALIAN MINERALS CORPORATION PTY LTD <JAP-FEBP A/C>	1,028,488	0.38
17	MR FREDERICK BRUCE WAREHAM	1,000,000	0.37
18	B W ROFE PTY LIMITED	870,000	0.32
19	AUSTRALIAN MINERALS CORPORATION PTY LTD <FEBP A/C>	858,990	0.32
20	SUN PHOONG CORPORATION PTY LTD	802,297	0.30
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)		207,879,800	77.35
Total Remaining Holders Balance		60,884,871	22.65

8. ASX ADDITIONAL INFORMATION (CONTINUED)

Substantial Security Holders

Name	Number of securities	% of securities
SIBLOW PTY LTD	122,411,120	45.55
G W HOLDINGS PTY LTD <EDWINA A/C>	26,150,522	9.73
PORTFOLIO SERVICES PTY LTD	14,915,001	5.55

Voting Rights

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

Audit & Risk Committee

As at the date of the Directors' Report, the economic entity had established an Audit & Risk Committee of the Board of Directors (refer Corporate Governance Statement).

Holdings of Securities

The total value of the Company's investment portfolio was \$39,316,223; comprising of \$4,866,296 shares held-for-trading and \$34,449,927 (\$520,901 units in unlisted trust and \$33,929,026 shares in domestic and overseas listed corporations) shares available-for-sale at 30 June 2014.

9. 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@mercinvest.com.au
Website: www.mercantileinvestment.com.au

DIRECTORS

Sir Ron Brierley (Chairman & Non-Executive Director)
Gabriel Radzyninski (Executive Director)
James Chirnside (Non-Executive Director)
Dr Gary Weiss (Non-Executive Director)
Ronald Langley (Non-Executive Director)

COMPANY SECRETARY

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

AUDITOR

MNSA Pty Limited
Level 1, 283 George Street
Sydney NSW 2000

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne VIC 3001
Telephone: 1300 850 505 (Australia)
+61 3 9415 4000 (Outside Australia)

ASX CODE: MVT

fully paid ordinary shares

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576

**Appendix 4D
For the Half-Year Financial Report
31 December 2014**

25 February 2015

ASX RELEASE

ASX CODE: MVT

Appendix 4D

**MERCANTILE INVESTMENT COMPANY LIMITED
 Half-Year Financial Report
 Period ended 31 December 2014**

1. Details of the reporting period

The report details the results of Mercantile Investment Company Limited for the period ended 31 December 2014 and the previous corresponding period 31 December 2013.

2. Results for announcement to the market	Period to 31 December 2014	Period to 31 December 2013	Movement up/(down)	Movement up/(down)
	\$	\$	\$	%
2.1 Revenue from ordinary activities	863,611	217,961	645,650	296.22
2.2 Profit/ (Loss) from operating activities after tax attributable to members	866,019	273,688	592,331	216.43
2.3 Comprehensive Income after tax for the period attributable to members	7,912,357	8,544,970	(632,613)	(7.40)
2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.	No dividend is proposed	No dividend is proposed	-	-
2.5 The record date for determining entitlements to the dividends.	No dividend is proposed	No dividend is proposed	-	-

A brief explanation of any of the figures in 2.1 to 2.5 necessary to enable the figures to be understood.

With reference to the following narrative, please refer to the 30 June 2014 Annual Financial Report for additional information.

Since 30 June 2014, the Company has continued to invest in ASX listed and other investment opportunities that the directors consider offer the prospect of attractive risk-adjusted returns.

Comprehensive Income after tax per share for the period is a profit of 2.94 cents per share (2013: 3.41 cents per share).

This report is based on the financial statements for the period ended 31 December 2014 which have been reviewed by the Company's auditor.

3. Net Tangible Assets per Share	Period to 31 December 2014	Period to 31 December 2013
- before tax	0.14	\$0.16
- after tax	0.13	\$0.14

4. Details of entities over which control has been gained or lost during the period

On 8 July 2014, Mercantile Investment Company Limited (MVT) 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 consolidated results of operations for half year ended 31 Dec 2014 have included MMX's transactions. However, the comparative consolidated results for year ended 30 June 2014 and corresponding period 31 December 2013 have not included MMX.

5. Details of individual and total dividends or distributions and dividend or distribution payments.

No dividends were paid during the period (2013: Nil) and no further dividends are proposed for the period ended 31 December 2014.

6. Dividend reinvestment plan

Not applicable.

7. Details of associates and joint venture entities.

Not applicable.

8. Foreign entities

Not applicable.

9. Disputes with auditors or qualifications

None.

Signed on behalf of Mercantile Investment Company Limited.



Sir Ron Brierley
Chairman

25 February 2015

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576

**Half-Year Financial Report
31 December 2014**

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

HALF-YEAR FINANCIAL REPORT – 31 DECEMBER 2014

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CORPORATE DIRECTORY

MERCANTILE INVESTMENT COMPANY LIMITED

ABN: 15 121 415 576
Level 11, 139 Macquarie Street
Sydney NSW 2000
Telephone: +61 2 8014 1188

DIRECTORS

Sir Ron Brierley (Non-Executive Director & Chairman)
James Chirnside (Non-Executive Director)
Ronald Langley (Non-Executive Director)
Gary Weiss (Non-Executive Director)
Gabriel Radzyminski (Executive Director)

COMPANY SECRETARY

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

AUDITOR

MNSA Pty Ltd
Level 1, 283 George Street
Sydney NSW 2000

SHARE REGISTRAR

Computershare Investor Services Pty Ltd
GPO Box 2975
Melbourne VIC 3001
Telephone: 1300 850 505 (Australia)
+61 3 9415 4000 (Outside Australia)

ASX CODE

MVT fully paid ordinary shares

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

DIRECTORS' REPORT

Your Directors submit their report for the half-year ended 31 December 2014.

DIRECTORS

The names of the company's Directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Sir Ron Brierley	Chairman & Non-Executive Director
Mr Gabriel Radzyminski	Executive Director
Mr James Chirnside	Non-Executive Director
Mr Ronald Langley	Non-Executive Director
Dr Gary Weiss	Non-Executive Director

REVIEW AND RESULTS OF OPERATIONS

Mercantile Investment Company Limited is pleased to provide the financial report for the Half Year ending 31 December 2014. This represents the first half year period since the merger of Murchison Metals Limited in July 2014.

Comprehensive Income after income tax expense for the half-year ended 31 December 2014 was a Profit of \$7.91m (2013: \$8.54m).

Comprehensive Income per share is a profit of 2.94 cents (2013: 3.41cents). The market price of the Company's shares decreased over the reporting period from \$0.135 per share at 30 June 2014 to \$0.130 per share at 31 December 2014 (2013: increased from \$0.10 per share to \$0.14 per share).

During the period the Net Tangible Assets (after tax) (NTA) remained at \$0.13 (2013: increased from \$0.12 to \$0.14).

DIVIDENDS

No dividends are provided for during the period.

The Directors intend to consider the capacity of the Company to pay dividends in the future.

KEY EVENT – MERGER TRANSACTION

On 8 July 2014, Mercantile Investment Company Limited (MVT) 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 consolidated results of operations for half year ended 31 Dec 2014 have included MMX's transactions. However, the comparative consolidated results for year ended 30 June 2014 and corresponding period 31 December 2013 have not included MMX.

KEY EVENT – MERGER TRANSACTION (CONTINUED)

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

The Scheme Consideration was issued as follow:

- Script Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new MVT shares have been 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.

The Company (MVT) obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

Net assets acquired included \$3,657,042 relating to cash and cash equivalent.

Apart from the above, no material subsequent events have arisen since balance date.

The half-year financial report was authorised for issue on 25 February 2015 by the Board of Directors.

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration under S307C of the *Corporations Act 2001* is set out on page 5 for the half-year ended 31 December 2014.

This director's report is signed in accordance with a resolution of the Board of Directors.



Sir Ron Brierley
Chairman

Signed this 25th day of February 2015



MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MERCANTILE INVESTMENT COMPANY LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2014 there have been no contraventions of:

- a. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- b. any applicable code of professional conduct in relation to the review.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney
Dated this 25th day of February 2015

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2014

		Consolidated	
	Notes	31 Dec 2014 \$	31 Dec 2013 \$
Revenue	2	863,611	217,961
Realised Gains/ (Loss) on Trading Portfolio		(5,757)	-
Realised Gains/ (Loss) on Acquisition		704,868	-
Unrealised Gains/ (Loss) in Market Value Movement		(922,799)	581,995
Other Income	2	81,935	99,354
Finance Costs		(46,982)	(31,918)
Marketing and Development Expenses		(2,500)	(2,118)
Administration Expenses		(8,434)	(1,664)
Remuneration Costs	3	(38,215)	(33,662)
Listed Company Expenses	3	(385,887)	(366,315)
Depreciation		(1,501)	(2,358)
Foreign Exchanges Losses		(1,171)	(6,094)
Occupancy Costs		(6,911)	(6,895)
Profit/ (Loss) Before Income Tax		230,257	448,286
Income tax benefit / (expense)		635,762	(174,598)
Profit/ (Loss) for the period		866,019	273,688
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Gains on Disposal of Investments Available for Sale		2,948,937	2,742,688
Fair Value Adjustment		5,853,431	7,897,992
Deferred tax impact relating to items that will not be reclassified		(1,756,030)	(2,369,398)
Other Comprehensive Income for the period, Net of Tax		7,046,338	8,271,282
Total Comprehensive Income for the period		7,912,357	8,544,970

Figures prior to 8 July 2014 do not contain the financial results of Murchison Metals Limited as this was prior to the merger with Mercantile Investment Company Limited.

The accompanying notes form part of the financial statements.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2014

	Consolidated	
	31 Dec 2014	31 Dec 2013
Notes	\$	\$
Profit/ (Loss) Attributable to:		
Members of the Parent Entity	866,019	273,688
Non-controlling Interest	-	-
	<u>866,019</u>	<u>273,688</u>
Total Comprehensive Income Attributable to:		
Members of the Parent Entity	7,912,357	8,544,970
Non-controlling Interest	-	-
	<u>7,912,357</u>	<u>8,544,970</u>
Earnings per share		
From Continuing Operations		
- Basic Earnings per share (cents per share)	0.32	0.11
- Diluted Earnings per share (cents per share)	0.32	0.11
From Comprehensive Income		
- Basic Earnings per share (cents per share)	2.94	3.41
- Diluted Earnings per share (cents per share)	2.94	3.41

Figures prior to 8 July 2014 do not contain the financial results of Murchison Metals Limited as this was prior to the merger with Mercantile Investment Company Limited.

The accompanying notes form part of the financial statements.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Financial Position

as at 31 December 2014

		Consolidated	
	Notes	31 Dec 2014	30 Jun 2014
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,604,460	1,129,258
Trade and other receivables		3,090	34,924
Financial assets - Short Term	5	3,852,846	4,866,296
Other Current Assets		142,030	193,120
Current Tax Asset		34,209	59
Total Current Assets		6,636,635	6,223,657
Non-current assets			
Financial assets - Long Term	5	31,836,606	34,449,927
Trade and Other Receivables		858,124	871,534
Property, Plant & Equipment		4,328	5,830
Deferred tax asset		151,972	36,218
Total Non-Current Assets		32,851,030	35,363,509
Total Assets		39,487,665	41,587,166
Liabilities			
Current liabilities			
Trade and Other Payables		691,484	138,318
Borrowings		-	2,912,241
Total Current Liabilities		691,484	3,050,559
Non-Current Liabilities			
Deferred tax liabilities		2,600,070	4,830,215
Total non-current liabilities		2,600,070	4,830,215
Total liabilities		3,291,554	7,880,774
Net assets		36,196,111	33,706,392
Equity			
Issued Capital		27,531,662	24,773,530
Reserves		15,412,559	16,561,023
Accumulated Losses		(6,748,110)	(7,628,161)
Total Equity		36,196,111	33,706,392

Figures prior to 8 July 2014 do not contain the financial results of Murchison Metals Limited as this was prior to the merger with Mercantile Investment Company Limited.

The accompanying notes form part of the financial statements.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2014

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$	\$
Cash Flows from Operating Activities		
Dividends Received	519,155	198,655
Trust Distributions Received	321,711	437,397
Payments to Suppliers and Employees	(8,721)	(382,286)
Payments for purchase of financial assets Held for Trading	(3,152,015)	(905,396)
Proceeds from Sale of financial assets Held for Trading	36,230	-
Capital Return Payments	259,832	-
Income Tax Refund	-	230,192
Interest Received	40,509	21,897
Interest Paid	(46,982)	-
Other Income	(24,431)	36,500
Net Cash (Used in)/ Provided by Operating Activities	(2,054,712)	(363,041)
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	5,034,884	4,173,746
Purchase of Investments	(1,841,771)	(5,548,220)
Capital Return Payments	384,673	80,000
Payments for Capital Assets	-	(3,192)
Net Cash (used in)/ Provided by Investing Activities	3,577,786	(1,297,666)
Cash Flows from Financing Activities		
Proceeds from/(Repayment of) borrowings	(2,912,001)	1,826,351
Loan Repaid	94,256	(826,351)
MVT & MMX Scheme - MVT shares subscription	2,769,873	-
Net Cash (used in)/ Provided by Financing Activities	(47,872)	1,000,000
Net Increase/ (decrease) in Cash & Cash Equivalent Held	1,475,202	(660,707)
Cash & Cash Equivalents at Beginning of the Period	1,129,258	1,357,461
Cash & Cash Equivalents at End of the Period	2,604,460	696,754

Figures prior to 8 July 2014 do not contain the financial results of Murchison Metals Limited as this was prior to the merger with Mercantile Investment Company Limited.

The accompanying notes form part of the financial statements.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2014

Consolidated	Issued Share Capital Ordinary \$	Retained Earnings \$	Realised capital Profit Reserve \$	Asset Revaluation Reserve \$	Total Equity \$
Balance at 1 July 2014	24,773,530	(7,628,161)	5,665,434	10,895,589	33,706,392
Profit for the period		866,019			866,019
Unrealised Gain or Loss Market Movement		14,032			14,032
<i>Other Comprehensive Income for the period:</i>					
Gains on Disposal of Investments Available for Sale to 31 December 2014			2,948,937		2,948,937
Net Unrealised Gains for Stocks Held at 31 December 2014	-	-		(4,097,401)	(4,097,401)
Total other Comprehensive Income for the period	-	880,051	2,948,937	(4,097,401)	(268,413)
Deferred Tax Relating to Capital Raising Costs	(11,743)	-	-	-	(11,743)
MVT & MMX Scheme - MVT shares subscription	2,769,875	-	-	-	2,769,875
Subtotal	27,531,662	(6,748,110)	8,614,371	6,798,188	36,196,111
Dividends Paid or Provided for	-	-	-	-	-
Balance at 31 December 2014	27,531,662	(6,748,110)	8,614,371	6,798,188	36,196,111
Balance at 1 July 2013	24,881,777	(7,519,599)	2,515,234	6,410,071	26,287,483
Profit for the period	-	273,688			273,688
<i>Other Comprehensive Income for the period:</i>					
Gains on Disposal of Investments Available for Sale to 31 December 2013			2,742,688		2,742,688
Net Unrealised Gains for Stocks Held at 31 December 2013	-	-		5,528,594	5,528,594
Total other Comprehensive Income for the period	-	273,688	2,742,688	5,528,594	8,544,970
Deferred Tax Relating to Capital Raising Costs	(54,124)	-	-	-	(54,124)
Subtotal	24,827,653	(7,245,911)	5,257,922	11,938,665	34,778,329
Dividends Paid or Provided for	-	-	-	-	-
Balance at 31 December 2013	24,827,653	(7,245,911)	5,257,922	11,938,665	34,778,329

Figures prior to 8 July 2014 do not contain the financial results of Murchison Metals Limited as this was prior to the merger with Mercantile Investment Company Limited.

The accompanying notes form part of the financial statements.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Notes to the Financial Statements

For the half-year ended 31 December 2014

NOTE 1: THE BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT

These general purpose interim Financial Statements for the half year reporting period ended 31 December 2014 have been prepared in accordance with requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Mercantile Investment Company and its controlled entities ("group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements for the Group for the year ended 30 June 2014, together with any public announcements made during the following half-year.

Significant accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

Reporting basis and conventions

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this interim 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 to the financial report for the year ended 30 June 2014.

Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Mercantile Investment Company Limited) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 7.

Operating segment

The Company has one reportable segment. The Company operates predominantly in Australia and in one industry, deriving revenue from trust distributions, dividends, interest income and from sale of its investment portfolio.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2014 reporting period and have not yet been applied in the Financial Statements. The Company's assessment of the impact of these standards and interpretations is set out below.

- AASB 9 *Financial Instruments* (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classifications, measurement and derecognition of financial assets and financial liabilities, including hedge accounting. The standards is not applicable until 1 January 2018 but is available for early adoption. AASB 9 permits the recognition of fair value

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Notes to the Financial Statements

For the half-year ended 31 December 2014

Consolidated	
31 December	31 December
2014	2013
\$	\$

NOTE 1: THE BASIS OF PREPARATION OF THE INTERIM FINANCIAL REPORT (CONTINUED)

New accounting standards and interpretations (continued)

gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Directors do not expect there will be any impact on the accounting for the Company's financial assets or liabilities.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current reporting periods and on foreseeable future transactions.

NOTE 2: REVENUE AND OTHER INCOME

Revenue

- Dividends Received	519,155	198,655
- Trust Distributions Received	310,437	-
- Interest Received	34,019	19,306
Total Revenue	<u>863,611</u>	<u>217,961</u>

Other Income

- Underwriting Fee Received	-	36,500
- Unrealised Foreign Exchange Gains	81,935	62,854
Total Other Income	<u>81,935</u>	<u>99,354</u>

NOTE 3: EXPENSES

Remuneration Costs

Director Fees	35,323	31,493
Superannuation	2,796	2,081
Other	96	88
	<u>38,215</u>	<u>33,662</u>

Listed Company Costs

Accounting, Taxation & Secretarial Costs	99,627	176,165
Audit Fees	14,380	19,800
Director & Officer Insurance – Mercantile (parent)	5,357	6,421
Director & Officer Insurance – Murchison (subsidiary)	63,180	-
Administration Services	117,493	96,250
Legal and Professional Fees (Non-Recurring Costs)	15,070	33,570
ASIC & ASX Charges	34,718	17,492
Share Registry Costs	36,062	16,617
	<u>385,887</u>	<u>366,315</u>

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Notes to the Financial Statements

For the half-year ended 31 December 2014

	Consolidated	
	31 December	30 June
	2014	2014
	\$	\$

NOTE 4: DIVIDENDS

No dividends were paid or provided for during the period (2014: Nil).

(a) Franking Credits

The ability for Mercantile Investment Company Limited to pay franked dividends is dependent upon the Company paying tax. The Company's franking credits balance at 30 June 2014 was \$146,646. The amount of franking credits for the half-year to 31 December 2014 from franked dividends received is \$207,066.

Opening balance	641,904	495,258
Franking Credits on dividends received	207,066	146,646
	<u>848,970</u>	<u>641,904</u>

(b) Listed Investment Company Capital Gain Account

Balance of the Listed Investment Company (LIC) Capital Gain Account	8,390,743	5,257,922
This would equate to an attributable amount of	9,058,701	5,925,880

Distributable LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the dividend statement. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains.

NOTE 5: FINANCIAL ASSETS

Current - Financial Assets Held-for-Trading	5(a)	3,852,846	4,866,296
Non-Current - Available-for-Sale Financial Assets	5(b)	<u>31,836,606</u>	<u>34,449,927</u>
		<u>35,689,452</u>	<u>39,316,223</u>

(a) Financial Assets Held-for-Trading Comprise:

CURRENT

Shares in listed corporations held-for-trading	<u>3,852,846</u>	<u>4,866,296</u>
Total Current Financial Assets	<u>3,852,846</u>	<u>4,866,296</u>

(b) Available-for-Sale Financial Assets comprise:

NON-CURRENT

Available-for-sale investments, at fair value		
Units in unlisted trust	416,720	520,901
Shares in domestic and overseas listed corporations	27,119,728	33,929,026
Units / Notes in Foreign Companies	4,300,158	-
Total Non-Current Financial Assets	<u>31,836,606</u>	<u>34,449,927</u>

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Notes to the Financial Statements

For the half-year ended 31 December 2014

NOTE 6: FAIR VALUE MEASUREMENTS

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

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

(a) Fair value hierarchy

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

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

The following table presents the Company's assets and liabilities measured and recognised at fair value at 31 December 2014.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets:				
Available-for-sale financial assets				
- Units in unlisted trust	-	-	416,720	416,720
- Units / Notes in Foreign Companies	-	-	4,300,158	4,300,158
- Shares in listed corporations	27,119,728	-	-	27,119,728
	27,119,728	-	4,716,878	31,836,606
Held-for trading Financial Assets				
- Listed Investments	3,852,846	-	-	3,852,846

There were no transfers between levels for recurring fair value measurements during the period.

NOTE 7: CONTROLLED ENTITIES

Parent Entity	Country of Incorporation	Percentage Owned (%)	
		Dec 2014	June 2014
Mercantile Investment Company Limited	Australia	100	100
Controlled Entities of Mercantile Investment Company Limited:			
Asia Diversified Fund Pty Ltd	Australia	100	100
India Asset Management Pty Ltd	Australia	100	100
India Asset Holdings Pty Ltd	Australia	100	100
Olympus Funds Management Pty Ltd	Australia	100	100
Murchison Metals Ltd	Australia	100	28

Percentage of voting power is in proportion to ownership.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

Notes to the Financial Statements

For the half-year ended 31 December 2014

NOTE 8: CONTINGENT LIABILITIES

The Company had no contingent liabilities at 31 December 2014 (2013: Nil).

NOTE 9: KEY EVENT – MERGER TRANSACTION

On 8 July 2014, Mercantile Investment Company Limited (MVT) 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 consolidated results of operations for half year ended 31 Dec 2014 have included MMX's transactions. However, the comparative consolidated results for year ended 30 June 2014 and corresponding period 31 December 2013 have not included MMX.

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

The Scheme Consideration was issued as follow:

- Script Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new MVT shares have been 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.

The Company (MVT) obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

Net assets acquired included \$3,657,042 relating to cash and cash equivalent.

NOTE 10: EVENTS SUBSEQUENT TO BALANCE DATE

Apart from the above, no material subsequent events have arisen since balance date.

The half-year financial report was authorised for issue on 25 February 2015 by the Board of Directors.

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

DIRECTORS' DECLARATION

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

- (a) The financial statements and notes, as set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*; and the Corporations Regulations 2001, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half year ended on that date.
- (b) 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.

Signed in accordance with a resolution of the directors.


Sir Ron Brierley
Director

Signed at Sydney this 25th day of February 2015



MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MERCANTILE INVESTMENT COMPANY LIMITED

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Mercantile Investment Company Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Mercantile Investment Company Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Mercantile Investment Company Limited's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mercantile Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we consider the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.



Matters Relating to Electronic Publication of the Audited Financial Report

This review report relates to the financial report of Mercantile Investment Company Limited for the half-year ended 31 December 2014 included on the website of Mercantile Investment Company Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mercantile Investment Company Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of Mercantile Investment Company Limited's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro

Director

Sydney

Dated this 25th day of February 2015