

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

**Annual Report
30 June 2017**

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

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

CORPORATE DIRECTORY

Directors

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

Company Secretary:

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

Auditor:

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

Registered Address:

Level 5, 139 Macquarie Street
Sydney NSW 2000

Contact Details:

Telephone: +61 2 8014 1188
Email: info@mercinv.com.au
Website: www.mercantileinvestment.com.au

Share Registrar

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

ASX Code:

MVT
Fully paid ordinary shares.

NZX Code:

MVT
Fully paid ordinary shares.

**MERCANTILE INVESTMENT COMPANY LIMITED
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**PORTFOLIO COMPOSITION
As at 30 June 2017**

Australian Securities Exchange Listed Investments	Total Value
Listed Domestic Investments	\$
Ingenia Communities Group	18,113,726
Fleetwood Corporation Ltd	2,473,356
Stanmore Coal Limited	2,316,525
Yellow Brick Road Ltd	1,891,417
Joyce Corporation Limited	1,635,000
Fitzroy River Corporation Limited	1,398,553
IPE Limited	676,764
Pharmaceutical Industries Ltd	476,250
AWE Ltd	445,000
Altona Mining Limited	405,000
EZA Corporation Limited	394,704
Phosphate Australia Limited	347,649
Consolidated Operations Group	265,909
Bauxite Resources Limited	234,653
MMA Offshore Ltd	232,500
Novo Litio Ltd	200,000
Sietel Ltd	196,875
EZA Corporation Ltd	188,895
Sigma Healthcare	179,000
Boom Logistics Ltd	171,821
Desane Group Holdings Ltd	167,496
Buru Energy Limited	165,000
Alternative Investment Trust	160,000
Premiere Eastern Energy Ltd	140,000
Central Petroleum Ltd	135,000
Triangle Energy (Global) Ltd	131,077
Aurora Minerals Limited	129,000
Toptung Ltd	105,000
Elementos Limited	90,000
YPB Group Ltd	89,265
Neometals Ltd	81,000
Cellnet Group Limited	78,000
Pura Vida Energy NL	78,000
EHR Resources Ltd	70,000
American Patriot Oil & Gas Ltd	51,000
Sino Gas & Energy Holdings Ltd	43,000
Yancoal Australia Limited	38,000
White Energy Company Limited	30,000
Trustees Aust Limited	24,396
New Standard Energy Limited	22,350
Reverse Corporation Limited	20,000
MHM Metals Ltd	3,566
Alliance Resources Limited	917
Oriental Technologies Ltd	720
Wolfstrike Rentals Group Ltd	556
Panoramic Resources Ltd	16

34,096,956

**MERCANTILE INVESTMENT COMPANY LIMITED
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**PORTFOLIO COMPOSITION (CONTINUED)
As at 30 June 2017**

	Total Value \$
Listed International Investments	
Smiths City Group Ltd (NZ)	3,469,639
Hydro Hotel Eastbourne PLC (UK)	952,111
Smart (J.) & Co. (Contractors) PLC (UK)	364,884
European Real Estate Investment Trust (UK)	252,721
Electronic Data Processing PLC (UK)	197,069
Northamber PLC (UK)	137,588
Enteq Upstream PLC (UK)	114,949
Spectra Systems Corp PLC (UK)	100,757
Sub-total	5,589,718
Unlisted Domestic Investments	
Newhaven Hotels Ltd	278,023
Dawney & Co Pty Ltd	247,000
Asset Backed Yield Trust	233,661
Multiplex European Trust	200,000
Scantech Ltd	92,162
San Remo Rump	80,841
Qrxpharma Limited	21,386
DMX Corporation (Dolomatrix)	8,886
Sub-total	1,161,959
Unlisted International Investments	
Public Service Properties Investments PLC (UK)	78,765
Worsley Investors Fund (UK)	7,004,779
Foundation Life Investment (NZ)	3,876,800
Sub-total	10,960,344
Total Portfolio Position at 30 June 2017	51,808,977

**MERCANTILE INVESTMENT COMPANY LIMITED
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CHAIRMAN'S REPORT

Dear Shareholders,

The year ended 30 June 2017 was another good one for MVT.

We made four takeover bids during the period - two were successful and two were not.

The two successful offers (100%) were for Wellington Merchants Ltd (**WML**) and Richfield International Ltd (**RIS**).

WML (formerly Kirkcaldie & Stains) had sold its retail store to David Jones and was a cashbox. We made a small profit on the deal.

RIS was more substantial and as a consequence we now own a shipping agency in Singapore. World shipping has been depressed for some time but may now be emerging more strongly. Richfield is a well-established and well managed agency and will be able to take advantage of improved activity.

The company carried an intangible of \$6.6 million in its books which was the deemed value of the business. Consistent with MVT's conservative accounting policy, this value was written off in our accounts. That is the main reason for the accounting loss for the year.

The unsuccessful offers were for MHM Metals Ltd (**MHM**) where we sold our shares to another bidder and EZA Corporation Ltd (**EZA**).

We now hold 13% of EZA's capital and will be closely monitoring future events.

Our other portfolio activities were well maintained notwithstanding a fractional decline in net assets.

The outlook for 2018 is good although we accept the inevitability of a market correction at some stage.

Ron Brierley

28 August 2017

**MERCANTILE INVESTMENT COMPANY LIMITED
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DIRECTORS' REPORT

The Directors of Mercantile Investment Company Limited ("MVT", "the Company" or "the Group") present their report together with the financial statements and its controlled entities for the year ended 30 June 2017.

Directors

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

- Sir Ron Brierley
- Mr. Gabriel Radzynski
- Mr. James Chirnside
- Mr. Ronald Langley
- Mr. Daniel Weiss
- Dr. Gary Weiss

Principal Activities

The principal activities of the Group during the financial year were investments in cash and securities (which are expected to provide attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding of shares for dividend yield/long term capital appreciation, as deemed appropriate), consumer finance and shipping services.

Dividends Paid or Recommended

No dividends were paid or are payable for the year ended 30 June 2017 (2016: nil).

Review of operations

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

In early August 2016, a short term loan of \$15,100,000 was advanced to the Company by Sir Ron Brierley to fund the purchase of investments. An additional amount of \$1,500,000 was advanced by Sir Ron Brierley to the Company in September 2016 to fund the purchase of investments. Interest was payable at the RBA cash rate per annum. The loan and interest were re-paid in full within the financial year.

On 11 August 2016, a wholly owned subsidiary of the Company, Mercantile OFM Pty Ltd ("Mercantile OFM"), announced an unconditional cash offer at \$0.34 per share to acquire all of the shares it did not own in Richfield International Limited by way of an on-market takeover bid. Please refer to the Bidder's Statement dated 11 August 2016 on the Australian Securities Exchange for more details of the takeover bid.

On 15 December 2016, a wholly owned subsidiary of the Company, Mercantile OFM, announced an unconditional cash offer at \$0.04 per share to acquire all of the shares it did not own in MHM Metals Limited by way of an on-market takeover bid.

On 5 June 2017, MVT and its associates disclosed that their MHM Metals Limited shares had been tendered into a competing takeover offer for MHM Metals Limited.

On 15 December 2016, a wholly owned subsidiary of the Company, Mercantile OFM, announced an unconditional cash offer at \$0.1375 per share to acquire all of the shares it did not own in EZA Corporation Limited by way of an on-market takeover bid.

The Takeover Offer closed on 1 August 2017, with Mercantile OFM and its associates securing 6.95% of EZA Corporation Ltd (up from 6.07% prior to the launch of the bid).

On 16 December 2016, the Company announced the issue of 66,630 unsecured notes each with a face value of \$100, which commenced trading on ASX on 31 December 2016. These notes carry an interest entitlement of 8% per annum. At 30 June 2017, the face value of the unsecured notes was \$22,308,700. These notes are listed on the Australian Stock Exchange, under the code MVTHA.

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Directors' Report (continued)

On 24 May 2017, Mercantile OFM, announced a new unconditional cash offer at \$0.1375 per share to acquire all of the shares it did not own in EZA Corporation Limited Ltd by way of an on-market takeover bid.

Richfield International Limited (RIS) generated total revenue for the year ended 30 June 2017 of \$1.71m and a net loss after tax of \$0.11m.

This net loss includes a goodwill impairment of \$6.64m which was written down following acquisition by MVT.

Overview of the shipping industry (RIS)

It said while market conditions are still weak, they are unlikely to worsen from the levels seen for both segments in 2016, as on the containership segment is stable, as supply growth will continue to outpace demand growth in 2017, causing freight rates to remain low, but will be higher than last year's levels with better outlook.

Ask Funding Limited (AKF) generated total revenue of \$1.83m (2016: \$1.71m) and a net loss after tax of \$1.12m (2016: \$1.05m).

This net loss includes an impairment of \$2.37m (2016: \$1.65m) relating to the writing down of the loan book value.

AKF has continued to service and amortise its loan book with the sole objective of delivering the surplus funds to shareholders. The Company's loan book remains permanently closed to new loans.

State of affairs

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

Financial Position, Financial Instruments and Going Concern

The Directors believe MVT is in a strong and stable position to grow its current operations.

Details of financial risk management objectives and policies are set out in Note 14 of the consolidated financial statements.

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

Litigation

There is no litigation outstanding as at 30 June 2017 (2016: nil)

Events Subsequent to the Reporting Date

No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclose in the financial report

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Directors' Report (continued)

Events occurring after the reporting period (continued)

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

Likely Developments, Business Strategy and Prospects

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

Corporate Governance Statement

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

Environmental Compliance

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

Directors

Information regarding the Directors of the Parent 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. GPG was renamed (Coats Group PLC) on 6 March 2015. Sir Ron stepped down as a director of Coats Group PLC on 21 April 2015.

Other current listed company directorships:

- Nil

Mr Gabriel Radzyminski - BA (Hons), MCom

Executive Director

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

Other current listed company directorships:

- Sandon Capital Investments Limited
- Ask Funding Limited
- Future Generation Investment Company Limited

Mr James Chirnside

Independent Non-Executive Director

James has worked in financial markets for 32 years mostly as an equities fund manager across a broad range of markets and sectors. As a fund manager, he was mainly focused in emerging and frontier markets. In addition, he has also been a proprietary metals trader, derivatives broker, and fund promoter in Sydney, Hong Kong, London, and Melbourne.

James studied for a Bachelor's degree in Business Administration at Edith Cowan University in Perth. James is the Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee.

Other current listed company directorships:

- Cadence Capital Limited
- WAM Capital Limited
- Dart Mining NL
- Ask Funding Ltd

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Directors' Report (continued)

Mr Ronald Langley - BCom (Hons)

Independent Non-Executive Director

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

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

Other current listed company directorships:

- Nil

Mr Daniel Weiss - BCom, LLB

Non-Executive Director

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.

Other current listed company directorships:

- Nil

Dr Gary Weiss - LLB (Hons), LLM, JSD

Alternate Director

Gary has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions. He is a director of the Victor Chang Cardiac Research Institute and is the current Commissioner of the Australian Rugby League Commission.

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

Other current listed company directorships:

- Ridley Corporation Limited
- Ariadne Australia Limited
- Premier Investments Limited
- Pro-Pac Packaging Limited
- Victor Chang Cardiac Research Institute
- Estia Health Limited
- The Straits Trading Company Limited

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Directors' Report (continued)

Company Secretaries

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

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

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

Christopher Lobb – *B Bus (Acc), FGIA, FCIS, CPA, MAICD*

Chris is the joint Company Secretary for Mercantile and is the Manger, Corporate Governance at Mertons Corporate Services Pty Ltd. Chris has over 25 years' experience as a company secretary having held the role for both listed and unlisted entities.

He acts for and provides advice on company administration, governance and risk management issues as well holding non-executive director roles for ASX and unlisted public entities.

Chris is a former State Chairman of the Governance Institute of Australia and non-executive director of Box Hill Institute of TAFE.

Directors' Meetings

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

	Directors' Meetings		Committee Meetings Audit & Risk	
	Number of Eligible Meetings to Attend	Number Attended	Number of Eligible Meeting to Attend	Number Attended
Sir Ronald Brierley	5	3		
Mr James Chirnside	5	5	3	3
Mr Ronald Langley	5	4	3	2
Mr Gabriel Radzyninski	5	5		
Mr Daniel Weiss	5	5	3	3

Directors' Interests

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

Ordinary Shares

Sir Ron Brierley	122,411,120
Mr Gabriel Radzyninski	-
Mr James Chirnside	-
Mr Ronald Langley	12,500,000
Mr Daniel Weiss	-
Dr Gary Weiss	15,455,001

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Directors' Report (continued)

Remuneration Report

Scope of Report

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

KMP included in this report:

Non-executive Directors

Sir Ron Brierley ("Chairman")
Mr James Chirnside
Mr Ronald Langley
Mr Daniel Weiss
Dr Gary Weiss

Executive Directors

Mr Gabriel Radzynski

Remuneration Governance

The Board's policy is to remunerate Non-Executive and Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive and Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Company.

However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

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

Elements of Remuneration

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

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

Remuneration for Mr Radzynski reflect director's fees of \$15,000 plus superannuation. A cash bonus payment of \$100,000 (inclusive of super) was paid to Mr Radzynski on 30 September 2016. This bonus payment was the first instalment of a bonus awarded in the 2017 financial year.

The board issued 10,000,000 options to Mr Radzynski for nil consideration on 11 November 2015 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.17 per option, and expire on 31 December 2017. These options equated to the value of \$164,000. The quantum and exercise price of these options (which is above current market price) are designed to provide further alignment of outcomes between Mr Radzynski and shareholders.

The board issued a further 10,000,000 options to Mr Radzynski for nil consideration on 2 December 2016 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option, and expire on 31 December 2020. These options equated to the value of \$342,000. The quantum and exercise price of these options (which is above current market price) are designed to provide further alignment of outcomes between Mr Radzynski and shareholders.

All of the above options are still outstanding (haven't been exercised) as at the date of the report.

The options don't have any rights to participate in share issues and all are fully vested at balance date and this fact should be disclosed.

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Directors' Report (continued)

Remuneration Report (continued)

Remuneration expenses for KMP

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

	Cash & Salary	Post- Employment Benefits	Share based payments	Total
	\$	\$	\$	\$
30 June 2017				
Directors				
Sir Ron Brierley	-	-	-	-
Mr Gabriel Radzynski* **	210,522	5,905	342,000	558,427
Mr James Chirside	18,000	1,710	-	19,710
Mr Ronald Langley	15,000	1,425	-	16,425
Mr Daniel Weiss	18,067	-	-	18,067
	261,589	9,040	342,000	612,629
30 June 2016				
Directors				
Sir Ron Brierley	-	-	-	-
Mr Gabriel Radzynski*	129,155	12,269	164,000	305,424
Mr James Chirside	18,000	1,710	-	19,710
Mr Ronald Langley	15,000	1,425	-	16,425
Mr Daniel Weiss	18,067	-	-	18,067
	180,222	15,404	164,000	359,626

* Both of these figures include bonus payments

**There is a bonus of \$100,000 included which was accrued at year end, payable in August 2017.

Bonuses to executives are based on performance.

Other Statutory Information

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

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

Loans to KMP

No loans have been made to the Directors of MVT.

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Directors' Report (continued)

Remuneration Report (continued)

Other transactions with KMP:

	2017 \$	2016 \$
Sandon Capital Pty Ltd is an entity associated with Mr Gabriel Radzynski. Sandon Capital Pty Ltd provided general consulting, corporate advisory and accounting services to MVT. All dealings are conducted at arm's length on normal commercial terms. As at 30 June 2017 there was \$35,750 outstanding (2016: \$35,750)	429,000	382,034
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Daniel Weiss were paid to Ariadne Australia Limited.	18,067	18,067
The Board awarded a discretionary cash bonus to Mr Radzynski of \$200,000 (inclusive of super) in August 2016. The first instalment of \$100,000 was paid in September 2016. The second instalment of \$100,000 was paid in August 2017. This was accrued as at 30 June 2017.	200,000	125,000
Short-term, unsecured loans were advanced to the Company by Sir Ron Brierley in the financial year (\$16.6m) to fund purchases of investments. Interest was paid at the RBA cash rate per annum. The loan has been repaid in full during the financial year.	66,113	100,426
Sir Ron subscribed for 30,000 MVTHA notes (\$3,000,000) in partial repayment of the short term debt facility which was in operation during the 2016 financial year. Interest paid on these notes at 30 June 2017 was \$244,603 (2016: nil)	244,603	-
Gabriel Radzynski subscribed for 250 MVTHA notes (\$25,000). Interest paid on these notes at 30 June 2017 was \$2,038 (2016: nil)	2,038	-

This is the end of the Remuneration Report

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Directors' Report (continued)

Indemnifying Officers or Auditor Indemnification

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

Auditors

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

Proceedings on Behalf of the Company

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

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 25 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of *the Corporations Act 2001* for the following reasons:

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

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2017 is set out on page 14.

Rounding of amounts

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

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



Gabriel Radzynski
Executive Director

28 August 2017

Auditor's Independence Declaration
To the Directors of Mercantile Investment Company Limited
A.B.N. 15 121 415 576

In relation to the independent audit for the year ended 30 June 2017, I declare that to the best of my knowledge and belief there have been:

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

This declaration is in respect of Mercantile Investment Company Limited and the entities it controlled during the year.



S M Whiddett
Partner

Pitcher Partners
Sydney

28 August 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Income			
Revenue from continuing operations	9	5,505,311	6,015,143
Other income	10	7,760,530	423,639
		<u>13,265,841</u>	<u>6,438,782</u>
Expenses			
Accounting fees		223,676	157,580
Audit fees	25	215,976	169,470
Taxation service fees		262,848	99,095
Finance costs	11	2,051,535	100,426
Service agreement fees		330,558	202,670
Company secretary fees		63,955	42,039
Share registry fees		138,764	119,207
Brokerage		120,548	53,623
Impairment charges	11	9,011,841	1,653,415
Loan recovery costs		-	295,925
Legal and professional fees		782,363	329,988
ASIC and ASX charges		82,218	67,115
Share based payments	21	517,500	164,000
Employee benefit expenses	11	1,529,885	333,841
Insurance		92,176	167,348
Other operating costs	27	851,963	175,722
		<u>16,275,806</u>	<u>4,131,463</u>
Profit / (Loss) Before Income Tax		(3,009,965)	2,307,319
Income tax benefit / (expense)	12	(2,101,167)	(657,726)
Profit / (Loss) for the period		<u>(5,111,132)</u>	<u>1,649,593</u>
Profit / (Loss) Attributable to:			
Members of the parent entity		(4,813,699)	1,905,094
Non-Controlling Interest		(297,433)	(255,501)
		<u>(5,111,132)</u>	<u>1,649,593</u>
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Movement in fair value of long term equity investments, net of tax		2,935,499	4,598,327
Total other comprehensive income		2,935,499	4,598,327
Total Comprehensive Income for the year		<u>(2,175,633)</u>	<u>6,247,920</u>
Total Comprehensive (Loss) / Income attributable to:			
Members of the Parent Entity		(1,878,200)	6,503,421
Non-Controlling Interest		(297,433)	(255,501)
		<u>(2,175,633)</u>	<u>6,247,920</u>
(Loss) / Earnings per Share		Cents	Cents
- Basic (loss) / earnings per share	26	(1.72)	0.70
- Diluted (loss) / earnings per share	26	(1.72)	0.70

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

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017**

	Note	2017 \$	2016 \$
Assets			
Current Assets			
Cash and cash equivalents	8	18,941,688	7,933,953
Trade and other receivables	19	2,065,135	134,751
Net loans and advances	16	2,844,938	3,599,171
Financial assets at fair value through profit or loss	15	19,487,797	15,738,106
Other current assets	19	104,813	118,505
Total Current Assets		43,444,371	27,524,486
Non - Current Assets			
Financial assets at fair value through other comprehensive income	15	32,321,180	40,664,016
Trade and other receivables	19	-	624,443
Property, plant & equipment		104,707	1,039
Deferred tax assets	13	221,738	229,936
Total Non-Current Assets		32,647,625	41,519,434
Total Assets		76,091,996	69,043,920
Liabilities			
Current Liabilities			
Trade and other payables	20	4,214,881	1,676,527
Current tax liability		2,642,206	466,836
Total Current Liabilities		6,857,087	2,143,363
Non-Current Liabilities			
Unsecured notes	17	21,706,995	15,107,926
Deferred tax liabilities	13	2,915,229	4,326,616
Total Non-Current Liabilities		24,622,224	19,434,542
Total Liabilities		31,479,311	21,577,905
Net Assets		44,612,685	47,466,015
Equity			
Issued Capital	5	28,717,120	28,717,120
Accumulated losses		(10,454,943)	(5,237,356)
Reserves	4	25,391,999	22,711,693
Members' interests		43,654,176	46,191,457
Non-controlling interest		958,509	1,274,558
Total Equity		44,612,685	47,466,015

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017**

Notes	Issued Share Capital - Ordinary \$	Accumulated Losses \$	Profit Reserve \$	Asset Revaluation Reserve \$	Foreign Currency Translation Reserve \$	Share Based Payment Reserve \$	Non- Controlling Interests \$	Total Equity \$
Balance at 1 July 2015	27,404,109	(7,142,450)	12,083,545	5,865,821	-	-	-	38,211,025
Profit for the Year		1,905,094					(255,501)	1,649,593
<i>Other Comprehensive Income for the Year:</i>								
Movements in the fair value of long-term investments, net of tax	4			4,598,327				4,598,327
Realised gains on sale of investments	4		465,277	(465,277)				-
<i>Transactions with Owners:</i>								
Shares issued via placement	5	1,315,046						1,315,046
Capitalised share issue costs	5	(2,035)						(2,035)
Non-controlling interests on acquisition of subsidiary							1,530,060	1,530,060
Share options issued	21					164,000		164,000
Balance at 30 June 2016	28,717,120	(5,237,356)	12,548,822	9,998,871	-	164,000	1,274,559	47,466,016
Balance at 1 July 2016	28,717,120	(5,237,356)	12,548,822	9,998,871	-	164,000	1,274,559	47,466,016
Profit for the Year		(4,813,699)					(297,433)	(5,111,132)
<i>Other Comprehensive Income for the Year:</i>								
Movements in the fair value of long-term investments, net of tax	4			2,935,499				2,935,499
Realised gains on sale of investments	4		6,342,163	(6,342,163)				-
Revaluation of pre-existing investment in controlled entity	4		3,300,621	(3,300,621)				-
<i>Transactions with Owners:</i>								
Shares issued via placement	5	-						-
Capitalised share issue costs	5	-						-
Foreign Currency Translation Reserve	4				(772,693)			(772,693)
Non-controlling interests on acquisition of subsidiary							2,719,951	2,719,951
Change in proportion of NCI			(403,888)				(2,738,568)	(3,142,456)
Share options issued	21					517,500		517,500
Balance at 30 June 2017	28,717,120	(10,454,943)	22,191,606	3,291,586	(772,693)	681,500	958,509	44,612,685

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017**

	Note	2017 \$	2016 \$
Cash Flows from Operating Activities			
Dividends, distributions and other investment income received		3,740,044	4,511,578
Other payments in the course of ordinary operations		(4,741,051)	(2,219,406)
Proceeds from sale of trading securities		4,001,365	3,786,866
Payments for trading securities		(3,500,682)	(15,418,604)
Interest received		494,781	478,192
Interest paid		(66,113)	(100,426)
Loan repayments received		119,639	140,351
Income tax paid		(1,345,319)	(511,950)
Net Cash used in Operating Activities	8	<u>(1,297,336)</u>	<u>(9,333,399)</u>
Cash Flows from Investing Activities			
Proceeds from disposal of financial assets		10,230,563	833,850
Payments for financial assets		(7,676,731)	(5,177,710)
Net cash acquired on acquisition of a controlled entity		4,814,068	(1,531,498)
Payment for purchase of non-controlling interest		(3,142,455)	-
Proceeds from return of capital		3,709,182	604,149
Net Cash provided by / (Used in) Investing Activities		<u>7,934,627</u>	<u>(5,271,209)</u>
Cash Flows from Financing Activities			
Proceeds from unsecured notes		6,663,000	12,645,700
Borrowing costs		(197,155)	(537,774)
Interest Payments on MVT Notes		(1,818,923)	-
Proceeds from borrowings		16,606,681	9,884,736
Repayment of borrowings		(16,606,681)	(6,884,736)
Share issue transaction costs		-	(2,035)
Proceeds from issue of shares		-	1,315,046
Net Cash provided by Financing Activities		<u>4,646,922</u>	<u>16,420,937</u>
Net Increase in Cash and Cash Equivalents held		11,284,213	1,816,329
Effects of exchange rate changes on cash and cash equivalents		(276,478)	
Cash and Cash Equivalents at the Beginning of Financial Year		7,933,953	6,117,624
Cash and Cash Equivalents at End of Financial Year	8	<u>18,941,688</u>	<u>7,933,953</u>
Summary of non-cash transactions			
Unsecured notes issued	17	-	3,000,000

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

Basis of preparation

This financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB);
- complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB);
- has been prepared on a for profit basis;
- is presented in Australian dollars with all values rounded to the nearest dollar, unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation.
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2016;
- AASB 9 which applies to annual reporting periods commencing on or after 1 January 2018, was early adopted by Mercantile Investment Company Limited in previous reporting periods. No other new accounting standards and interpretations that are available for early adoption at 30 June 2017, which will result in any material change in relation to the financial statements of Mercantile Investment Company Limited.
- has been prepared on an accruals basis and are based on the historical cost basis except as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss or through other comprehensive income.
- where Parent company information is disclosed, relevant accounting policies are described when different to the Group accounting policies.
- was authorised for issue with a resolution of the Board of Directors on 28 August 2017.

Basis of consolidation

Controlled Entities (Subsidiaries)

The consolidated financial statements of the Group incorporate the financial statements of Mercantile Investment Company Limited and its subsidiaries. A table is set out below on page 20, listing these subsidiaries.

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

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

Parent Entity	Country of Incorporation	Percentage	
		June 2017	June 2016
Mercantile Investment Company Limited	Australia	100	100
Controlled Entities of Mercantile Investment Company Limited			
Ask Funding Limited	Australia	72	72
ATL Exploration Pty Ltd	Australia	100	100
Jack Hills Holdings Pty Ltd	Australia	100	100
Mercantile ADF Pty Ltd	Australia	100	100
Mercantile IAH Pty Ltd	Australia	100	100
Mercantile IAM Pty Ltd	Australia	100	100
Mercantile NZ Limited	New Zealand	100	100
Mercantile OFM Pty Ltd	Australia	100	100
MMX Investments Pty Ltd	Australia	100	100
MMX Port Holdings Pty Ltd	Australia	100	100
MMX Rail Holdings Pty Ltd	Australia	100	100
Murchison Metals Ltd	Australia	100	100
Richfield International Ltd *	Australia	100	-
Richfield Marine Agencies (S) Pte Ltd*	Singapore	100	-
Weld Range Mining Pty Ltd	Australia	100	100
Wellington Merchants Ltd *	New Zealand	100	-

* Not a controlled entity in the previous financial year.

Percentage of voting power is in proportion to ownership.

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

Transactions eliminated on consolidation

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

Other accounting policies

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

Key judgements and estimates

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

Note reference	Critical accounting estimates and judgements	Page
Note 6	Business combination - acquisition fair value	29
Note 6	Impairment of goodwill	29
Note 11	Impairment of non-current assets	37
Note 13	Deferred tax assets and liabilities	40
Note 16	Recoverability of loans and advances	49
Note 19	Recoverability of receivables	51

Impairment of assets

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

Deferred Tax

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

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 1: PARENT COMPANY FINANCIAL INFORMATION

Accounting Policy:

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

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

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

a) Interest bearing liabilities

The parent company accepts loans from its Directors and Director-related parties under normal commercial terms and conditions. As at 30 June 2017, the balance of these deposits was nil (2016: nil).

b) Contingent liabilities

The Parent company did not have any contingent liabilities as at 30 June 2017. Refer Note 18.

c) Contractual commitments

The Parent company did not have any contractual commitments as at 30 June 2017.

	2017	2016
	\$	\$
Profit of the parent entity		
Profit / (Loss) for the year	(1,191,825)	3,405,849
Total comprehensive income for the year	1,511,006	8,007,438
Financial position of the parent entity as at 30 June		
Current assets	34,532,275	21,924,836
Non-current assets	67,363,781	50,497,017
Current liabilities	(25,664,909)	(5,611,538)
Non-current liabilities	(25,486,762)	(19,434,542)
Net assets	<u>50,744,385</u>	<u>47,375,773</u>
Total equity of the parent entity comprising of		
Issued capital	28,716,880	28,716,880
Capital profits reserves	18,788,302	12,449,410
Asset revaluation reserve	5,170,976	9,998,871
Retained profits	(2,613,273)	(3,953,388)
Share based payment reserve	681,500	164,000
Total equity attributable to shareholders of the parent entity	<u>50,744,385</u>	<u>47,375,773</u>

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 2: PAYMENT OF DIVIDENDS TO SHAREHOLDERS

The group has not declared a dividend for the 2017 financial year (2016: nil).

	2017	2016
	\$	\$
Franking credits available for subsequent financial years based on Australian company tax rate of 30% (2016: 30%)	2,915,711	1,430,644
The above amounts represent the balance of the franking account at the end of the financial year.		
Franking credits available for future dividend payments	2,915,711	1,430,644

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 3: SEGMENT INFORMATION

The parent company invests in a diversified range of companies.

Richfield International Limited and Wellington Merchants Limited were both fully taken over during the year ended 30 June 2017.

The Parent company and its subsidiaries operate within three segments:

a) Securities

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

b) Consumer Finance

Ask Funding Limited (AKF) deals in pre-settlement and disbursement lending. AKF has been in a run-off since 2011.

c) Shipping Services

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

Geographic Segment

The group operates in a number of geographic areas, however there are no reportable geographic segments.

The group only operated in the Securities and Consumer Finance segments in the comparative financial year. As a consequence of acquiring control of Richfield International Ltd during the financial year, Mercantile has recognised a new segment in "Shipping Services". The new segment derives revenues from shipping agency services. Segments have been identified by business unit. Other immaterial operations that do not meet the quantitative thresholds requiring separate disclosure in *AASB 8 Operating Segments* have been combined with the Securities operations.

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 3: SEGMENT INFORMATION (continued)

Consolidated - 2017	Securities	Consumer Finance	Shipping Services	Total
	\$	\$	\$	\$
Revenue	9,640,967	1,836,847	1,788,027	13,265,841
Expenses	(4,894,409)	(2,955,208)	(8,426,189)	(16,275,806)
Profit / (Loss) before tax	4,746,558	(1,118,361)	(6,638,162)	(3,009,965)
Profit / (Loss) after tax				(5,111,132)
<i>Material items include:</i>				
Impairment of loans	-	(2,369,601)	-	(2,369,601)
Write down of goodwill	-	-	(6,642,240)	(6,642,240)
Assets				
Segment assets	71,949,841	2,844,938	894,291	75,689,070
Trade and other receivables				75,828
Other current assets				104,813
Property, plant & equipment				547
Deferred tax assets				221,738
				<u>76,091,996</u>
Liabilities				
Segment liabilities	(21,706,995)	-	(2,532,783)	(24,239,778)
Trade and other payables				(1,682,098)
Current tax liability				(2,642,206)
Deferred tax liabilities				(2,915,229)
				<u>(31,479,311)</u>

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 3: SEGMENT INFORMATION (continued)

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

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 4: RESERVES

Accounting Policy:

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

	Note	2017 \$	2016 \$
a) Reserves			
Profits Reserve		22,191,606	12,548,822
Asset Revaluation Reserve		3,291,586	9,998,871
Foreign currency translation reserve		(772,693)	-
Share based payment reserve	21	681,500	164,000
		25,391,999	22,711,693
b) Major movements in reserves consist of:			
Asset revaluation reserve			
Balance 1 July		9,998,871	5,865,821
Movement in fair value of long term equity investments, net of tax		2,935,499	4,598,327
Revaluation of pre-existing investment in controlled entity		(3,300,621)	-
Realised gains on sale of long term equity investments		(6,342,163)	(465,277)
Balance 30 June		3,291,586	9,998,871
Profit reserve			
Balance 1 July		12,548,822	12,083,545
Revaluation of pre-existing investment in controlled entity		3,300,621	-
Realised gains on sale of long term equity investments		6,342,163	465,277
Balance 30 June		22,191,606	12,548,822

c) Nature and purpose of reserves

Profits reserve

This reserve represents amounts allocated from retained profits (accumulated losses) that were profits of a capital nature

Asset revaluation reserve

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

Foreign currency translation reserve

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

Share based payment reserve

The share based payment reserve is used to recognise the fair value of options and rights issued, but not yet exercised.

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 5: SHARE CAPITAL AND CAPITAL MANAGEMENT

Accounting Policy:

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

			2017 \$	2016 \$
280,000,000 (2016: 280,000,000) fully paid ordinary shares			28,717,120	28,717,120
Ordinary Shares	2017 No.	2016 No.	2017 \$	2016 \$
At the beginning of reporting period	280,000,000	268,764,671	28,717,120	27,404,109
<u>Movement in Shares on Issue:</u>				
Shares issued via placement	-	11,235,329	-	1,315,046
Capital raising costs, net of tax	-	-	-	(2,035)
Closing Balance at Reporting Date - 30 June	280,000,000	280,000,000	28,717,120	28,717,120

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

Capital Management

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

The Company issued unsecured notes of \$6,663,000 during the year ended 30 June 2017 (2016: \$15,645,700).

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

NOTE 6: BUSINESS COMBINATIONS

Accounting Policy:

The acquisition method of accounting is used to account for all business combinations. The consideration transferred is the sum of the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree.

The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the investment. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the income statement as a bargain purchase.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Controlled Entities Acquired During the Year

The reason for the acquisitions of Richfield International Limited (RIS) and Wellington Merchant Limited (WML) was due to both companies having significant cash reserves which was available at a discounted price.

(a) Richfield International Limited

On 11 August 2016, a wholly owned subsidiary of MVT, Mercantile OFM Pty Ltd, announced an unconditional cash offer at \$0.34 per share to acquire all of the shares it did not own in RIS by way of an on-market takeover bid.

Mercantile gained control at the end of August 2016 with a holding of 92.45%.

The Takeover Offer closed on 26 September 2016, with Mercantile OFM and its associates securing more than 90% of RIS (up from 26.89% prior to the launch of the bid).

The takeover was completed on 12 December 2016 when MVT compulsorily acquired all the shares it did not own.

An impairment charge was recorded in the financial statements for the half year ended 31 December 2016. After detailed testing of forecasted financial information it was established that the value of goodwill previously recorded on the Balance Sheet was less than its fair value. The continued downturn in the Industrial Shipping market was the main reason for this. The impairment loss recorded is \$6,642,240.

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: BUSINESS COMBINATIONS (continued)

a) Richfield International Limited (continued)

The assets and liabilities recognised as a result are as follows:

	Fair Value
	\$
Cash	15,889,628
Other receivables	415,357
Other assets	64,069
Goodwill	-
PPE	356,146
Creditors	(2,485,061)
Income tax liability	(29,371)
Deferred tax liability	(10,817)
Net identifiable assets acquired	14,199,951
(Less) non-controlling interest	(1,072,610)
Net identifiable assets acquired attributable to shareholders of Mercantile	13,127,341
 Purchase consideration	
Fair value of previously held interest	5,750,635
Cash paid	14,018,946
	19,769,581
 (i) Reconciliation of loss on acquisition of controlled entity	
Net identifiable assets acquired attributable to shareholders of Mercantile	13,127,341
Purchase consideration	(19,769,581)
	(6,642,240)
 (ii) Revaluation of pre-existing investment in controlled entity	
Fair value of previously held interest	5,750,635
Book value of previously held interest	(2,450,015)
	3,300,620
 (iii) Reconciliation of amount included in statement of cash flows	
Outflow of cash to acquire subsidiary, net of cash acquired	
Total cash consideration	14,018,946
Less: cash balances acquired	(15,889,628)
Inflow of cash - investing activities	(1,870,682)
 (iv) Profit contribution	
Revenue contribution from date of acquisition to 30 June 2017	1,709,526
Expenditure contribution from date of acquisition to 30 June 2017	(1,722,852)
Tax expense contribution from date of acquisition to 30 June 2017	(96,473)
	(109,799)

The amount of revenue and loss contribution had the entity been acquired at the beginning of the period would have been \$2,226,024 and \$5,987,369 respectively.

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6: BUSINESS COMBINATIONS (continued)

(b) Wellington Merchants Limited (WML)

During the six months to 31 December 2016, the group completed the acquisition of Wellington Merchants Limited. Further details of the acquisition are provided below:

On 11 August 2016, a wholly owned subsidiary of Mercantile, Mercantile NZ Ltd, announced to the NZX a takeover for 100% of the fully paid ordinary shares of WML it did not own. Mercantile offered to purchase all of the ordinary shares in WML not already held by Mercantile for NZD\$3.45 in cash per share on the terms and conditions contained in the offer document lodged with the announcement.

Mercantile and its associates gained control at the end of September 2016 with a holding of 77.06%.

Mercantile and its associates had, by 4 November 2016, secured 100% ownership of WML.

The assets and liabilities recognised as a result are as follows:

	Fair Value
	\$
Cash	7,464,019
Other receivables	366,964
Other assets	17,778
Creditors	(527,656)
Income tax liability	(140,554)
Net identifiable assets acquired	7,180,551
(Less) non-controlling interest	(1,647,342)
Net identifiable assets acquired attributable to shareholders of Mercantile	5,533,209
 Purchase consideration	
Fair value of previously held interest	669,754
Revaluation of previously held interest to \$3.195 per share	20,729
Cash paid	4,520,633
	5,211,116
 (i) Reconciliation of gain on acquisition of controlled entity	
Fair value of previously held interest	669,754
Revaluation of previously held interest to \$3.195 per share	20,729
Book value of previously held interest	(685,846)
Net identifiable assets acquired attributable to shareholders of Mercantile	5,533,209
Purchase consideration	(5,211,116)
	326,730
 (ii) Reconciliation of amount included in statement of cash flows	
Outflow of cash to acquire subsidiary, net of cash acquired	
Total cash consideration	4,520,633
Less: cash balances acquired	(7,464,019)
Inflow of cash - investing activities	(2,943,386)

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NOTE 6: BUSINESS COMBINATIONS (continued)

	Fair Value
	\$
(iii) Profit contribution	
Revenue contribution from date of acquisition to 30 June 2017	316,624
Expenditure contribution from date of acquisition to 30 June 2017	(211,324)
Tax expense contribution from date of acquisition to 30 June 2017	<u>(23,280)</u>
	<u>82,020</u>

The amount of revenue and profit contribution had the entity been acquired at the beginning of the period would have been \$335,531 and \$59,862 respectively.

The business combination resulted in a bargain on purchase as the underlying assets in WML exceeded the purchase consideration. The gain amounted to \$326,730 and has been recorded within the gain on acquisition of a controlled entity in the Statement of Comprehensive Income

Acquisition related costs

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

Details of acquisitions completed during the prior period include:

On 4 June 2015, the Company announced to the ASX an off-market takeover by Mercantile OFM Pty Ltd (OFM), a wholly owned subsidiary of the Company, for all of the ordinary shares in ASX listed Ask Funding Limited (AKF) that the Company and its associates did not own.

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

Net assets acquired on acquisition of AKF was \$5,416,258 and primarily related to cash and loan books.

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 7: EVENTS AFTER THE REPORTING DATE

No events have occurred subsequent to the balance sheet date that would require adjustments to, or disclosure in the financial report.

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NOTE 8: CASH AND CASH EQUIVALENTS

Accounting Policy:

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

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:

	2017	2016
	\$	\$
Cash at bank and in hand	18,941,688	6,824,553
Money held in lawyers' trust account	-	1,109,400
	<u>18,941,688</u>	<u>7,933,953</u>

Richfield Marine Agencies (S) Pte Ltd (RMA) has bank guarantees, equivalent to \$846,196 in place for Principals, Port Authority of Singapore and Singapore Customs.

Reconciliation of profit after income tax to net cash inflow from operating activities

	2017	2016
	\$	\$
Profit after income tax	<u>(5,111,132)</u>	<u>1,649,594</u>

Non-Cash Flows in Profit or Loss:

- Fair value gain on revaluation of trading equities	(5,435,192)	(12,284,481)
- Loss / (Gain) on acquisition of a controlled entity	(326,730)	596,786
- Depreciation	221,914	2,026
- Impairment	9,011,841	1,653,415
- Share based payment expense	517,500	164,000
- Amortisation of MVT notes	133,224	-
- Interest income	(1,707,400)	(1,592,543)
- Interest and fees received	(129,447)	539,064
- Interest expense on MVT notes	1,818,923	-
- Loan Payments Received	-	140,351
- Other Non-Cash Items	2,971	(83,416)

Changes in assets and liabilities:

- (Increase) / Decrease in Trade and Other Receivables	(523,622)	39,286
- (Increase) / Decrease in Deferred Tax Assets	8,198	(13,925)
- (Increase) / Decrease in Other Assets	95,539	(20,700)
- Increase / (Decrease) in Trade Payables and Accruals	(474,363)	(136,109)
- Increase / (Decrease) in income tax liability	(923,627)	-
- Increase / (Decrease) in Deferred Tax Liabilities	1,524,067	(14,597)
Net Cash (Used In) / Provided by Operating Activities	<u>(1,297,336)</u>	<u>(9,333,399)</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9: REVENUE

Accounting Policy:

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

- Service fee income, including consulting and management fee income, is recognised as the services are performed.
- Interest income is recognised on a time proportion basis using the effective interest method.
- Dividend income is taken into revenue when the right to receive payment is established.
- Shipping services (agency fees and commission income) are recognised when the right to receive payment is established. Revenue from freight forwarding is recognised upon shipment. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

	2017	2016
	\$	\$
From Continuing operating activities		
Dividends received	922,902	507,534
Trust Distributions Received	1,010,543	1,311,386
Capital Returns	-	2,603,680
Interest income	2,227,129	1,592,543
Shipping Services income	1,344,737	-
Total Revenue	5,505,311	6,015,143

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NOTE 10: OTHER INCOME

Accounting Policy:

Other income represents gains or losses made on:

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

	Note	2017 \$	2016 \$
Realised gains / (losses) on trading equities fair valued through profit and loss		1,207,252	(234,376)
Unrealised gains / (losses) on trading equities fair valued through profit and loss		5,459,809	887,120
Gain / (loss) on acquisition of a controlled entity	6	326,730	(596,786)
Foreign exchange movement		(24,063)	228,874
Sundry income		790,802	138,807
Total other income		7,760,530	423,639

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11: EXPENSES

Accounting Policy:

Impairment

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

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

Employee benefits expense

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

	2017	2016
	\$	\$
Profit before income tax expenses includes the following specific expenses:		
Impairment charges		
Goodwill	6,642,240	-
Loans and advances	2,369,601	1,653,415
	<u>9,011,841</u>	<u>1,653,415</u>
Parent employee benefits expenses		
Directors' fees	66,068	66,068
Bonus expense	224,688	134,988
Superannuation expenses	9,040	15,404
	<u>299,796</u>	<u>216,460</u>
Subsidiary employee benefits expenses		
Directors' fees	483,987	117,381
Superannuation expenses	213,474	-
Wages and salaries	532,628	-
	<u>1,230,089</u>	<u>117,381</u>
Total employee benefit expenses	<u>1,529,885</u>	<u>333,841</u>
Finance Costs		
Directors interest	66,113	100,426
MVTHA note interest	1,818,923	-
MVT note expense amortisation	166,499	-
	<u>2,051,535</u>	<u>100,426</u>

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NOTE 12: INCOME TAX

The income tax expense or benefit for the period represents the tax payable on the current period's taxable income based on the Australian corporate income tax rate (30%) adjusted by changes in deferred tax assets and liabilities attributable to the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

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

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

Tax consolidation legislation

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

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

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

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

	2017	2016
	\$	\$
(a) Income tax expense / (benefit) recognised in profit or loss		
- Current tax movement	3,647,420	466,836
- Deferred tax movement	(1,546,253)	190,890
	<u>2,101,167</u>	<u>657,726</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12: INCOME TAX (continued)

	2017 \$	2016 \$
(b) The prima facie tax on profit / (loss) from ordinary activities before income tax is as follows:		
Profit / (loss) before income tax	(3,009,965)	2,307,319
Prima facie tax payable on profit / (loss) before income tax at 30%*	(902,990)	692,196
Tax effects of amounts which are not deductible (taxable) in calculating taxable income:		
- Imputation credit gross up	41,924	20,917
- Franking credits received	(139,747)	(69,724)
- Other assessable / non-assessable items	700,396	207,144
- Loss / (gain) on acquisition of a controlled entity	(98,019)	179,036
- Impairment of goodwill in RIS	1,992,672	-
- Deferred tax asset not recognised on losses	335,508	271,233
- Deferred tax asset recognised on prior year losses	-	(928,043)
- Share based payment expense	155,250	-
- Prior year over/under provision	16,173	284,967
	2,101,167	657,726
Effective tax rate	(69.8%)	28.5%

*The corporate tax rate is 30%, 28% and 17% for Australian, New Zealand and Singapore derived income, respectively (2016: all income was derived in Australia and taxed at the corporate tax rate of 30%).

The tax component of the financial assets at fair value through other comprehensive income is \$1,258,071.

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NOTE 13: DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Accounting Policy:

Deferred tax assets and liabilities are calculated on the differences (temporary differences) between the carrying amount of assets and liabilities as recognised in the consolidated financial statements and their tax cost base multiplied by the tax rate expected to apply when these assets are recovered or liabilities are settled. The current Australian corporate tax rate is 30%.

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

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

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

	Opening Balance	Charged to Income	Charged Directly to Equity	Closing Balance
	\$	\$	\$	\$
2017				
Deferred Tax Assets				
Capitalised share issue costs	141,640	184	(69,075)	72,749
Expensed borrowing costs	-	4,015	-	4,015
Accrued expense movements	88,296	56,677	-	144,973
Balance as at 2017	229,936	60,876	(69,075)	221,737
Deferred Tax Liability				
Accrued income movements	72,029	(70,066)	-	1,963
Trading stock valuation	986,462	1,375,973	-	2,362,435
Unrealised gains via asset revaluation reserve	3,268,125	79,057	(2,796,351)	550,831
Balance as at 2017	4,326,616	1,384,964	(2,796,351)	2,915,229

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NOTE 13: DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

	Opening Balance	Charged to Income	Charged Directly to Equity	Closing Balance
	\$	\$	\$	\$
2016				
Deferred Tax Assets				
Capitalised share issue costs	146,748	(5,108)	-	141,640
Expensed borrowing costs	-	-	-	-
Accrued expense movements	97,113	(8,817)	-	88,296
Balance as at 2016	<u>243,861</u>	<u>(13,925)</u>	<u>-</u>	<u>229,936</u>
Deferred Tax Liability				
Accrued income movements	54,587	17,442	-	72,029
Trading stock valuation	826,939	159,523		986,462
Unrealised gains via asset revaluation reserve	1,574,464	-	1,693,661	3,268,125
Balance as at 2016	<u>2,455,990</u>	<u>176,965</u>	<u>1,693,661</u>	<u>4,326,616</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14: FINANCIAL RISK MANAGEMENT

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

Initial Recognition and Measurement

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

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

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

Financial Assets Through Profit or Loss (FVTPL)

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI. Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

A financial asset is held for trading if:

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

Financial Assets Through Other Comprehensive Income (FVTOCI)

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

Debt instruments classified as at FVTOCI

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

All other changes in the carrying amount of these redeemable notes are recognised in other comprehensive income.

When these notes are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14: FINANCIAL RISK MANAGEMENT (continued)

Derecognition

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

	Note	2017 \$	2016 \$
The Group holds the following financial instruments:			
Financial assets at amortised cost			
Cash and cash equivalents	8	18,941,688	7,933,953
Trade and other receivables	19	2,065,135	759,194
Loans and advances	16	2,844,937	3,599,171
Financial assets at fair value through profit and loss	15	19,487,797	15,738,106
Financial assets at fair value through other comprehensive income	15	32,321,180	40,664,016
Total financial assets		75,660,737	68,694,440
Financial liabilities at amortised cost			
Trade and other payables	20	4,214,881	1,676,527
Unsecured notes	17	21,706,995	15,107,926
Total financial liabilities at amortised cost		25,921,876	16,784,453

a) Market Risk

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
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NOTE 14: FINANCIAL RISK MANAGEMENT (continued)

i) Foreign exchange risk

As at 30 June 2017, the Group is exposed to fluctuations in the British Pound (GBP), the New Zealand Dollar (NZD), the Singaporean Dollar (SGD) and the United States Dollar (USD) exchange rates arising from the Company's international investments and trade and other receivables.

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

Foreign exchange risk

	2017	2016
	AUD\$	AUD\$
Financial Assets		
<u>Cash and Cash equivalent</u>		
United States Dollar	3,508,592	-
Singapore Dollar	135,526	-
New Zealand Dollar	13,019	-
	<u>3,657,137</u>	<u>-</u>
<u>Trade and other receivables</u>		
British Pound	-	624,443
Singapore Dollar	779,493	-
New Zealand Dollar	12,892	-
	<u>792,385</u>	<u>624,443</u>
<u>Financial Assets Through Profit or Loss</u>		
British Pound	8,035,655	5,078,795
Singapore Dollar	-	-
New Zealand Dollar	3,469,638	2,738,640
	<u>11,505,293</u>	<u>7,817,435</u>
<u>Financial Assets Through Other Comprehensive Income</u>		
British Pound	1,167,967	2,326,971
Singapore Dollar	-	-
New Zealand Dollar	3,876,800	3,922,550
	<u>5,044,767</u>	<u>6,249,521</u>
Total financial assets exposure to foreign exchange	<u>20,999,582</u>	<u>14,691,399</u>
Financial Liabilities		
<u>Trade and other payables</u>		
British Pound	-	-
Singapore Dollar	2,532,783	-
New Zealand Dollar	35,730	-
Total financial liabilities exposure to foreign exchange	<u>2,568,513</u>	<u>-</u>

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NOTE 14: FINANCIAL RISK MANAGEMENT (continued)

ii) Price Risk

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

Sensitivity analysis

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

	Impact to post-tax profit		Impact on Other Comprehensive Income	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets at fair value through profit or loss	974,390	786,905	-	-
Financial assets at fair value through other comprehensive income	-	-	(1,616,059)	(2,033,201)
Total	974,390	786,905	(1,616,059)	(2,033,201)

iii) Interest Rate Risk

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

The Group's weighted average interest rate on financial assets was 0.64% and financial liabilities was 8% (Unsecured Notes).

b) Credit Risk

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

Cash is only invested with high rated financial institutions in Australia.

Receivable balances are monitored on an ongoing basis and the Group has no external debts past due or impaired, excluding those in Note 16 (loan book).

The Group recognises a loss allowance for expected credit losses on investments in any debt instruments that are measured at amortised cost or at fair value through other comprehensive income (FVTOCI) and amounts due from brokers in respect to securities sold. No impairment losses are recognised in respect to any equity instruments measured at fair value.

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

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NOTE 14: FINANCIAL RISK MANAGEMENT (continued)

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

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

c) Liquidity Risk

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

Liquidity risk is the risk that an entity is unable to meet its financial obligations as they fall due.

Prudent liquidity risk management is adopted by the Group through maintaining sufficient cash and marketable securities, the ability to borrow funds from credit providers and to close-out market positions.

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

d) Maturity of financial liabilities

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

	Less than 12 Months	Greater than 12 Months	Total
2017	\$	\$	\$
Trade and other payables	2,481,476	1,733,405	4,214,881
Current Tax Liability	2,642,206	-	2,642,206
Unsecured Notes	-	21,706,995	21,706,995
Total	5,123,682	23,440,400	28,564,082

	Less than 12 Months	Greater than 12 Months	Total
2016	\$	\$	\$
Trade and other payables	531,296	1,145,231	1,676,527
Current Tax Liability	466,836	-	466,836
Unsecured Notes	-	15,107,926	15,107,926
Total	998,132	16,253,157	17,251,289

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NOTE 15: FAIR VALUE ESTIMATION

Fair Value Hierarchy

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

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

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

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2017				
Financial assets at fair value through other comprehensive income:				
- Listed domestic and international investments	27,399,093	196,875	-	27,595,968
- Unlisted domestic investments	-	80,842	767,570	848,412
- Unlisted international investments	-	-	3,876,800	3,876,800
	<u>27,399,093</u>	<u>277,717</u>	<u>4,644,370</u>	<u>32,321,180</u>
Financial assets at fair value through profit and loss:				
- Trading Listed domestic and international investments	18,441,330	584,153	-	19,025,483
- Trading Unlisted domestic and international investments	-	91,386	370,928	462,314
	<u>18,441,330</u>	<u>675,539</u>	<u>370,928</u>	<u>19,487,797</u>
Total assets	<u>45,840,423</u>	<u>953,256</u>	<u>5,015,298</u>	<u>51,808,977</u>

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NOTE 15: FAIR VALUE ESTIMATION (continued)

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2016				
Financial assets at fair value through other comprehensive income:				
- Listed domestic and international investments	36,507,805	-	-	36,507,805
- Unlisted domestic investments	-	233,661	-	233,661
- Unlisted international investments	-	-	3,922,550	3,922,550
	<u>36,507,805</u>	<u>233,611</u>	<u>3,922,550</u>	<u>40,664,016</u>
Financial assets at fair value through profit and loss:				
- Trading Listed domestic and international investments	15,118,637	-	-	15,118,637
- Trading Unlisted domestic and international investments	-	619,469	-	619,469
	<u>15,118,637</u>	<u>619,469</u>	<u>-</u>	<u>15,738,106</u>
Total assets	<u>51,626,442</u>	<u>853,130</u>	<u>3,922,550</u>	<u>56,402,122</u>

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

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

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

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NOTE 16: NET LOANS AND ADVANCES

Accounting Policy:

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

	2017	2016
	\$	\$
Family law	5,151,190	4,861,672
Disbursement funding	233,294	268,484
Personal Injury	2,812,073	2,556,646
Other	1,029,067	831,508
Provision for impairment	(6,380,686)	(4,919,139)
Total	2,844,938	3,599,171

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

Impaired loans and advances

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

For the year ended 30 June 2017, Ask Funding Limited management have assessed a further impairment of \$2,369,601 (2016: \$1,653,415) with respect to the net loans and advances recognised due to objective evidence obtained and doubt existing over the collectability of principal and interest. The impairment loss impacted the result attributable to members by \$1,699,952 (2016: \$1,186,160) for the year ended 30 June 2017.

Credit risk – Loans and Advances

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

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

A single matrimonial loan in Western Australia (security held are Mortgage, Caveat and Guarantees from borrower and related parties) – balance as at 30 June 2017 of \$2.0 million (2016 \$3.8 million)

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NOTE 17: INTEREST BEARING LIABILITIES

Accounting Policy:

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

	2017	2016
	\$	\$
Unsecured notes	22,308,700	15,645,700
Less: capitalised costs	(601,705)	(537,774)
Non-current unsecured – notes at amortised cost	21,706,995	15,107,926

On 16 December 2016, the Company announced the issue of 66,630 fully paid unsecured notes (MVTHA Notes) with a face value of \$100, which commenced 31 December 2016. These notes carry an interest entitlement of 8% per annum.

At 30 June 2017, the face value of the unsecured notes was \$22,308,700. Interest is scheduled to be paid semi-annually, with the first interest payment made on 31 December 2016. The maturity date of the notes is 10 July 2021. Terms of the notes are regulated under a trust deed between the Company and Australian Executor Trustee Ltd. Further details of the note terms are available in the Replacement Prospectus dated 3 June 2016.

Sir Ron Brierley did not subscribe for any notes during the period (2016: \$3,000,000).

NOTE 18: CONTINGENT LIABILITIES

Apart from what is mentioned in Events after the reporting date (Note 7), there are no contingent liabilities as at 30 June 2017.

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NOTE 19: TRADE AND OTHER RECEIVABLES

Accounting Policy:

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

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

	2017	2016
	\$	\$
Current assets		
Trade receivables	161,309	-
	<hr/> 161,309	<hr/> -
Sundry receivables	467,630	10,619
GST refundable	16,251	58,694
Other receivables	688,759	65,438
Unsettled trades	731,186	-
Total current trade and other receivables	<hr/> 2,065,135	<hr/> 134,751
Other current assets		
Prepayments	104,813	118,505
Total other current assets	<hr/> 104,813	<hr/> 118,505
Non-Current		
Loan Impact Holdings (UK)	-	624,443
Total non-current receivables	<hr/> -	<hr/> 624,443

Credit, foreign exchange, fair value and interest risk

Information about the Group's exposure to these risks in relation to trade and other receivables is provided in Note 14.

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NOTE 20: TRADE AND OTHER PAYABLES

Accounting Policy:

Trade and other payables are stated at their amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 to 45 days of recognition.

	2017	2016
	\$	\$
Unclaimed shareholder payments - secured *	1,143,339	1,145,231
Trade payables	1,884,939	290,238
Escrowed Port of Singapore	694,961	-
Sundry payables	491,642	241,058
Total current trade and other payables	4,214,881	1,676,527

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

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NOTE 21: SHARE BASED PAYMENTS

Accounting Policy:

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

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

The fair value is measured at grant date.

	Note	Opening Balance	Options Issued	Expiration of Options	Closing Balance
Options 2017		\$	\$	\$	\$
Gabriel Radzynski		164,000	342,000	-	506,000
Other employees		-	175,500	-	175,500
	4	164,000	517,500	-	681,500

		Opening Balance	Options Issued	Expiration of Options	Closing Balance
Options 2016		\$	\$	\$	\$
Gabriel Radzynski		-	164,000	-	164,000
Other employees		-	-	-	-
	4	-	164,000	-	164,000

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

The board issued 5,000,000 options to an employee of Sandon Capital Pty Ltd (an entity associated with Gabriel Radzynski which provides general consulting, corporate advisory and accounting services to MVT), for nil consideration on 7 October 2016 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option and expire on 31 December 2020.

The board issued a further 10,000,000 options to Gabriel Radzynski for nil consideration on 2 December 2016 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option and expire on 31 December 2020.

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

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NOTE 22: RELATED PARTIES

Transactions with related parties

	2017 \$	2016 \$
Sandon Capital Pty Ltd is an entity associated with Mr Gabriel Radzynski. Sandon Capital Pty Ltd provided general consulting, corporate advisory and accounting services to MVT. All dealings are conducted at arm's length on normal commercial terms. As at 30 June 2017 there was \$35,750 outstanding (2016: \$35,750)	429,000	382,034
Ariadne Australia Limited is an entity associated with Dr Gary Weiss and Mr Daniel Weiss. Director's fees for Daniel Weiss were paid to Ariadne Australia Limited.	18,067	18,067
The Board awarded a discretionary cash bonus to Mr Radzynski of \$200,000 (inclusive of super) in August 2016. The first instalment of \$100,000 was paid in September 2016. The second instalment of \$100,000 was paid in August 2017. This was accrued as at 30 June 2017.	200,000	125,000
Short-term, unsecured loans were advanced to the Company by Sir Ron Brierley in the financial year (\$16.6m) to fund purchases of investments. Interest was paid at the RBA cash rate per annum. The loan has been repaid in full during the financial year.	66,113	100,426
Sir Ron subscribed for 30,000 MVTHA notes (\$3,000,000) in partial repayment of the short term debt facility which was in operation during the period. Interest paid on these notes at 30 June 2017 was \$244,603 (2016: nil)	244,603	-
Gabriel Radzynski subscribed for 250 MVTHA notes (\$250,000). Interest paid on these notes at 30 June 2017 was \$2,038 (2016: nil)	2,038	-

KMP Compensation

Elements of Remuneration

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

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

Remuneration for Mr Radzynski reflect director's fees of \$15,000 plus superannuation. A cash bonus payment of \$100,000 (inclusive of super) was paid to Mr Radzynski on 30 September 2016. This bonus payment was the first instalment of a bonus awarded in the 2017 financial year.

The board issued 10,000,000 options to Mr Radzynski for nil consideration on 11 November 2015 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.17 per option, and expire on 31 December 2017. These options equated to the value of \$164,000. The quantum and exercise price of these options (which is above current market price) are designed to provide further alignment of outcomes between Mr Radzynski and shareholders.

The board issued a further 10,000,000 options to Mr Radzynski for nil consideration on 2 December 2016 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option, and expire on 31 December 2020. These options equated to the value of \$342,000. The quantum and exercise price of these options (which is above current market price) are designed to provide further alignment of outcomes between Mr Radzynski and shareholders.

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NOTE 22: RELATED PARTIES (continued)

Elements of Remuneration (continued)

All of the above options are still outstanding (haven't been exercised) as at the date of the report.

The options don't have any rights to participate in share issues and all are fully vested at balance date and this fact should be disclosed.

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

	Cash & Salary	Post- Employment Benefits	Share based payments	Total
	\$	\$	\$	\$
30 June 2017				
Directors				
Sir Ron Brierley	-	-	-	-
Mr Gabriel Radzynski* **	210,522	5,905	342,000	558,427
Mr James Chirnside	18,000	1,710	-	19,710
Mr Ronald Langley	15,000	1,425	-	16,425
Mr Daniel Weiss	18,067	-	-	18,067
	261,589	9,040	342,000	612,629
30 June 2016				
Directors				
Sir Ron Brierley	-	-	-	-
Mr Gabriel Radzynski*	129,155	12,269	164,000	305,424
Mr James Chirnside	18,000	1,710	-	19,710
Mr Ronald Langley	15,000	1,425	-	16,425
Mr Daniel Weiss	18,067	-	-	18,067
	180,222	15,404	164,000	359,626

* Both of these figures include bonus payments

**There is a bonus of \$100,000 included which was accrued at year end, payable in August 2017.

Bonuses to executives are based on performance. No loans have been made to the Directors of MVT.

Other Statutory Information

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

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

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NOTE 23: COMMITMENTS FOR EXPENDITURE

	2017 \$	2016 \$
Lease commitments		
Commitments for minimum payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	226,190	-
Later than one year but not later than five years	408,825	-
	<u>635,015</u>	<u>-</u>

There were no capital commitments during the year ended 30 June 2017 (2016: nil)

A subsidiary of the Group (Richfield Marine Agencies (S) Pte Ltd) leases office premises and office equipment from non-related parties under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

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NOTE 24: OTHER ACCOUNTING POLICIES

a) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

i. AASB 15 Revenue from Contracts with Customers

This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It supersedes current revenue recognition guidance including *AASB 118 Revenues*, *AASB 111 Construction Contracts* and related interpretations. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard also allows costs associated with obtaining a contract to be capitalized and amortised over the life of the new contract. The Group has not yet assessed how its own revenue recognition would be affected by the new rule. The Group does not intend on adopting the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 1 January 2018.

ii. AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019 and replaces *AASB 117 Leases* for lessees will eliminate the classifications of operating leases and finance leases. This is not expected to have a material impact on the Groups financial statements.

b) Foreign currency translations and balances

Transactions and Balances

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

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

Group Companies

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

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

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

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NOTE 24: OTHER ACCOUNTING POLICIES (Continued)

c) Goods and Services Tax (GST)

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

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

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

NOTE 25: AUDITORS REMUNERATION

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

	2017	2016
	\$	\$
Audit services		
Pitcher Partners Sydney for audit and review of financial reports and other work under the <i>Corporations Act 2001</i>	159,130	55,375
Other assurance services	56,846	18,010
Restated June 2015 and December 2015 financial accounts	-	96,085
	<u>215,976</u>	<u>169,470</u>

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NOTE 26: EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share

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

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

	2017	2016
	\$	\$
(Loss) / Profit attributable to members	(4,813,699)	1,905,094
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic and diluted EPS	280,000,000	273,497,548
Basic and diluted (loss) earnings per share (cents per share)	<u>(1.72)</u>	<u>0.70</u>

The consolidated entity currently has 20,000,000 outstanding options that were issued to Gabriel Radzynski for nil consideration (2016: 10,000,000) following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option (2016: \$0.17) and expire on 31 December 2020 (2016: 31 December 2017). As the average price of MVT from the date of issue to 30 June 2017 did not exceed the exercise price of the options, they are not dilutive and therefore diluted earnings per share equals earnings per share.

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NOTE 27: OTHER OPERATING COSTS

	2017	2016
	\$	\$
Other operating expenses is made up of the following:		
Parent operating expenses		
Rent	17,217	13,255
Office Expenses	13,804	30,264
Travel	4,984	11,449
Foreign exchange losses	48,059	6,782
Fees and commissions	24,606	28,054
Miscellaneous expenses	2,454	3,266
	<hr/> 111,124	<hr/> 93,070
Subsidiary operating expenses		
Rent	298,772	228
Office Expenses	105,034	33,796
Travel	35,792	-
Bank fees	7,981	931
Depreciation	221,422	393
Entertainment	38,902	-
Miscellaneous expenses	32,936	47,304
	<hr/> 740,839	<hr/> 82,652
Total other operating costs	<hr/> 851,963	<hr/> 175,722

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DIRECTORS' DECLARATION

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

1. the financial statements and notes, as set out on pages 15 to 60, are in accordance with *the Corporations Act 2001*, and:
 - (a) comply with Australian Accounting Standards, which, as stated in the basis of preparation section on page 19, constitutes compliance with International Financial Reporting Standards (IFRS), the Corporations Regulations 2001 and other mandatory reporting requirements; and
 - (b) give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the Consolidated Group;
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
3. the Directors have been given the declarations required by section 295A of *the Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

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



Gabriel Radzynski
Executive Director

28 August 2017

**Independent Auditor's Report
to the Members of Mercantile Investment Company Limited
A.B.N. 15 121 415 576**

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Mercantile Investment Company Limited and its controlled entities (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of 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.

Opinion

In our opinion

- a) the consolidated financial report of Mercantile Investment Company Limited and its controlled entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of Group's financial position as at 30 June 2017 and of its consolidated performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in the basis of preparation section on page 19.

Basis of Opinion

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 consolidated financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the consolidated financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. We have communicated the key audit matters to the Audit and Risk Committee, but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Committee. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Financial Assets Refer to Note 14: Financial Risk Management, Note 15: Fair Value Estimation	
<p>We focused our audit effort on the valuation and existence of the Group's financial assets as these comprise its largest assets and represent the most significant driver of the Group's net tangible assets and results.</p> <p>The Group has \$47.0 million at fair value determined by unadjusted quoted prices in an active market and a further \$4.8 million where fair value is determined by reference to valuation techniques that incorporate observable market data where judgments are involved in determining fair value.</p> <p>In relation to financial assets, there is also a risk that these are not owned by the Group or do not exist.</p> <p>We therefore identified the valuation, existence and ownership of financial assets as an area of focus.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Obtaining an understanding of the investment process and controls; ▪ Reviewing the latest available independent audit report on internal controls (ASAE 3402 Assurance Reports on Controls at a Service Organisation) for the Custodian; ▪ Enquiring whether there had been any changes to the controls of the Custodian or their effectiveness; ▪ For the period since the last internal controls audit, testing a sample of purchase and sale transactions and tracing these through to the Custodian and Group's records; ▪ Where investments are not held by the Custodian confirming ownership directly with the registry for a sample of investments; ▪ Agreeing the investment holdings to a confirmation obtained directly from the Custodian; ▪ Assessing the Group's valuation of individual investment holdings to independent sources where readily observable data was available. For investments where there was little or less observable market data, obtaining and assessing other relevant valuation data; ▪ Evaluating the appropriateness of the accounting treatment of revaluations of financial assets for current/deferred tax and realised/unrealised gains or losses; ▪ Assessing the adequacy of disclosures in the consolidated financial statements.
Acquisition Accounting Refer to Note 6: Business Combinations	
<p>We focused our audit effort on the accuracy of the acquisition accounting of the Group as it completed two significant acquisitions during the year, being Richfield International Limited for a gross purchase consideration of \$19.8million and Wellington Merchants Limited for a gross purchase consideration of \$5.2million.</p> <p>Accounting for acquisitions involves complexity and judgement, requiring management to determine the fair value of acquired assets and liabilities acquired, in particular determining the allocation of purchase consideration to goodwill and separately identifiable intangible assets.</p> <p>We therefore identified the accuracy and fair value of acquisition accounting as an area of audit focus.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> ▪ Reviewing sale and purchase agreements and ASX announcements, including offer statements, to understand key terms and conditions; ▪ Reviewing management's determination of fair value of identified assets and liabilities acquired and their acquisition accounting workings and tested the key assumptions and a sample of identified assets and liabilities acquired to supporting documentation; ▪ Assessing the adequacy of disclosures made in the consolidated financial statements in relation to each business combination.

Related Party Transactions

Refer to Note 20: Trade and Other Payables, Note 22: Related Parties and Remuneration Report

During the year the Group transacted with directors and director related entities including:

- awarded share based payments, in the form of share options, to directors and management;
- short term unsecured loans advanced to the Group from an entity associated with a director;
- corporate, advisory and accounting services.

As these transactions are made with related parties, there are additional inherent risks associated with these transactions, including the potential for these transactions to be made on terms and conditions more favourable than if they had been with an independent third-party.

In addition, management performed calculations to record the related share based payment expense in the consolidated statement of comprehensive income. Due to the complex and judgmental estimates used in determining the valuation of the share based payments, we consider the Group's calculation of the share based payment expense to be a key audit matter.

We therefore identified related party transactions as an area of focus.

Our procedures included, amongst others:

- Enquiring of management regarding related party transactions occurring during the period;
- Reviewing minutes of meetings, ASX announcements and considered other transactions undertaken during the financial year;
- Reviewing payments, receipts and general journals throughout the year and examined transactions with known related parties of that appeared large or unusual for the Group;
- Evaluating based on supporting documentation for a sample of related party transactions, whether they were on an arms-length basis;
- Utilising our internal valuation specialists to assess the assumptions and model used in management's calculation of the value of options awarded and recorded as share based payments;
- Assessing the adequacy of disclosures made in the consolidated financial statements in relation to these related party transactions.

Other information

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the consolidated financial report and the auditor's report thereon.

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

In connection with our audit of the consolidated financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially consistent with the consolidated financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the consolidated financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 12 of the Directors' Report for the year ended 30 June 2017. In our opinion, the Remuneration Report of Mercantile Investment Company Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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



S M Whiddett
Partner

28 August 2017



Pitcher Partners
Sydney

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

**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

ASX ADDITIONAL INFORMATION

Information as at 22 August 2017

Shares (ASX: MVT)

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

Range	Total Holders	Number of Shares	% of Issued Capital
1 - 1,000	642	224,877	0.08%
1,001 - 5,000	1,229	3,652,637	1.30%
5,001 - 10,000	434	3,451,424	1.23%
10,001 - 100,000	599	19,942,807	7.12%
100,001 and over	114	252,728,255	90.27%
Total	3,018	280,000,000	100.00%

Unmarketable Parcels

	Parcel Size	Holders	Number of Shares	% of Issued Capital
Minimum \$500 parcel	3,226	1,424	1,980,585	0.71%

Top 20 Holders of Fully Paid Ordinary Shares

Rank	Names	Number of Shares	% of Issued Capital
1	Siblow Pty Ltd	103,764,634	37.06%
2	G W Holdings Pty Ltd <Edwina A/C>	25,750,522	9.20%
3	McNeil Nominees Pty Ltd	18,646,486	6.66%
4	Portfolio Services Pty Ltd	14,915,001	5.33%
5	Mr Ronald Langley + Mrs Rhonda Elizabeth Langley	12,500,000	4.46%
6	JP Morgan Nominees Australia Limited	10,961,321	3.91%
7	Treasure Island Hire Boat Company Pty Ltd <Staff Super Fund Account>	8,788,147	3.14%
8	LIC Investments Pty Ltd <LIC Investments Unit A/C>	5,800,000	2.07%
9	Abbawood Nominees Pty Ltd <Abbott Family S/F No.1 A/C>	4,000,000	1.43%
10	Mercantile Investment Company Ltd <New Zealand Control A/C>	3,555,932	1.27%
11	HSBC Custody Nominees (Australia) Ltd	2,468,405	0.88%
12	Forsyth Barr Custodial Ltd < Forsyth Barr Ltd - Nominee A/C>	2,406,595	0.86%
13	Investment Custodial Services Ltd	1,960,000	0.70%
14	Citicorp Nominees Pty Ltd	1,955,797	0.70%
15	National Nominees Ltd	1,834,730	0.66%
16	BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	1,467,255	0.52%
17	Mr Edward Dally & Mrs Selina Dally <EJ Dally Super Fund A/C>	1,320,334	0.47%
18	Avenue 8 Pty Limited < Gan Super Fund A/C>	1,117,100	0.40%
19	K Q R Pty Ltd	1,074,003	0.38%
20	Mr Frederick Bruce Wareham	1,050,000	0.38%
		225,336,262	80.48%

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

**NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2017**

ASX ADDITIONAL INFORMATION (Continued)

Substantial Security Holders

The company has received the following substantial holder notices from shareholders who hold relevant interests in the company's ordinary shares as at 22 August 2017:

Disclosed Holder	Number of Shares held at time of notice	% of Issued Capital disclosed at time of notice
Sir Ron Brierley	122,411,120	45.55%
GW Holdings Pty Ltd	25,750,522	9.60%
Gibbsbourne Pty Ltd*	14,915,001	5.95%

*Currently named Portfolio Services Pty Ltd

Voting Rights

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