

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

**APPENDIX 4D – HALF YEAR REPORT
For the half year ended 31 December 2017**

Results for announcement to the market
All comparisons to the half year ended 31 December 2016

Earnings	31 December 2017	Movement	
	\$	Up / Down	%
Revenue from ordinary activities	9,867,967	Up	40%
Profit after tax attributable to members	4,442,544	Up	246%
Total comprehensive income after tax attributable to members	6,117,074	Up	531%
	31 December 2017	30 June 2017	
	\$	\$	
Net Tangible Assets Per Share (NTA)			
NTA before tax	0.206	0.178	
NTA after tax	0.181	0.160	

Commentary on results and changes in the consolidated entity

The Company has continued to invest in listed and other investment opportunities that the Directors consider offer the prospect of attractive risk adjusted returns.

For further details, please refer to the Directors' Report.

Dividends

No dividends were paid during the period (2016: nil) and no dividends have been declared for the half year ended 31 December 2017.

This report is based on the half year financial report attached, which has been subject to independent review by the auditors, Pitcher Partners. All documents comprise information required by Listing Rule 4.2A.

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

**Interim Financial Report
for the Half Year Ended 31 December 2017**

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

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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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 Radzyminski - 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 - Non-Executive Alternate Director	
Company Secretary:	Mark Licciardo and Adam Sutherland 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:	+61 2 8280 7100
	Website:	www.linkmarketservices.com.au
ASX Code:	MVT Fully paid ordinary shares.	
	MVTA Unsecured Notes.	
NZX Code:	MVT Fully paid ordinary shares.	

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

DIRECTORS' REPORT

The Directors of Mercantile Investment Company Limited ("MVT") present their report together with the financial statements of the Company and its controlled entities for the half year ended 31 December 2017.

DIRECTORS

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

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

REVIEW AND RESULTS OF OPERATIONS

Revenue from ordinary activities was \$9,867,967, up 40% on the prior comparable period. There were increases reported in distributions as well as income from the Company's Shipping Services division. There were also significant increases in both realised and unrealised gains in the Company's trading portfolio.

Profit after tax for the reporting period was \$4,442,544, up 246% on the prior period. There was a \$1,674,530 movement in the fair value of long term equity investments, which contributed to a Total Comprehensive Income after tax of \$6,114,074, up 531% on the prior period.

The Company reported a cash balance of \$17,751,789 as at 31 December 2017, which provides ample capacity to deploy should suitable investment opportunities arise.

Net tangible assets per share as at 31 December 2017 were reported as 20.6 cents per share on a pre-tax basis and 18.1 cents on an after tax basis. These represented increases of 15.7% and 13.1% respectively over the reporting period.

The Company launched a proportional takeover offer for Bauxite Resources Ltd in November 2017, and remains current.

The takeover offer for EZA Corporation Ltd (now Santa Fe Minerals Ltd) closed in August 2017, with the Company securing 13.1% of the target. The takeover offer for MHM Metals Ltd closed in July 2017, with the Company securing 6.7%, which has since been sold.

Subsequent events

On 12 February 2018 Ask Funding Limited (AKF), a subsidiary of the Company, received judgement in a legal dispute with the borrower of a Single Matrimonial Loan in the Family Court of Western Australia. The borrower was ordered to be paid approximately \$2.8 million.

The net carrying value of this loan as at 31 December 2017 was \$2.0 million, however as a consequence of the judgement made by the Family Court of Western Australia in favour of the borrower, AKF now expects to recover \$2.8 million. Please refer to the Ask Funding Limited's Interim Financial Report for further details.

AKF is currently determining when it is likely to receive payment. There is uncertainty as to the timing of this payment, as there may be further appeals against the judgement.

**MERCANTILE INVESTMENT COMPANY LIMITED
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Directors' Report (continued)

DIVIDENDS

No dividends were paid or are payable for the period ended 31 December 2017. The Directors intend to consider the capacity of MVT to pay dividends in the future.

ROUNDING OF AMOUNTS TO NEAREST DOLLAR

In accordance with ASIC Corporations (Rounding in Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest one dollar, or in certain cases, the nearest 1/10th cent (where indicated).

AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 4 for the half year ended 31 December 2017.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.



Gabriel Radzynski
Director

23 day of February 2018

Auditor's Independence Declaration
To the Directors of Mercantile Investment Company Limited
ABN 15 121 415 576

In relation to the independent auditor's review for the half-year ended 31 December 2017, to the best of my knowledge and belief there have been:

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

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



Scott Whiddett
Partner

Pitcher Partners
Sydney

23 February 2018

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Note	31 December 2017 \$	31 December 2016 \$
Income			
Revenue from continuing operations	2	3,371,319	2,644,932
Other income	2	6,496,648	4,388,012
		<u>9,867,967</u>	<u>7,032,944</u>
Expenses			
Accounting fees		107,436	100,692
Audit fees		91,606	89,996
Taxation service fees		73,813	140,179
Finance costs		899,682	1,000,023
Service agreement fees		165,000	145,001
Company secretary fees		20,939	33,342
Share registry fees		116,715	62,588
Brokerage		15,747	105,404
Impairment charges		823,481	7,598,191
Legal and professional fees		214,579	487,885
ASIC and ASX charges		49,988	38,610
Share based payments		112,000	517,500
Employee benefit expenses		926,521	784,170
Other operating costs		390,637	594,656
		<u>4,008,144</u>	<u>11,698,237</u>
Profit / (Loss) Before Income Tax		5,859,823	(4,665,293)
Income tax (expense) / benefit		(1,444,002)	1,552,139
Profit / (Loss) for the period		<u>4,415,821</u>	<u>(3,113,154)</u>
Profit / (Loss) Attributable to:			
Members of the parent entity		4,442,544	(3,034,709)
Non-Controlling Interest		(26,723)	(78,445)
		<u>4,415,821</u>	<u>(3,113,154)</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		1,674,530	4,003,741
Total other comprehensive income		1,674,530	4,003,741
Total Comprehensive Income for the half year, net of tax		<u>6,090,351</u>	<u>890,587</u>
Total Comprehensive Income / (Loss) attributable to:			
Members of the Parent Entity		6,117,074	969,032
Non-Controlling Interest		(26,723)	(78,445)
		<u>6,090,351</u>	<u>890,587</u>
Earnings / (Loss) per Share		Cents	Cents
- Basic earnings (loss) per share		1.59	(1.08)
- Diluted earnings (loss) per share		1.59	(1.08)

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
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Note	31 December 2017 \$	30 June 2017 \$
Assets			
Current Assets			
Cash and cash equivalents		17,751,789	18,941,688
Trade and other receivables		2,296,473	2,065,135
Net loans and advances		2,958,977	2,844,938
Financial assets at fair value through profit or loss	6	23,838,839	19,487,797
Other current assets		104,888	104,813
Total Current Assets		<u>46,950,966</u>	<u>43,444,371</u>
Non - Current Assets			
Financial assets at fair value through other comprehensive income	6	38,035,494	32,321,180
Property, plant & equipment		46,609	104,707
Deferred tax assets		178,245	221,738
Total Non-Current Assets		<u>38,260,348</u>	<u>32,647,625</u>
Total Assets		<u>85,211,314</u>	<u>76,091,996</u>
Liabilities			
Current Liabilities			
Trade and other payables		4,565,913	4,214,881
Current tax liability		2,969,169	2,642,206
Total Current Liabilities		<u>7,535,082</u>	<u>6,857,087</u>
Non-Current Liabilities			
Unsecured notes	7	21,765,013	21,706,995
Deferred tax liabilities		4,256,028	2,915,229
Total Non-Current Liabilities		<u>26,021,041</u>	<u>24,622,224</u>
Total Liabilities		<u>33,556,123</u>	<u>31,479,311</u>
Net Assets		<u>51,655,191</u>	<u>44,612,685</u>
Equity			
Issued Capital	4	28,836,120	28,717,120
Accumulated losses		(6,012,399)	(10,454,943)
Reserves	5	27,899,684	25,391,999
Members' interests		50,723,405	43,654,176
Non-controlling interest		931,786	958,509
Total Equity		<u>51,655,191</u>	<u>44,612,685</u>

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 HALF YEAR ENDED 31 DECEMBER 2017**

	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 2016	28,717,120	(5,237,356)	12,548,822	9,998,871	-	164,000	1,274,558	47,466,015
Profit for the Year		(3,034,709)					(78,445)	(3,113,154)
<u>Other Comprehensive Income for the Year:</u>								
Movements in the fair value of long-term investments, net of tax				4,003,741				4,003,741
Realised gains on sale of investments			1,038,935	(1,038,935)				-
Revaluation of pre-existing investment in controlled entity			3,300,620	(3,300,620)				-
<u>Transactions with Owners:</u>								
Foreign Currency Translation Reserve					(644,469)			(644,469)
Non-controlling interests on acquisition of subsidiary							2,719,951	2,719,951
Change in proportion of NCI		(403,890)					(2,738,566)	(3,142,456)
Share options issued / exercised						517,500		517,500
Balance at 31 December 2016	28,717,120	(8,675,955)	16,888,377	9,663,057	(644,469)	681,500	1,177,498	47,807,128
Balance at 1 July 2017	28,717,120	(10,454,943)	22,191,606	3,291,586	(772,693)	681,500	958,509	44,612,685
Profit for the Year		4,442,544					(26,723)	4,415,821
<u>Other Comprehensive Income for the Year:</u>								
Movements in the fair value of long-term investments, net of tax				1,674,530				1,674,530
Realised gains on sale of investments			76,373	(76,373)				-
<u>Transactions with Owners:</u>								
Foreign Currency Translation Reserve					721,155			721,155
Share options issued / exercised	119,000					112,000		231,000
Balance at 31 December 2017	28,836,120	(6,012,399)	22,267,979	4,889,743	(51,538)	793,500	931,786	51,655,191

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 HALF YEAR ENDED 31 DECEMBER 2017**

	31 December 2017 \$	31 December 2016 \$
Cash Flows from Operating Activities		
Dividends, distributions and other investment income received	3,580,837	2,669,347
Other payments in the course of ordinary operations	(296,597)	(2,799,646)
Proceeds from sale of trading securities	2,068,939	2,555,976
Payments for trading securities	(1,839,679)	(2,369,770)
Proceeds from return of capital	230,879	-
Interest received	243,203	433,349
Interest paid	-	(1,026,257)
Loan repayments received	16,765	103,003
Income tax paid	(346,859)	(597,414)
Net Cash provided by / (used in) Operating Activities	<u>3,657,488</u>	<u>(1,031,412)</u>
Cash Flows from Investing Activities		
Proceeds from disposal of financial assets	804,320	315,104
Payments for financial assets	(4,825,684)	(2,391,009)
Net cash acquired on acquisition of a controlled entity	-	4,814,068
Payment for purchase of non-controlling interest	-	(3,142,455)
Proceeds from return of capital	92,355	3,597,067
Net Cash (used in) / provided by Investing Activities	<u>(3,929,009)</u>	<u>3,192,775</u>
Cash Flows from Financing Activities		
Proceeds from unsecured notes	-	6,663,000
Borrowing costs	(16,881)	(195,070)
Interest Payments on MVT Notes	(899,682)	(933,909)
Net Cash (used in) / provided by Financing Activities	<u>(916,563)</u>	<u>5,534,021</u>
Net (Decrease) in Cash and Cash Equivalents held	<u>(1,188,084)</u>	<u>7,695,384</u>
Effects of exchange rate changes on cash and cash equivalents	<u>(1,815)</u>	<u>(254,279)</u>
Cash and Cash Equivalents at the beginning of the half year	<u>18,941,688</u>	<u>7,933,953</u>
Cash and Cash Equivalents at end of the half year	<u>17,751,789</u>	<u>15,375,058</u>

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

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

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 Standard AASB134: Condensed Interim Financial Reporting and other applicable;
- 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 periods 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 2017. The half year report does not include full disclosures of the type normally included in an annual financial report. It is recommended that the half year financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by the company during the half year in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001*.
- 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 31 December 2017, 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.
- applied accounting policies of the Group which are consistent with those applied in the 30 June 2017 Annual Report.
- was authorised for issue with a resolution of the Board of Directors on 23 February 2018.

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

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 1: SEGMENT INFORMATION

Consolidated - 31 December 2017	Securities	Consumer Finance	Shipping Services	Total
	\$	\$	\$	\$
Revenue	7,631,867	999,699	1,236,401	9,867,967
Expenses	(1,757,508)	(1,094,261)	(1,156,375)	(4,008,144)
Profit / (Loss) before tax	5,874,359	(94,562)	80,026	5,859,823
Profit (Loss) after tax				4,415,821
<i>Material items include:</i>				
Impairment of loans	-	(823,481)	-	(823,481)
Write down of goodwill	-	-	-	-
Assets				
Segment assets	80,707,516	2,958,977	1,238,099	84,904,592
Trade and other receivables				23,589
Other current assets				104,888
Deferred tax assets				178,245
				<u>85,211,314</u>
Liabilities				
Segment liabilities	(21,765,012)	-	(3,013,892)	(24,778,904)
Trade and other payables				(1,552,022)
Current tax liability				(2,969,169)
Deferred tax liabilities				(4,256,028)
				<u>(33,556,123)</u>

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 INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 1: SEGMENT INFORMATION (CONT'D)

Consolidated - 31 December 2016	Securities	Consumer Finance	Shipping Services	Total
	\$	\$	\$	\$
Revenue	5,085,399	907,791	1,039,754	7,032,944
Expenses	(2,960,910)	(1,284,744)	(7,452,583)	(11,698,237)
Profit before tax	2,124,489	(376,953)	(6,412,829)	(4,665,293)
Profit after tax				(3,113,154)
<i>Material items include:</i>				
Impairment of loans	-	(955,951)	-	(955,951)
Write down of goodwill	-	-	(6,642,240)	(6,642,240)
Assets				
Segment assets	66,213,215	4,120,597	4,716,897	75,050,709
Trade and other receivables				212,044
Other current assets				117,648
Property, plant & equipment				897
Deferred tax asset				2,551,280
				<u>77,932,578</u>
Liabilities				
Segment liabilities	(21,635,657)	-	(1,607,521)	(23,243,178)
Trade and other payables				(1,767,523)
Current tax liability				(903,988)
Deferred tax liability				(4,210,761)
				<u>(30,125,450)</u>

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 2 (A): REVENUE FROM CONTINUING OPERATIONS

	31 December 2017 \$	31 December 2016 \$
Dividends received	283,212	292,261
Trust Distributions Received	1,053,051	604,422
Capital Returns	-	40,000
Interest income	1,166,593	1,315,348
Shipping Services income	868,463	392,901
	<u>3,371,319</u>	<u>2,644,932</u>

NOTE 2 (B): OTHER INCOME

Realised gains / (losses) on trading equities fair valued through profit and loss	2,148,182	527,659
Unrealised gains / (losses) on trading equities fair valued through profit and loss	4,214,705	2,702,728
Gain (loss) on acquisition of a controlled entity	-	326,730
Foreign exchange movement	(255,808)	466,262
Sundry income	389,569	364,633
	<u>6,496,648</u>	<u>4,388,012</u>

NOTE 3: PAYMENT OF DIVIDENDS TO SHAREHOLDERS

The group has not declared a dividend for the period (2017: nil).

**MERCANTILE INVESTMENT COMPANY LIMITED
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**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 4: ISSUED CAPITAL

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.

	31 December 2017 \$	30 June 2017 \$
280,700,000 (2017: 280,000,000) fully paid ordinary shares	28,836,120	28,717,120

	31 December 2017 No.	30 June 2017 No.	31 December 2017 \$	30 June 2017 \$
Ordinary Shares				
At the beginning of reporting period	280,000,000	280,000,000	28,717,120	28,717,120
<u>Movement in Shares on Issue:</u>				
Share options exercised	700,000	-	119,000	-
Closing Balance at Reporting Date	280,700,000	280,000,000	28,836,120	28,717,120

There are 20,000,000 options remaining unexercised:

Gabriel Radzynski was issued 10,000,000 options on 2 December 2016 for nil consideration, with an exercise price of \$0.20 per option. These options expire on 31 December 2020.

Gabriel Radzynski was granted a further 10,000,000 options with an exercise price of \$0.23 per option, subject to shareholder approval. These options expire on 31 December 2021.

An employee of Sandon Capital Pty Ltd (an entity associated with Gabriel Radzynski which provides general consulting, corporate advisory and accounting services to MVT) was issued 10,000,000 options in two separate tranches:

1. 5,000,000 options issued on 7 October 2016 for nil consideration, with an exercise price of \$0.20 per option. These options expire on 31 December 2020.
2. 5,000,000 options issued on 26 October 2017 for nil consideration, with an exercise price of \$0.23 per option. These options expire on 31 December 2021.

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**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 5: RESERVES

	31 December 2017 \$	30 June 2017 \$
a) Reserves		
Profit Reserve	22,267,979	22,191,606
Asset Revaluation Reserve	4,889,743	3,291,586
Foreign currency translation reserve	(51,538)	(772,693)
Share based payment reserve	793,500	681,500
	<u>27,899,684</u>	<u>25,391,999</u>
b) Major movements in reserves consist of:		
Asset revaluation reserve		
Balance 1 July	3,291,586	9,998,871
Movement in fair value of long term equity investments, net of tax	1,674,530	2,935,499
Revaluation of pre-existing investment in controlled entity	-	(3,300,621)
Realised gains on sale of long term equity investments	(76,373)	(6,342,163)
Balance 31 December	<u>4,889,743</u>	<u>3,291,586</u>
Profit reserve		
Balance 1 July	22,191,606	12,548,822
Revaluation of pre-existing investment in controlled entity	-	3,300,621
Realised gains on sale of long term equity investments	76,373	6,342,163
Balance 31 December	<u>22,267,979</u>	<u>22,191,606</u>

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.

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**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 6: 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 31 December 2017				
Financial assets at fair value through other comprehensive income:				
- Listed domestic and international investments	33,175,964	363,500	-	33,539,464
- Unlisted domestic investments	-	-	764,741	764,741
- Unlisted international investments	-	37,287	3,694,002	3,731,289
	<u>33,175,964</u>	<u>400,787</u>	<u>4,458,743</u>	<u>38,035,494</u>
Financial assets at fair value through profit and loss				
- Listed domestic and international investments	23,453,205	48,568	-	23,501,773
- Unlisted domestic and international investments	-	32,590	304,476	337,066
	<u>23,453,205</u>	<u>81,158</u>	<u>304,476</u>	<u>23,838,839</u>
Total assets	<u>56,629,169</u>	<u>481,945</u>	<u>4,763,219</u>	<u>61,874,333</u>

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

**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 6: FAIR VALUE ESTIMATION (continued)

	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				
- Listed domestic and international investments	18,441,330	584,153	-	19,025,483
- 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>

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 comparisons to similar investments for which market observable inputs are available, 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.

At 31 December 2017, financial assets at fair value through other comprehensive income had unrealised gains of \$1,940,714. Financial assets at fair value through profit and loss had unrealised gains of \$4,214,705.

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**NOTES TO THE INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

NOTE 7: INTEREST BEARING LIABILITIES

	31 December 2017 \$	30 June 2017 \$
Unsecured notes	22,308,700	22,308,700
Less: capitalised costs	(543,687)	(601,705)
Non-current unsecured – notes at amortised cost	21,765,013	21,706,995

These notes carry an interest entitlement of 8% per annum.
The maturity date of the notes is 10 July 2021.

NOTE 8: COMMITMENTS FOR EXPENDITURE

Capital commitments

There were no Capital Commitments outstanding as at 31 December 2017.

Lease commitments

Commitments for minimum payments in relation to
non-cancellable operating leases are payable as follows:

Not later than one year	229,288	226,190
Later than one year but not later than five years	273,345	408,825
	502,633	635,015

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

On 12 February 2018 Ask Funding Limited (AKF), a subsidiary of the Company, received judgement in a legal dispute with the borrower of a Single Matrimonial Loan in the Family Court of Western Australia. The borrower was ordered to be paid approximately \$2.8 million.

The net carrying value of this loan as at 31 December 2017 was \$2.0 million, however as a consequence of the judgement made by the Family Court of Western Australia in favour of the borrower, AKF has determined to increase the net carrying value of this loan to \$2.8 million.

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

**DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

The Directors declare that:

1. the financial statements and notes, as set out on pages 5 to 17, are in accordance with the *Corporations Act 2001*, including:
 - (a) comply with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance for the half year ended on that date;
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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001 on behalf of the directors.

Gabriel Radzynski
Director



Signed this 23 day of February 2018

**Independent Auditor's Review Report
to the Members of Mercantile Investment Company Limited
ABN 15 121 415 576**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mercantile Investment Company Limited ("the company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 31 December 2017, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration of consolidated entity comprising Mercantile Investment Company Limited and the entities it controlled at half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "*Review of a Financial Report Performed by the Independent Auditor of the Entity*", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of Mercantile Investment Company Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



Scott Whiddett
Partner

23 February 2018



Pitcher Partners
Sydney