

**MERCHANT OPPORTUNITIES FUND**

**ARSN 111 456 387**

**ANNUAL FINANCIAL REPORT**  
**For the year ended 30 June 2014**

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**For the year ended 30 June 2014**

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**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Corporate Directory**

**Responsible Entity**

Capricorn Investment Partners Limited

**Directors of the Responsible Entity**

David McKay French	-	Executive Chairman
Graeme Hilton George Fowler	-	Non-Executive Director
Owen Evans	-	Non-Executive Director

**Secretaries**

Reena Minhas  
Jean-Marie Rudd

**Registered Office**

c/ Rockwell Olivier (Perth)  
Wesfarmers House  
Level 8, 40 The Esplanade  
PERTH WA 6000

**Auditor of the Fund**

HLB Mann Judd  
Level 4, 130 Stirling Street  
PERTH WA 6000

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Directors' Report**  
**For the year ended 30 June 2014**

The Directors of Capricorn Investment Partners Limited (ABN 26 095 998 771), the Responsible Entity of Merchant Opportunities Fund (“the Fund”), submit their report for the Fund for the year ended 30 June 2014, and the auditor’s report thereon.

**DIRECTORS**

The names of the directors of the Responsible Entity in office during the period and until the date of this report are:

*David McKay French – B.Econs, Dip.Corp Management*

David French is the managing director and head of financial planning of Capricorn Investment Partners. He has 24 years’ experience in finance and economics, 19 of which are in investment markets, and was rated one of the top three investment analysts in Australia for his sectors of responsibility. Mr French has been responsible for building the business of Capricorn Investment Partners to a point where the business now manages about \$460 million in investments for more than 1,000 clients. He holds a Bachelor of Economics and a Diploma in Corporate Management, and has also completed a range of other courses relating to the valuation of companies and investments. Mr French is Treasurer of Home Support Association, a disability services organisation, and a past director of Rockhampton Regional Development Limited and The Rockhampton Chamber of Commerce.

*Stephen Moss – B. Divinity, Mstr Sacred Theology, Dr Ministry, Fellow Inst. of Co. Directors, Cert. Management Consultant, Fellow Aust Inst. of Co. Directors, Fellow Inst. Of Management Consultants (resigned 15 August 2014)*

Dr Stephen Moss is a professional director, advisor and mediator with a background in law, psychology and business. Stephen’s career includes 14 years as a Partner and Managing Partner of Price Waterhouse and Coopers and Lybrand (now PWC) and Managing Director of a number of consulting services firms including the largest contractor based overseas development assistance (ODA) firm in the Region. His specialisation is managing change in professional services firms. He has undertaken a number of governance and management reviews of major law firms both in Australia and overseas and has advised on the merger potential of law firms across the world. Another specialisation is in M&A and the capital management in professional service firm transactions, representing either the buyer or seller. He has also advised in the IPO and public market sectors. He works as an advisor on strategy, structure, acquisitions, capital and asset sales.

Dr Moss has authored a number of books and professional papers in Jungian psychology and he has a keen interest in ODA and has been engaged in representative roles with the World Bank and the Australian Government in Asia. He is also a board member of ChildFund and supports a number of social justice and human rights organisations.

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**Directors' Report (continued)**  
**For the year ended 30 June 2014**

*Michael Cranny – JP (resigned 1 September 2013)*

Michael Cranny is past Chairman of Capricorn Investment Partners Limited and Chairman of Tropical Pines, a large scale pineapple packer and marketer. Michael has previously held a number of board positions with the Yeppoon District Co-operative and Freshmark.

He has been an advisor to Golden Circle and has served as a councillor in Livingstone Shire Council, and been past Deputy Chairman of Capricorn Tourism and Economic Development. Outside of business he is involved in a large number of church and community activities.

*Graeme Fowler – B Bus, CPA, MAICD (appointed 26 September 2013)*

Mr Fowler was previously Chief Executive Officer of listed accounting and financial services aggregator Crowe Horwath Australasia Ltd (formerly WHK Group Limited). He brings specific experience in the successful aggregation of professional services firms. He spent over 15 years in senior management roles with BT Financial Group including Group Chief Financial Officer of BT Global Funds Management, CEO of BT Funds Management NZ, and CEO of BT Portfolio Services (including BT Wrap). Mr Fowler is also a non-executive director of Countplus Limited.

Mr Fowler is a business studies graduate of the University of Technology, Sydney, and a Certified Practising Accountant.

During the past three years, Mr Fowler served as a director of Countplus Limited (appointed 19 August 2010).

Stephen Moss and David French were in office from the beginning of the period until the date of this report. Graeme Fowler was appointed as director on 26 September 2013 and was in the office since that date until the date of this report.

Michael Cranny was in the office from the beginning of the period and resigned on 1 September 2013.

*Mr. Owen Evans - BA (Hons), MSc(Econ) (appointed 8 August 2014)*

Mr Evans is an experienced investment professional with almost 30 years' experience in research, valuation and funds management. He has been rated number one analyst for building materials, construction and emerging companies while at UBS Australia and judged Money Management Fund Manager of the Year in 2005 and 2006 as Chief Investment officer at MIR Australia. Between 1997 and 2010, Mr Evans was sole analyst on the IPO's of Bristle, AWB, Transfield Services, Worley Parsons and NRW. He is currently principle of Yaz Investment Pty Ltd, and provides consulting services for mid-sized Australian Companies such as Adelaide Brighton, Brickworks Ltd, Calibre Global and Dulux. He also provides investment consulting advice for global fund managers. Mr Evans is currently non-Executive President of the Manly Warringah Basketball Association and is a Director of the Sydney Harbour Foreshore Authority.

**OPERATIONAL REVIEW FOR THE YEAR ENDED 30 JUNE 2014**

The Merchant Opportunities Fund (MOF) is now in its third year of operation, having changed the mandate from the Entrust Investment Fund in May 2012. As at 30 June 2014, MOF reported \$12 million of assets under management.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2014**

The nature of the Fund's activities did not change significantly during the year.

The Fund's mandate is to look for domestic (both short and long term) opportunities that are both listed on the ASX and unlisted. The Fund aims to have a concentrated portfolio of between 10 and 30 investments at all times and actively allocate capital to areas of the portfolio where the manager feels the greatest return on investment is possible. All investments during the year were undertaken in accordance with the Fund's constitution.

The small cap market was still very weak over the 2013/14 financial year with the Small Ordinaries Index shedding approximately 1.23% for the year. In comparison, the MOF was up circa 22% over the same period. Throughout the year, MOF has maintained and sometimes built on its current core listed investments in the Financial Services, Oil & Gas, Coal, Mining Services and Healthcare Sectors of the market. The Fund also holds strategic investments in IT, Oil & Gas Services, as well as seed investment positions in the Coal, Copper and the fast moving Consumer Goods sector.

A number of these strategic positions relate to business plans which are expected to result in corporate activity over the coming year, providing opportunities to exit at expected higher prices or see increases in the value of the underlying asset. It is also intended that once these events occur, the MOF will open a larger redemption facility so unitholders can choose to remain in the fund or exit.

The Fund maintains a holding in the Esplanade Property Fund which is an unlisted residual investment from the formerly named Entrust Investment Fund. This investment makes up around 8 per cent of the portfolio value (after a recent valuation reduction) and it is intended that when available, this investment will be sold down and funds moved into line with the Fund's broader operating investment mandate.

During the 2013/14 financial year, the Fund processed one redemption and it is intended the Fund will open a redemption facility as soon as the pricing of the Esplanade Property Fund has been completed.

Merchant Funds Management Pty Ltd remains the investment manager of the Fund and is responsible for the day to day management of the Fund.

The Fund did not have any employees during the year.

## **SCHEME INFORMATION**

Merchant Opportunities Fund is an Australian registered scheme, and was constituted on 18 October 2004. Capricorn Investment Partners Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. Merchant Funds Management Pty Ltd was appointed the investment manager of the Fund on 12 April 2012, and along with this, is responsible for the day to day management of the Fund.

The registered office of the Responsible Entity is located at c/ Rockwell Olivier (Perth), Wesfarmers House, Level 8, 40 The Esplanade, Perth, Western Australia.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**REVIEW OF RESULTS AND OPERATIONS**

**Results**

The net operating income of Merchant Opportunities Fund is presented in the statement of comprehensive income. Profit from operating activities for the year ended 30 June 2014 was \$2,266,338 (2013: loss of \$2,485,810).

**Distributions**

There was no distribution to unitholders (2013: nil) for the year ended 30 June 2014.

**Indirect cost ratio**

The indirect cost ratio (ICR) is the ratio of the Fund's management costs over the Scheme's average net assets attributable for the year, expressed as a percentage.

Management costs include management fees and other expenses or reimbursements deducted in relation to the Fund, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Fund.

The ICR for the Fund for the year ended 30 June 2014 is 2.58% (2013: 3.18%)

**UNIT PRICE HISTORY**

The ex-distribution exit prices and the highest and lowest exit prices for Merchant Opportunities Fund are shown below. All exit prices are exclusive of exit fees.

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
As at 30 June	0.6807	0.5529
Year to 30 June:		
High	0.8233	0.6328
Low	0.5433	0.5245

**UNITS ON ISSUE**

17,642,242 units of Merchant Opportunities Fund were on issue at 30 June 2014 (2013: 17,801,987). During the year nil (2013: 1,230,236) units were issued by the Fund and 159,745 units (2013: 787,704) were redeemed.

**SCHEME ASSETS**

At 30 June 2014 Merchant Opportunities Fund held assets to a total value of \$12,086,935 (2013: \$9,928,305). The basis for valuation of the assets is disclosed in Note 3 to the financial statements. The Responsible Entity does not hold any units in the Fund as at 30 June 2014.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATES**

The following fees were paid to the Responsible Entity and its associates out of Fund property during the financial year:

Management fee for the financial period paid to the Responsible Entities & Merchant Funds Management Pty Ltd	\$108,077	(2013: \$92,067)
Preparation of Financial Reports	\$0	(2013: \$5,000)
Compliance Fees	\$8,317	(2013: \$7,688)
Expenses incurred by the Responsible Entity and reimbursed by the Fund in accordance with the Fund's constitution	\$0	(2013: \$0)

The interests in the Fund held by the Responsible Entity and its associates out of Fund property at the end of the year are disclosed in Note 13 to the financial statements.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There were no significant changes to the state of affairs of Merchant Opportunities Fund during the year.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The investment strategy of the Fund will be maintained in accordance with the Fund's Constitution and investment objectives.

**ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Fund's operations are not subject to any environmental regulations under Commonwealth, State or Territory legislation.

**Merchant Opportunities Fund**  
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**Directors' Report (continued)**  
**For the year ended 30 June 2014**

**INDEMNIFICATION AND INSURANCE OF OFFICERS OR AUDITORS**

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

- (a) any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that persons favour, or in which the person is acquitted, or in connection with an application in relation to such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- (b) a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than a Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the Responsible Entities and the Investment Manager paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

The Fund has not indemnified or insured officers and auditors.

**EVENTS SUBSEQUENT TO BALANCE DATE**

There have been no events subsequent to balance date which require disclosure in this report.

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration is set out on page 8 and forms part of the directors' report for the year ended 30 June 2014.

This report is made in accordance with a resolution of the directors.



David French  
Director

Perth  
26 September 2014

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Merchant Opportunities Fund for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



Perth, Western Australia  
26 September 2014

W M Clark  
Partner

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2014**

	Note	2014 \$	2013 \$
<b>Revenue</b>			
Interest income	7	7,637	19,349
Dividend and distribution income	7	-	40,813
Net gain/(loss) on financial instruments through profit and loss	8	2,540,908	(2,232,416)
<b>Net investment income/(loss)</b>		2,548,545	(2,172,254)
<b>Expenses</b>			
Responsible Entity and Fund Manager fees	4(a)	(108,077)	(92,067)
Auditors' remuneration	4(b)	(45,075)	(59,893)
Consultants' fees		(4,420)	-
Custodian and administration fees		(41,013)	(50,414)
Compliance fees		(17,287)	(23,031)
Legal fees		-	(20,119)
Other expenses		(66,335)	(68,032)
<b>Operating expenses before finance costs</b>		(282,207)	(313,556)
<b>Profit/(Loss) from operating activities</b>		2,266,338	(2,485,810)
<b>Finance costs</b>			
Distribution to unitholders	5(a)	-	-
<b>Changes in net assets attributable to unitholders / total comprehensive income/(loss)</b>		2,266,338	(2,485,810)

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

**Merchant Opportunities Fund**  
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**Statement of Financial Position**  
**As at 30 June 2014**

	Note	2014 \$	2013 \$
<b>Assets</b>			
Cash and cash equivalents	11(a)	48,449	14,396
Loans and receivables:			
Interest, dividends and other receivables		28,214	62,727
Financial assets held at fair value through profit and loss:			
Equity investments and units in listed and unlisted schemes	6	11,960,272	9,801,182
Convertible loan	6	50,000	50,000
<b>Total assets</b>		12,086,935	9,928,305
<b>Liabilities</b>			
Financial liabilities measured at amortised cost:			
Accrued expenses	9	55,000	66,600
Accounts payable		10,930	15,224
Distribution payable	5(a)	-	-
Responsible entity and fund manager fees payable		12,089	3,511
<b>Total liabilities (excluding net assets attributable to Unitholders)</b>		78,019	85,335
<b>Net assets attributable to unitholders – Liability</b>	10(b)	12,008,916	9,842,970
<b>Represented by:</b>			
Net assets attributable to unitholders at redemption price	10(b)	12,008,916	9,842,970

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

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2014**

The Fund's net assets attributable to unitholders are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such the Fund has no equity, and no items of changes in equity have been presented for the current or comparative year.

**Merchant Opportunities Fund**  
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**Statement of Cash Flows**  
**For the year ended 30 June 2014**

	Note	2014 \$	2013 \$
<b>Cash flows from operating activities</b>			
Proceeds from sale of investments		1,180,893	2,395,100
Purchase of investments		(799,076)	(2,322,973)
Interest received		957	41,859
Dividends and distributions received		40,803	-
Payments to suppliers		(211,176)	(224,840)
Payments to responsible entity and fund manager		(77,956)	(105,127)
<b>Net cash flows from/(used in) operating activities</b>	11(b)	134,445	(215,981)
<b>Cash flows from financing activities</b>			
Cash distributions paid		-	(14,522)
Proceeds from application monies	10(b)	-	492,000
Payments on redemption of redeemable units	10(b)	(100,392)	(528,896)
<b>Net cash flows used in financing activities</b>		(100,392)	(51,418)
Net decrease in cash and cash equivalents		34,053	(267,399)
Cash and cash equivalents at 1 July 2013		14,396	281,795
<b>Cash and cash equivalents at 30 June 2014</b>	11(a)	48,449	14,396

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

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2014**

**Note 1 Reporting Entity**

Merchant Opportunities Fund (the Fund) is an Australian Registered Scheme, and was constituted on 18 October 2004 under the Corporations Act 2001. The Fund is a for profit entity. Capricorn Investment Partners Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 2, Suite 1, 34 East Street, Rockhampton QLD 4700.

Merchant Funds Management Pty Ltd was appointed the investment manager of the Fund on 12 April 2012, and accordingly, is responsible for the day to day management of the Fund.

The financial report of the Fund is for the year ended 30 June 2014.

**Note 2 Basis of Preparation**

**(a) Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Fund complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial report was approved by the Board of Directors of the Responsible Entity on 26 September 2014.

**(b) Basis of Measurement**

The financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit and loss, which are measured at fair value.

**(c) Functional and presentation currency**

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

**(d) Use of estimates and judgements**

The preparation of the financial statement in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Note 12 contains information about the estimation of fair values of financial instruments.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 2 Basis of Preparation (continued)**

**(e) Changes in accounting policies**

There were no changes in the accounting policies of the Fund during the year.

**Note 3 Significant Accounting Policies**

The accounting policies set out below have been applied to all periods presented in these financial statements. The Fund has not early adopted any accounting standard.

**(a) Financial instruments**

**(i) Classification**

On 1 July 2005 the Fund classified all its listed and unlisted managed investment schemes investments into the fair value through profit or loss category.

Financial assets that are classified as loans and receivables include balances due from brokers and accounts receivable.

Financial liabilities that are measured at amortised cost include balances due to brokers and accounts payable.

**(ii) Recognition**

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets are recognised using trade date accounting. From this date any gains or losses arising from changes in the fair value of the financial assets or financial liabilities are recorded.

**(iii) Measurement**

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the profit or loss.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 3 Significant Accounting Policies (continued)**

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest rate method, less impairment losses (see note 3(a)(v)), if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Financial liabilities arising from the redeemable units issued by the Fund are carried at the redemption amount representing the investor's right to a residual interest in the Fund's assets, effectively fair value at reporting date.

**(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non exchange traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arms length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Most of the unlisted investments were acquired as part of a capital raising process. Where these are investments in seed, start-up or an early stage situation, they are valued based on purchase price, which is the price of recent investment activity. Following the relevant investment transaction date, the fair value of unlisted investments are assessed to determine whether changes in circumstances or events would imply a change in investment's fair value.

Investments in other unlisted managed investment schemes are recorded at the exit price or NTA as reported by managers of these schemes.

**(v) Impairment**

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment.

If any such indication exists, impairment testing is carried out and an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 3 Significant Accounting Policies (continued)**

**(vi) Derecognition**

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**(b) Convertible loans**

Convertible loans are hybrid contracts measured at fair value through profit or loss as permitted under AASB 139.

The convertibility feature of the loan which meets the definition of an embedded derivative under AASB 139 is separated from the host contract and is measured at fair value through profit and loss.

**(c) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Specific revenues are recognised as follows:

*Dividend and distribution income*

Dividends and distributions from listed entities are recognised as income on the date the share or unit is quoted ex-dividend or ex-distribution.

In some cases the Fund may receive or choose to receive dividends or distributions in the form of additional shares or units rather than cash. In such cases the Fund recognises the dividend or distribution income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment.

*Interest income*

Income from interest bearing securities is recognised as the interest accrues using the effective interest rate method.

*Changes in the fair value of assets*

Gains or losses on financial assets at fair value through profit and loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 3 Significant Accounting Policies (continued)**

**(d) Expenses**

All expenses, including management fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

Included in other operating expenses are legal, advisory and other fees which are broken down in the statement of comprehensive income.

**(e) Cash and cash equivalents**

Cash and cash equivalents, comprise cash at bank and short term deposits with an original maturity of three months or less, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short term cash commitments rather than for investment or other purposes.

**(f) Taxation**

Under the current legislation, the Fund is not subject to income tax provided the unitholders are entitled to the income of the Fund and the Fund fully distributes its taxable income (including assessable realised capital gains).

**(g) Distributions**

In accordance with the Fund's Constitution, the distributable income of the Fund is the amount determined by the Responsible Entity to be appropriate after reviewing the income of the Fund, the investment opportunities available and the market and any other matters that the Responsible Entity believes are relevant. The amounts the Responsible Entity determines in each financial year shall not be less than the net income (as defined in Section 95(1) of the Tax Act) of the Fund for the financial year (excluding any amount included in assessable income under section 160AQT or 6AC of the Tax Act).

Distributable income is calculated and distributed at the end of the financial year and at any other time that the Responsible Entity elects. Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to unitholders.

**(h) Change in net assets attributable to unitholders**

The amount of the Fund's income for a financial year not distributed to unitholders as determined by the Responsible Entity in accordance with the Fund's Constitution is transferred to net assets attributable to unitholders. The amount transferred to net assets attributable to unitholders as determined by the Responsible Entity may include amounts of unrealised gains and losses in the fair value of investments, accrued income not yet assessable and expenses provided for or accrued but not yet deductible, net capital losses and tax free or tax deferred income.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 3 Significant Accounting Policies (continued)**

These items are included in the determination of distributable income in the period for which they are assessable for taxation purposes.

**(i) Unit prices**

Unit prices are determined in accordance with the Fund's Constitution and are calculated as the net portfolio value of the Fund less performance fees accrued and distributions paid divided by the number of units on issue.

**(j) Terms and conditions on units**

Each unit issued confers upon the unitholder an equal interest in the Fund, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Fund. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Fund.

The rights, obligations and restrictions attached to each unitholder are identical in all respects.

**(k) Goods and services tax**

Expenses incurred by the Fund are recognised net of the amount of GST that can be recovered from the Australian Taxation Office (ATO). Amounts recognised as payables at balance date include the amount of GST payable.

Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis.

**(l) Significant accounting judgements, estimates and assumptions**

Except for the determination of fair values in the valuation of financial assets at fair value through profit and loss and recoverability of receivables (see note 3(c) (iii)), there are no other significant accounting judgements, estimates or assumptions made by management.

**(m) Redeemable units**

All redeemable units issued by the Fund provide the investors with the right to require redemption for cash and give rise to a financial liability. In accordance with the product disclosure documents the Fund is contractually obliged to redeem units at redemption price, which includes an allowance for transaction costs that would be incurred by the Fund on disposal of its assets required to fund redemptions.

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2014**

**Note 3 Significant Accounting Policies (continued)**

As a result of the transaction cost factor, there will be a difference between the carrying amount of the net assets of the Fund (excluding the unitholders' funds classified as a financial liability) and the contractual amount payable to unitholders which is based on redemption price. The adjustments arising from the different unit pricing under Australian Accounting Standards' valuation principles are presented in the statement of financial position as part of the net assets attributable to unitholders.

**(n) Finance costs**

Distributions paid and payable on units are recognised in the statement of comprehensive income as finance costs and as a liability where not paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

**(o) Adoption of new and revised standards**

*Standards and Interpretations applicable to 30 June 2014*

In the year ended 30 June 2014, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the scheme and effective for the current annual reporting period.

As a result of this review, the directors have determined that there is no material impact of the new and revised Standards and Interpretations on the scheme and, therefore, no change is necessary to accounting policies.

*Standards and Interpretations in issue not yet adopted*

The directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of this review the directors have determined that there is no material impact, of the new and revised Standards and Interpretations on the scheme and, therefore, no change is necessary to accounting policies.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Note 4 Expenses</b>		
<b>(a) Responsible Entity and Investment Manager fees</b>		
Management fees	108,077	92,067
Total responsible entity fees	<u>108,077</u>	<u>92,067</u>
<b>(b) Auditor's remuneration</b>		
Audit services:		
- audit of the financial reports (KPMG)	33,519	48,763
- review of the half year financial report (HLB Mann Judd)	11,556	-
- other regulatory audit services (KPMG)	-	11,130
	<u>45,075</u>	<u>59,893</u>
<b>Note 5 Distributions Paid and Payable</b>		
<b>(a) Distributions payable</b>		
- for period ended 30 June	-	-
Total distributions	<u>-</u>	<u>-</u>
<b>(b) Per unit distribution</b>		
- for period ended 30 June (cents per unit)	-	-
	<u>-</u>	<u>-</u>
<b>Note 6 Financial assets</b>		
The following table details the categories of financial assets and liabilities held by the Fund at reporting date:		
<b>Assets</b>		
<i>Classified as fair value through profit and loss upon initial recognition</i>		
-Equity investments	11,008,508	8,410,268
-Managed investment schemes	951,764	1,390,914
-Derivative financial instruments	50,000	50,000
<b>Total financial assets at fair value through the profit or loss</b>	<u>12,010,272</u>	<u>9,851,182</u>
<b>Cash and cash equivalents (Note 11a)</b>	<u>48,449</u>	<u>14,396</u>
<b>Total financial assets</b>	<u>12,058,721</u>	<u>9,865,578</u>

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2014**

**Note 7 Interest and dividend income**

The following table details the interest income earned by the Fund during the period:

	2014 \$	2013 \$
Interest income for financial assets carried at amortised cost:		
-cash and cash equivalents	958	2,865
-convertible loan	6,679	16,484
<b>Total interest income</b>	<b>7,637</b>	<b>19,349</b>

The following table details the dividend and distribution income earned by the Fund during the period:

	2014 \$	2013 \$
Dividend and distribution income from equity securities and units in listed and unlisted schemes classified as fair value through profit and loss	-	40,813
<b>Total dividend and distribution income</b>	<b>-</b>	<b>40,813</b>

**Note 8 Gains and losses from financial assets and liabilities**

The following table details the gains and losses from financial assets and liabilities at fair value through the profit and loss:

	2014 \$	2013 \$
Classified as fair value through profit and loss:		
-Equity investments and listed managed investment scheme.	2,540,908	(2,232,416)
<b>Net gain(loss) from financial assets and liabilities classified as fair value through profit and loss</b>	<b>2,540,908</b>	<b>(2,232,416)</b>

Gains and losses presented above exclude interest income, dividend income and distribution income.

The following table details the gains and losses from financial assets through profit and loss for the year ended:

	2014 \$	2013 \$
Realised gain/(loss)	(347,639)	(951,919)
Unrealised gain/(loss)	2,888,547	(1,280,497)
<b>Net gain/(loss) from financial assets and liabilities classified as fair value through profit or loss</b>	<b>2,540,908</b>	<b>(2,232,416)</b>

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Note 9 Accrued expenses</b>		
Audit fees	32,500	31,600
Accounting Fees	22,500	35,000
	<u>55,000</u>	<u>66,600</u>

**Note 10 Net Assets Attributable to Unitholders**

**(a) Units on issue**

The Fund's units on issue are represented by fully paid ordinary units.

The Fund considers its capital to be Unitholders' Funds.

The objective of the Fund is to provide unitholders with above average returns over the medium to long term through capital growth. The Fund aims to achieve this through investing in private companies, companies in the pre listing phase and companies listed on ASX in line with the Responsible Entity's investment criteria, while maintaining sufficient liquidity to fund unitholder redemption facilities when these are operating.

The Fund does not have any externally imposed capital requirements.

Units are issued at the unit application price at the end of the month. The unit application price is calculated in accordance with the Fund's constitution.

It is anticipated that units can be redeemed at the end of each month, however from time to time the Fund may be illiquid – when such times arise the Investment Manager will seek permission to suspend the redemption facility until such time as liquidity emerges. The redemption price at which the units are redeemed is calculated at the end of the month in accordance with the Fund's constitution. To protect the interests of all unitholders, no more than 15% of total units on issue may be redeemed in any month, although this restriction can be waived by the Responsible Entity.

Each unitholder is entitled to attend and vote at any meeting convened by the Responsible Entity. Unitholders are entitled to one vote per unit held. Unitholders are entitled to receive all distributions declared and paid by the Fund. Upon winding up the unitholders are entitled to a return of capital based on the net asset value per share of the Fund.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 10 Net Assets Attributable to Unitholders (continued)**

	<b>2014</b>	<b>2013</b>
	<b>Number</b>	<b>Number</b>
Units on issue as at beginning of reporting period	17,801,987	17,359,455
Units issued during the reporting period	-	1,230,236
Units redeemed or otherwise cancelled during reporting period	(159,745)	(787,704)
Units on issue as at the end of the reporting period	<u>17,642,242</u>	<u>17,801,987</u>

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>(b) Movement in net assets attributable to unitholders</b>		
Net assets attributable to unitholders at beginning of reporting period	9,842,970	12,119,856
Change in net assets attributable to unitholders:		
Profit/ (Loss) from operating activities	2,266,338	(2,485,810)
Distribution expense	-	-
Units issued during the reporting period	-	492,000
Units issued during the reporting period (distribution reinvestment)	-	245,820
Units redeemed or otherwise cancelled during the reporting period	(100,392)	(528,896)
Net assets attributable to unitholders at the end of reporting period	<u>12,008,916</u>	<u>9,842,970</u>

**Note 11 Cash and Cash Equivalents**

**(a) Cash and cash equivalents**

Cash balance comprises:

- Current deposits with banks

48,449	14,396
--------	--------

**(b) Reconciliation of cash flows from operating activities**

Profit /(Loss) from operating activities	2,266,338	(2,485,810)
<i>Adjustments for:</i>		
Net changes in financial assets held at fair value through profit and loss	(2,159,092)	2,484,323
<i>Changes in operating assets and liabilities:</i>		
Decrease in loans and receivables	34,514	84,523
(Decrease)/increase in accrued expenses	(11,600)	14,215
(Decrease)/increase in trade and other creditors	4,285	(313,233)
<b>Net cash flows from / (used in) operating activities</b>	<u>134,445</u>	<u>(215,982)</u>

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2014**

	2014	2013
	\$	\$
<b>Note 11 Cash and Cash Equivalents (continued)</b>		
<b>(c) Non-cash operating, financing and investing activities</b>		
Non-cash operating, financing and investing activities carried out during the year on normal commercial terms and conditions included:		
Reinvestment of dividend and distribution income	-	-
Reinvestment of unitholder's distributions (Note 10)	-	245,820
		<hr/>

**Note 12 Financial instruments and associated risk**

**Investment overview and strategy**

The objectives of Merchant Funds Management Pty Ltd, the investment manager of the Fund as from 12 April 2012 are:

- To generate an absolute return greater than the prevailing Bank Bill Swap Rate (BBSW) plus a gross margin of 3%.
- To manage the Fund in a disciplined and focused manner with the aim of providing capital growth over the long term.
- To provide access to investment opportunities to which individual investors may not normally gain access.
- To protect capital during periods of extreme volatility.
- To create a Western Australian based absolute return Fund focused on Australian listed and unlisted equities.

The Guiding Principles of the Investment Manager are similar to those employed by the previous manager with the following exceptions:

- The Fund will hold between 10 and 30 separate investments.
- No single investment (apart from cash) can represent over 30% of the Fund's portfolio value unless approved by the Investment Committee.
- The Responsible Entity can from time to time invest in companies that are either private and or pre-listing status.
- The Fund aims to protect capital in periods of extreme volatility through moving to cash or utilising hedging strategies as it sees fit.
- The Fund will seek and execute short term trading opportunities as appropriate and commensurate with the risk weightings of the Fund's parameters.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

Investments in assets are determined by the Fund Manager in consultation with the Investment Committee (“the Committee”) and the board of the Responsible Entity (“Board”). The Investment Committee and the Board meet on a regular basis to discuss potential investments in the Fund, any changes to the weighting of the portfolio and to agree on the strategy going forward. Current market conditions are a focus of the Committee and the Board, with focus on the implications these conditions will have on the Fund. Where the Board and the Committee identify an area of risk the Fund will change its focus or strategy or change the weighting of the portfolio to minimise identified risks.

The Fund invests in securities in accordance with its investment strategy and the Fund Manager’s investment criteria.

The impact of the financial risks to which the Fund is exposed are market risk, credit risk and liquidity risk. Each of these are discussed below. Disclosures in regard to these risks are prepared on the basis of the Fund’s directly held investments and not on a look through basis.

**Market risk**

Market risk embodies the potential for loss and gains and, in the case of the Fund is limited to price risk on its investments and interest rate risk on its cash and cash equivalents. The Fund is not exposed to currency risk as it only invests in Australian currency denominated investments.

The Fund’s investment strategy is, in simple terms, to purchase quality investments at a reasonable price. The Fund’s market risk is managed on a daily basis by the Fund Manager and the Investment Manager. A financial model is maintained and updated daily to reflect current market conditions, analysis of the major investments of the Fund and the pricing of the investments of the Fund. Any risks identified by the Fund Manager are discussed with members of the Committee and the Board to determine appropriate action.

The Investment Manager regularly reviews the investments and holds monthly meetings. The Investment Manager is also in regular contact with the Board.

The Fund Manager maintains regular contact with the companies and managed investment schemes it invests in to better understand those entities and to assist the manager recognise any risk factors that the investment may be subject to.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
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**Note 12 Financial instruments and associated risk (continued)**

**Interest rate risk**

The majority of the Fund's assets are non-interest bearing. All assets exposed to interest rate fluctuations are short term therefore limiting the exposure of the Fund to interest rate risk. Any excess cash and cash equivalents are invested in regular interest bearing accounts available on call to enable the Fund to act quickly on potential investment opportunities. The Fund does not have any interest bearing financial liabilities.

It is the intention of the Responsible Entity to invest the funds in equity assets not interest bearing assets.

*Interest rate sensitivity*

The Fund has no material exposure to interest rate sensitivity.

**Other price risk**

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As a majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market value of investments will directly affect the investment income of the Fund.

Price risk is managed by the Fund Manager by constructing a diversified portfolio of assets traded in differing sectors of the market.

The Fund is permitted to invest in securities quoted on ASX or unlisted companies, cash or interest in cash management trusts, debentures bonds and unsecured notes, derivative and short selling of securities, warrants and options and other financial products as permitted by the Responsible Entity's AFSL.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

The following table details the sector breakdown

<b>Total investment assets by industry sector</b>	<b>2014</b>		<b>2013</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Consumer discretionary	20,000	0.17	20,000	0.20
Energy	1,974,160	16.43	1,901,253	19.30
Property	951,764	7.92	1,390,914	14.12
Health care	6,773,651	56.40	4,385,556	44.52
Industrials	430,465	3.59	492,370	5.00
Materials	926,643	7.72	727,500	7.38
Information Technology	933,589	7.77	933,589	9.48
	<b>12,010,272</b>	<b>100.00</b>	<b>9,851,182</b>	<b>100.00</b>

The following table details the breakdown of the investment assets held by the Fund:

	<b>30 June 2014 \$</b>	<b>30 June 2013 \$</b>
Listed equity investments	8,171,919	6,254,679
Unlisted equity investments and unlisted managed investment schemes	3,788,353	3,546,503
Convertible loan	50,000	50,000
<b>Total investment assets</b>	<b>12,010,272</b>	<b>9,851,182</b>

***Sensitivity analysis***

The objective of the Fund is to exceed the return of the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term. A 5% increase in the market price of the Fund's listed investments at 30 June 2014 would have increased net assets attributable to unitholders and increased profit from operating activities by \$408,596 (2013: \$312,734); an equal change in the opposite direction would have decreased net assets attributable to unitholders and increased loss from operating activities by an equal amount.

A 5% increase in the value of unlisted equity investments and convertible loans at 30 June 2014 would have increased net assets attributable to unitholders and increased profit from operating activities by \$191,918 (2013: \$179,825). An equal change in the opposite direction would have decreased net assets attributable to unitholders and increased loss from operating activities by an equal amount.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

**Credit risk**

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in financial loss to the Fund.

The carrying amounts of financial assets best represent the maximum credit risk exposure at balance date.

At reporting date the Fund's financial assets exposed to credit risk amounted to the following:

	<b>30 June 2014 \$</b>	<b>30 June 2013 \$</b>
Cash and cash equivalents	48,449	14,396
Interest, dividends, distributions and other receivables	12,313	62,727
Convertible loan	50,000	50,000
<b>Total</b>	<b>110,762</b>	<b>127,123</b>

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. The Fund uses a range of brokers when entering into equity transactions. As a result should one broker fail to settle transactions the Fund's exposure to this broker is diluted. The Fund uses only brokers that are known to the manager, have a good record in the industry and have a history and reputation for quality service and settling on equity transactions.

Distributions and dividends receivables are only recognised once declared. The credit risk the Fund is exposed to in respect to unsettled transactions and receivables is therefore considered low.

The convertible loan bears an interest rate of 8% per annum and is repayable on or before 30 September 2014. The Fund may request, in writing that the Borrower repay the loan by converting the loan into shares at a discount of 20% to the volume weighted average price period as per the loan agreement.

All assets are held by the Fund's custodian, The Trust Company ("Custodian"). Bankruptcy or insolvency by the custodian may cause the Fund's right to securities held by the custodian to be delayed or limited. The Fund monitors the position of the Custodian in terms of its market participant stature on a quarterly basis and National Australia Bank ("Bank") with whom it places its cash with.

**Merchant Opportunities Fund**  
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**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

The credit risk associated with the custodian and the Bank is considered low as the Custodian is owned by a major financial institution. The Responsible Entity monitors the position of the Bank and the custodian through ASX releases and media commentary on a regular basis.

The carrying amounts of financial assets best represent maximum credit risk exposure at the balance date.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund aims to provide a monthly redemption facility; however in times of illiquidity, the Fund will seek permission from the Responsible Entity to suspend redemptions to protect the value of the remaining unit holders.

Liquidity risk is managed on a daily basis by the fund manager in respect to trades awaiting settlement, monthly redemption requests and short term liabilities of the Fund. The portfolio of the Fund is updated to reflect purchases and sales of securities.

The Fund's listed securities are considered to be readily realisable as they are all listed on ASX.

The Fund's redemption policy allows for redemptions at the end of the month only, save for liquidity issues that arise from time to time referred to above.

Set out below is the contractual maturity profile of the Fund's financial liabilities:

**30 June 2014**

	<b>Contractual cashflows</b> <b>\$</b>	<b>Less than 1 month</b> <b>\$</b>	<b>On call*</b> <b>\$</b>
Accounts payable	10,930	10,930	
Responsible Entity and Fund Manager fees payable	12,089	12,089	-
Net assets attributable to unitholders	12,008,916	-	12,008,916
<b>Total financial liabilities</b>	<b>12,031,935</b>	<b>23,019</b>	<b>12,008,916</b>

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

**30 June 2013**

	<b>Contractual cashflows \$</b>	<b>Less than 1 month \$</b>	<b>On call* \$</b>
Accounts payable	15,224	15,224	-
Responsible Entity fees payable	3,511	3,511	-
Net assets attributable to unitholders	9,842,970	-	9,842,970
<b>Total financial liabilities</b>	<b>9,861,705</b>	<b>18,735</b>	<b>9,842,970</b>

\* To protect the interests of all unitholders, no more than 15% of total units on issue may be redeemed in any month, although this restriction can be waived by the Responsible Entity.

The table above does not include the distribution payable as this is substantially reinvested in units of the Fund, therefore not posing a liquidity risk.

**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Fund's operations.

The objective of the Responsible Entity of the Fund is to manage operational risk so as to balance limiting of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Responsible Entity. This responsibility is supported by the development of overall Fund standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- requirements for the reconciliation and monitoring of transactions.
- compliance with regulatory and other legal requirements.
- documentation of controls and procedures.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- requirements for the reporting of operational losses and proposed remedial action development of contingency plans.
- training and professional development.
- ethical and business standards.
- risk mitigation, including insurance where this is effective.

**Estimation of fair values**

The methods and assumptions used in estimating the fair values of financial instruments are disclosed in note 3(a)(iv) of the significant accounting policies.

**Listed investments and convertible loans**

At 30 June 2014, the carrying amounts of debt and equity investments which fair values were determined directly, in full or in part, by reference to published price quotations amounted to \$8,221,919 (2013: \$6,304,679).

**Unlisted investments**

Details of unlisted investments and the valuation approach as at 30 June 2014 are set out below:

	<b>Industry Sector</b>	<b>Basis of valuation</b>	<b>Date of transaction</b>	<b>Fair value as at 30 June 2014</b>	<b>Fair value as at 30 June 2013</b>
Esplanade Property Fund	Property	Net Asset value as at 30 June 2014	N/A	<b>\$951,764</b>	<b>\$1,390,914</b>
Inhouse Group Ltd*	Information Technology	Price of MOF's most recent sales transaction	November 2012	<b>\$933,589</b>	<b>\$933,589</b>
Vesuvius Minerals Ltd*	Materials	Price of the most recent capital raising	Mar 2014	<b>\$270,000</b>	<b>\$430,000</b>
Condor Energy Services Ltd*	Energy	Price of most recent investment in Condor (third-party transaction)	Jun 2014	<b>\$308,000</b>	<b>\$392,000</b>
Valiant Resources Ltd*	Energy	Price of the most recent capital raising	Feb 2014	<b>\$1,250,000</b>	<b>\$250,000</b>
Pilbara Commodities*	Energy	Price of MOF's recent investment	June 2013	-	<b>\$150,000</b>
Coal Stream Pty Ltd	Energy	Price of MOF's most recent sales transaction		<b>\$75,000</b>	-
<b>Total</b>				<b>\$3,788,353</b>	<b>\$3,546,503</b>

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

*\* The investments in seed and start-up venture capital investments represent 22% of the Fund's net assets. The fair value of these investments is determined with reference to the most recent transaction price which is typically the capital raising price or the most recent third party sale price by MOF. Subsequent to the latest transaction, the Responsible Entity has re-assessed the business activities of these entities to determine whether any significant changes in the circumstances or events would imply a change in the investment's fair value as at balance sheet date.*

The directors of Capricorn Investment Partners Limited have determined that the most recent transaction price paid represents the best estimate of fair value as at 30 June 2014.

**Fair Value measurements recognised in the statement of financial position**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those instruments valued based on techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**Merchant Opportunities Fund**  
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**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 12 Financial instruments and associated risk (continued)**

<b>30 June 2014</b>	<b>Level 1</b> <b>\$</b>	<b>Level 2</b> <b>\$</b>	<b>Level 3</b> <b>\$</b>	<b>Total</b> <b>\$</b>
Financial assets classified as fair value through profit and loss	8,171,919	50,000	3,788,353	12,010,272

<b>30 June 2013</b>	<b>Level 1</b> <b>\$</b>	<b>Level 2</b> <b>\$</b>	<b>Level 3</b> <b>\$</b>	<b>Total</b> <b>\$</b>
Financial assets classified as fair value through profit and loss	6,254,679	50,000	3,546,503	9,851,182

**Reconciliation of Level 3 fair value measurements of financial assets**

	<b>Fair value through profit or loss</b>	<b>Fair value through profit or loss</b>
	<b>\$</b>	<b>\$</b>
	<b>2014</b>	<b>2013</b>
Opening	3,546,503	1,445,000
Total gains or losses in profit or loss	261,850	423,196
Purchases	130,000	300,000
Sales	-	(12,607)
Transfers into Level 3	-	1,390,914
Transfers out of Level 3	(150,000)	-
Closing	3,788,353	3,546,503
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:	261,850	404,349

**Note 13 Related Party Transactions**

**(a) Responsible Entity**

The Responsible Entity of Merchant Opportunities Fund is Capricorn Investment Partners Limited (ABN 26 095 998 771). Merchant Funds Management Pty Ltd (ABN 32 154 493 277) is the appointed investment manager of the Fund, and is responsible for the day to day management of the Fund.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 13 Related Party Transactions (continued)**

**(b) Details of Directors and Other Key Management Personnel**

*(i) Directors*

*The directors of Capricorn Investment Partners Limited (the Responsible Entity) during the year were:*

Stephen John Moss	Chairman (Executive) (resigned 15 August 2014)
David McKay French	Chairman (Executive)
Graeme Hilton George Fowler	Director (Non-Executive) (appointed 26 September 2013)
Michael Cranny	Director (resigned 1 September 2013)
Owen Evans	Director (Non-Executive) (appointed 8 August 2014)

*Other Key Management Personnel*

Neither Merchant Opportunities Fund, nor Capricorn Investment Partners Limited employ persons deemed to be key management personnel of the Fund. The directors do not receive any compensation directly from Merchant Opportunities Fund, and there are no agreements in place between the directors and the Fund.

**(c) Loans to Directors**

The Fund has not made, guaranteed or secured, directly or indirectly any loans to the directors or their personally related entities at any time during the period.

**(d) Investments**

The directors, including their related entities did not hold any interest in Merchant Opportunities Funds as at 30 June 2014 (2013: Nil).

**(e) Fees**

The former Responsible Entity, Entrust Funds Management Limited, the new Responsible Entity, Capricorn Investment Partners Limited, and the Fund Manager, Merchant Funds Management Pty Ltd, received all management and performance fees that have been deducted from the Fund during the period. Total management and performance fees paid to the Responsible Entity and Fund Manager during the period were \$108,077 (2013: \$92,067). The total compliance and accounts preparation fees paid to the Responsible Entity during the period was \$8,317 (2013: \$12,688).

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Notes to the Financial Statements (continued)**  
**For the year ended 30 June 2014**

**Note 13 Related Party Transactions (continued)**

Expenses incurred by the Responsible Entity during the period and reimbursed by the Fund in accordance with the Fund's constitution was nil (2013: nil).

Capricorn Investment Partners Limited provides investment services to Merchant Opportunities Fund, and outsources custodial and administrative functions.

Transactions between Merchant Opportunities Fund and Capricorn Investment Partners result from normal dealings with that company as the Fund's Responsible Entity. Capricorn Investment Partners Limited is an Australian Financial Services license holder.

**(f) Related party investments of the Fund**

Andrew Chapman, the director of Merchant Funds Management Pty Ltd (the investment manager for Merchant Opportunities Fund) is also a non-executive director of Sprint Energy Ltd. The Fund has an investment in Sprint Energy.

**(g) Related party transactions**

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time the Responsible Entity or their director-related entities may invest in or withdraw from the Trust. These investments or withdrawals are on the same terms and conditions as those entered into by other Trust investors.

**(h) Other transactions within the Fund**

Apart from those details disclosed in this note, no director of the Responsible Entity or the Fund Manager has entered into a material contract with the Fund since the end of the previous year and there were no material contracts involving directors' interests subsisting at year end.

**Note 14 Contingencies**

There are no contingent liabilities or contingent assets at 30 June 2014 and 30 June 2013.

**Note 15 Events subsequent to reporting date**

There have been no events subsequent to balance date which require disclosure.

**Merchant Opportunities Fund**  
**ARSN 111 456 387**  
**Directors' Declaration**  
**For the year ended 30 June 2014**

In the opinion of the Directors of Capricorn Investment Partners Limited, the Responsible Entity of the Merchant Opportunities Fund, I state that:

- (a) the financial statements and notes that are set out on pages 9 to 36 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the Directors draw attention to Note 1(a) of the financial report which contains a statement of compliance with International Financial Reporting Standards; and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in Accordance with a Resolution of the Directors of  
Capricorn Investment Partners Limited



David French  
Director

Perth  
26<sup>th</sup> September 2014

## INDEPENDENT AUDITOR'S REPORT

To the unitholders of Merchant Opportunities Fund

### Report on the Financial Report

We have audited the accompanying financial report of Merchant Opportunities Fund ("the Scheme"), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of changes in equity and the 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.

#### ***Directors' responsibility for the financial report***

The directors of Capricorn Investment Partners Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2(a), the directors of the Responsible Entity also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

#### ***Auditor's responsibility***

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

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

#### ***Independence***

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

**Auditor's opinion**

In our opinion:

- (a) the financial report of Merchant Opportunities Fund is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).



**HLB Mann Judd**  
**Chartered Accountants**



**W M Clark**  
**Partner**

**Perth, Western Australia**  
**26 September 2014**