

MERCHANT OPPORTUNITIES FUND

ARSN 111 456 387

INTERIM FINANCIAL REPORT
For the six months ended 31 December 2013

Merchant Opportunities Fund
ARSN 111 456 387
For the six months ended 31 December 2013

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Merchant Opportunities Fund
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Corporate Directory

Responsible Entity

Capricorn Investment Partners Limited

Directors of the Responsible Entity

Stephen John Moss	-	Executive Chairman
David McKay French	-	Executive Director
Graeme Hilton George Fowler	-	Non-Executive Director

Secretary

David McKay French
Jean-Marie Rudd

Registered Office

Level 2, Suite 1
34 East Street
Rockhampton QLD 4700

Auditors of the Fund

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

Merchant Opportunities Fund
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Directors' Report
For the six months ended 31 December 2013

The Directors of Capricorn Investment Partners Limited (ABN 26 095 998 771), the Responsible Entity of Merchant Opportunities Fund (“the Fund”), submit their report together with the Interim Financial Report for the Fund for the six months ended 31 December 2013 and the independent auditor’s review 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 John 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

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 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 overseas development assistance (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 six months ended 31 December 2013

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.

PRINCIPAL ACTIVITIES

The principal activity of the Fund during the six months was to invest funds in accordance with the provisions of the Fund's Constitution.

The Fund is a diversified investment fund, investing in listed and unlisted Australian shares.

There has been no significant change in the nature of this activity during the six months.

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Directors' Report (continued)
For the six months ended 31 December 2013

SCHEME INFORMATION

Merchant Opportunities Fund is an Australian registered scheme, and was constituted on 18 October 2004. Capricorn Investment Partners, 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.

REVIEW OF RESULTS AND OPERATIONS

Results

The net operating income of Merchant Opportunities Fund is presented in the Statement of Comprehensive Income. Net operating profit for the six months ended 31 December 2013 was \$802,823 (31 December 2012: Loss \$2,797,765).

Distributions

No distribution will be paid for the six months ended 31 December 2013. No distributions were paid for the six months ended 31 December 2012.

SCHEME ASSETS

At 31 December 2013 Merchant Opportunities Fund held net assets of \$10,545,401 (30 June 2013: \$9,842,970).

AUDITOR'S INDEPENDENCE DECLARATION

HLB Mann Judd, our auditors, have provided a written independence declaration to the Directors of the Responsible Entity in relation to their review of the Interim Financial Report for the six months ended 31 December 2013. This independence declaration, which forms part of the Directors' Report, can be found at page 7.

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

David French
Executive Director



Rockhampton
18 March 2014

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Merchant Opportunities Fund

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying interim financial report of Merchant Opportunities Fund (“the Fund”), which comprises the condensed interim statement of financial position as at 31 December 2013, the condensed interim statement of comprehensive income, condensed interim statement of changes in equity and the condensed interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration.

Directors’ responsibility for the half-year financial report

The directors of Capricorn Investment Partners Limited (“the Responsible Entity”) are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund’s financial position as at 31 December 2013 and its performance for the interim ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for 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 interim financial report of the Merchant Opportunities Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Fund's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB Mann Judd
Chartered Accountants



W M Clark
Partner

Perth, Western Australia
18 March 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of the Merchant Opportunities Fund for the half-year ended 31 December 2013, 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 review; and
- b) any applicable code of professional conduct in relation to the review.

**Perth, Western Australia
18 March 2014**



**W M Clark
Partner**

Merchant Opportunities Fund
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Directors' Declaration
For the six months ended 31 December 2013

In accordance with a resolution of the Directors of Capricorn Investment Partners Limited, the Responsible Entity of Merchant Opportunities Fund, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes set out on pages 9 to 17 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's financial position as at 31 December 2013 and of its performance for the six months ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting", and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

On behalf of the Board
Capricorn Investment Partners Limited



David French
Executive Director

Rockhampton
18 March 2014

Merchant Opportunities Fund
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Condensed Interim Statement of Comprehensive Income
For the six months ended 31 December 2013

	Notes	31 Dec 2013 \$	31 Dec 2012 \$
Revenue			
Interest income		3,778	18,067
Net change in fair value of financial assets		922,361	(2,672,086)
		<u>926,139</u>	<u>(2,654,019)</u>
Expenses			
Responsible Entity and Fund Manager fees		(52,341)	(44,630)
Auditors' remuneration		(12,013)	(25,321)
Custodian fees		(20,645)	(26,293)
Compliance fees		(8,781)	(15,344)
Other expenses		(29,536)	(32,158)
		<u>(123,316)</u>	<u>(143,746)</u>
Profit/(loss) from operating activities		802,823	(2,797,765)
Other Comprehensive Income		-	-
Total Comprehensive Income/(loss) For The Period	2(b)	<u>802,823</u>	<u>(2,797,765)</u>

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

Merchant Opportunities Fund
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Condensed Interim Statement of Financial Position
As at 31 December 2013

	Notes	31 Dec 2013 \$	30 June 2013 \$
Assets			
Cash and cash equivalents		17,599	14,396
Loans and receivables:			
Interest, dividends and other receivables		27,027	62,727
Financial assets at fair value through profit and loss:			
Equity investments and units in listed and unlisted schemes		10,455,691	9,801,182
Convertible Loan		100,000	50,000
Total assets		10,600,317	9,928,305
Liabilities			
Financial liabilities measured at amortised cost:			
Accounts payable		10,929	15,224
Accrued expenses		34,350	66,600
Responsible Entity and Fund Manager fees payable		9,637	3,511
Total Liabilities		54,916	85,335
Net assets attributable to unitholders	2(b)	10,545,401	9,842,970

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

Merchant Opportunities Fund
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Condensed Interim Statement of Cash Flows
For the six months ended 31 December 2013

	31 Dec 2013	31 Dec 2012
	\$	\$
Cash Flows from Operating Activities		
Proceeds from sale of financial assets	577,064	2,178,589
Payments for purchase of financial assets	(359,212)	(1,853,318)
Interest received	605	39,450
Dividends and distributions received	40,803	-
Receipts from commissions	-	15,000
GST received	1,098	7,254
Payments to suppliers	(105,965)	(149,945)
Payments to Responsible Entity and Fund Manager	(50,798)	(49,826)
Net Cash Flows from Operating Activities	<u>103,595</u>	<u>187,204</u>
Cash Flows from Financing Activities		
Cash distribution paid	-	(14,522)
Proceeds from application monies	-	292,000
Payments for redemption of units	(100,392)	(528,895)
Net Cash Flows used in Financing Activities	<u>(100,392)</u>	<u>(251,417)</u>
Net increase in cash and cash equivalents	3,203	(64,213)
Cash and cash equivalents at 1 July	14,396	281,795
Cash and cash equivalents at 31 December	<u>17,599</u>	<u>217,582</u>

The above condensed interim statement of cash flows should be read in conjunction with the accompanying notes.

Merchant Opportunities Fund
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Condensed Interim Statement of Changes in Equity
For the six months ended 31 December 2013

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 six months.

Merchant Opportunities Fund
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Notes to the condensed interim financial statements
For the six months ended 31 December 2013

Note 1 Basis of Preparation of the Condensed Interim Financial Report

(a) Reporting Entity

Merchant Opportunities Fund (“MOF” or the “Fund”) is a recognised managed investment scheme under the Corporations Act 2001. The condensed interim financial report of the Fund is for the six months ended 31 December 2013.

(b) Statement of Compliance

The condensed interim financial report is a general purpose financial report, which has been prepared in accordance with the AASB 134 Interim Financial Reporting and the requirements of the Corporations Act 2001.

The condensed interim financial report does not include all the information required for the full annual financial report and should be read in conjunction with the annual financial report of the Fund for the year ended 30 June 2013.

The condensed interim financial report was authorised for issue by the directors of the Responsible Entity on the 14 March 2014.

(c) Significant accounting policies

The accounting policies and methods of computation applied by the Fund in this interim financial report are the same as those applied by the Scheme for the year ended 30 June 2013, except for the impact of the standards and interpretations described below.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Impact of the application of AASB 13

The fund has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 ‘Share-based Payment’, leasing transactions that are within the scope of AASB 117 ‘Leases’, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes.)

Merchant Opportunities Fund

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Notes to the interim condensed financial statements (continued)

For the six months ended 31 December 2013

Note 1 Basis of Preparation of the Condensed Interim Financial Report (continued)

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Fund has not made any new disclosures required by AASB 13 for the 2012 comparative period. The Fund has made additional disclosures in the financial statements but the application of AASB 13 has not had any material impact on the amounts recognised in the financial statements.

Note 2 Net assets attributable to unitholders

	SIX MONTHS TO 31 December 2013 Number	YEAR TO 30 June 2013 Number
(a) Units on issue		
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 the 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>
	SIX MONTHS TO 31 December 2013	YEAR TO 30 June 2013
(b) Movement in net assets attributable to unitholders	\$	\$
Net assets attributable to unitholders at beginning of reporting period	9,842,970	12,119,856
Total comprehensive income/(loss) for the period	802,823	(2,485,810)
Units issued during the reporting period	-	492,000
Units issued during 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>10,545,401</u>	<u>9,842,970</u>

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Notes to the condensed interim financial statements (continued)

For the six months ended 31 December 2013

Note 3 Distributions

During the six months ended 31 December 2013, the Fund did not pay a distribution for 30 June 2013 (31 December 2012: \$260,392), with nil of distribution reinvested (31 December 2012: \$245,820) and nil paid in cash (31 December 2012: \$14,572).

Note 4 Related parties

The Responsible Entity, Capricorn Investment Partners Limited charges a monthly fee of \$4,583.34 (GST inclusive) and the remaining fees are paid to the Fund Manager, Merchant Funds Management Pty Ltd. Total management fees paid to the Responsible Entity and Fund Manager during the six months ended 31 December 2013 were \$52,341 (31 December 2012: \$44,630). There were payables of \$9,637 as at 31 December 2013 (30 June 2013: \$3,511)

Note 5 Contingencies

There are no contingent liabilities or contingent assets as at 31 December 2013 (30 June 2013: Nil)

Note 6 Subsequent Events

There has not been any matter or circumstance that has significantly affected or may significantly affect the Fund, other than the following:

In February 2014, Valiant Resources Limited (a level 3 investment of the Fund) completed a capital raising placement to raise capital at \$1.25 per share. This investment is carried in the Fund's financial records as at 31 December 2013 at \$0.25 per share. Based on this event subsequent to the reporting date, an increment in the value of the Fund's investment of \$1,000,000 is indicated.

Subsequent to reporting date, Condor Energy Services Limited (a level 3 investment of the Fund) announced a capital placement was to be completed at \$0.11 per share. This investment is carried in the Fund's financial records as at 31 December 2013 at \$0.14 per share. Based on this event subsequent to the reporting date, a reduction in the value of the Fund's investment of \$84,000 is indicated.

Subsequent to reporting date, the quoted share price of Sprint Energy Limited (a level 1 investment of the Fund) decreased to \$0.001 per share on low trading volumes. This investment is carried in the Fund's financial records as at 31 December 2013 at \$0.02 per share. Additionally, the Fund holds a convertible note of \$100,000. Based on this event subsequent to the reporting date, a reduction in the value of the Fund's investments of \$174,774 is indicated.

Note 7 Financial Instruments

Carrying amount versus fair values

The fair values of financial assets and financial liabilities approximate their carrying amounts in the condensed statement of financial position.

Note 7 Financial Instruments (continued)

Financial risk management

During the six months ended 31 December 2013 the Fund's financial risk management objectives and policies are consistent with those disclosed in Fund's annual financial report.

Fair Value Hierarchy

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.

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets classified as fair value through profit and loss	6,897,760	100,000	3,557,931	10,555,691

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during six months ended 31 December 2013.

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Notes to the condensed interim financial statements (continued)
For the six months ended 31 December 2013

Note 7 Financial Instruments (continued)

Level 3 fair values

Reconciliation of level 3 fair value measurements of financial assets for the six months ended 31 December 2013.

	Fair value through profit or loss
	\$
Opening	3,546,503
Total gains or losses in profit or loss	11,428
Purchases	-
Sales	-
Transfers into Level 3	-
Transfers out of Level 3	-
Closing	3,557,931
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period:	11,428

The measurement of fair value for the Level 3 instruments has been made based on the following:

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 31 December 2013
Esplanade Property Fund	Property	Net Asset value as at 31 December 2013	N/A	\$1,402,342
Inhouse Group Ltd*	Information Technology	Price of MOF's most recent sales transaction	November 2012	\$933,589
Vesuvius Minerals Ltd*	Materials	Price of MOF's most recent investment	October 2012	\$430,000
Condor Energy Services Ltd*	Oil & Gas	Price of most recent investment in Condor (third-party transaction)	December 2012	\$392,000
Valiant Resources Ltd*	Materials	Price of MOF's most recent investment	April 2012	\$250,000
Pilbara Commodities*	Energy	Price of MOF's recent investment	June 2013	\$150,000
Total				\$3,557,931

* Investments in seed and start-up venture capital investments. 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 date.