

MERCHANT OPPORTUNITIES FUND

ARSN 111 456 387

ANNUAL FINANCIAL REPORT
For the year ended 30 June 2018

Merchant Opportunities Fund
ARSN 111 456 387
Annual Financial Report
For the year ended 30 June 2018

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Merchant Opportunities Fund
ARSN 111 456 387
Corporate Directory

Responsible Entity

CIP Licensing Limited

Directors of the Responsible Entity

David McKay French	-	Executive Chairman
Owen Evans	-	Non-Executive Director
Lance Livermore	-	Non-Executive Director
Christopher Heyworth	-	Executive Director
Nigel Allfrey	-	Non-Executive Director

Secretary

Richard Symons

Registered Office

CIP Licensing Limited
Suite 1B 103 Bolsover St,
Rockhampton QLD 4700

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 2018

The Directors of CIP Licensing Limited (ABN 63 603 558 658), the Responsible Entity of Merchant Opportunities Fund ("the Fund"), submit their report for the Fund for the year ended 30 June 2018, 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, Executive Director (appointed 6 January 2015)

David French is the Managing Director. David was responsible for building Capricorn Investment Partners Limited (CIPL) from scratch. CIP Licensing Limited is a special purpose AFS licencing vehicle which was created as part of a restructure of CIPL. The business now looks after about \$700 million in investments including those held in two managed investment schemes. David has more than 20 years' experience in finance and economics, most of which have been in investment markets.

Owen Evans - BA (Hons), MSc(Econ), Non Executive Director (appointed 6 January 2015)

Owen Evans is a non-executive Director. 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 principal 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 was a Director of the Sydney Harbour Foreshore Authority from 2011 to 2014.

Lance Livermore – Non Executive Director (appointed 22 April 2015)

Lance Livermore is a member of the Financial Planning Association and a Certified Practicing Accountant. He attained his original qualification in Albury prior to establishing himself in a financial controller role with Potter Warburg in Melbourne. He has in excess of 30 years' experience in both stockbroking and financial planning and was a founding partner of Bailey Livermore Financial Services, a predecessor organisation of the Pentad Group and Capricorn Investment Partners Limited.

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Directors' Report (continued)
For the year ended 30 June 2018

DIRECTORS (continued)

Christopher Heyworth – Executive Director (appointed 22 April 2015)

Christopher Heyworth is a qualified accountant (Institute of Chartered Accountants in England and Wales) who has worked in the financial planning industry for more than 25 years. He is a Certified Financial Planner and has been the principal of his own business as well as working as a significant co-owner alongside others prior to the planned sale of the Pentad Group in 2013. Chris continues as an employed financial planner under the new ownership structure. Earlier career experience includes mainstream accounting and audit roles with multi-national commercial enterprises in a variety of locations.

Nigel Allfrey – Non-Executive Director (appointed 30 September 2016)

Nigel has several decades of business experience in the Australian and International Finance industry. He was Co-founder and CEO of Impact Investing Pty Ltd, a Sydney based Funds Management Financial Services Technology company that achieved global success and recognition. Prior to that he held senior portfolio management positions with leading fund management firms BlackRock and Bankers Trust. Today Nigel is Principal of the Caana Group, a private wealth management firm.

David French, Owen Evans, Lance Livermore, Christopher Heyworth and Nigel Allfrey have been in office from the beginning of the period until the date of this report.

OPERATIONAL REVIEW FOR THE YEAR ENDED 30 JUNE 2018

The Merchant Opportunities Fund (MOF) aims to materially outperform the ASX All Ordinaries Accumulation Index net of fees over a rolling 5-year period via investing in a portfolio of Australian companies listed – or soon to be listed – on the ASX.

The MOF is now in its sixth year of operation, having changed the mandate from the Entrust Investment Fund in May 2012. As at 30 June 2018, MOF reported a performance of 35.87% for the full Financial Year and a rolling 3 year return of 41.91% per annum. Current assets under management are approximately \$61 million.

The nature of the Fund's activities did not change significantly during the year from the last three years of operation.

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 20 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.

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Directors' Report (continued)
For the year ended 30 June 2018

OPERATIONAL REVIEW FOR THE YEAR ENDED 30 JUNE 2018 (continued)

Throughout the year, MOF has maintained and sometimes built on its current core listed and unlisted investments in the Coal, Gold, Financial Services, IT, Consumer Technologies, Medical Cannabis and Healthcare Sectors of the market.

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.

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. CIP Licensing Limited was appointed as the Responsible Entity of the Fund on 4 May 2015. Previously the responsible entity was Capricorn Investment Partners Limited. CIP Licensing Limited is incorporated and domiciled in Australia. Merchant Funds Management Pty Ltd, the investment manager of the Fund, is responsible for the day to day management of the Fund.

The registered office of the Responsible Entity is located at Suite 1B 103 Bolsover St, Rockhampton QLD 4700. The Custodian is the Trust Company (Australia) Limited. The registered office of the Custodian is located at 35 Clarence Street, Sydney NSW 2000.

REVIEW OF RESULTS AND OPERATIONS

Results

The net operating profit of Merchant Opportunities Fund is presented in the statement of profit or loss and other comprehensive income. The profit from operating activities for the year ended 30 June 2018 was \$16,076,100 (2017: profit of \$8,123,054).

Distributions

There was no distribution to unitholders (2017: \$Nil) for the year ended 30 June 2018.

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Directors' Report (continued)
For the year ended 30 June 2018

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.

	2018	2017
	\$	\$
As at 30 June	1.8749	1.3767
Year to 30 June:		
High	1.9515	1.4412
Low	1.3426	1.1158

UNITS ON ISSUE

31,095,561 units of Merchant Opportunities Fund were on issue at 30 June 2018 (2017: 32,784,697). During the year 53,596 (2017: 526,962) units were issued by the Fund and 1,742,732 units (2017: 1,341,590) were redeemed. No options over unissued units were in place at any time during the current or previous financial years.

SCHEME ASSETS

At 30 June 2018 Merchant Opportunities Fund held assets to a total value of \$61,434,366 (2017: \$46,463,976). 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 2018.

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 2018 financial year paid to the Responsible Entity & Merchant Funds Management Pty Ltd	\$797,019	(2017: \$619,241)
Performance fee for the 2018 financial year paid to the Responsible Entity & Merchant Funds Management Pty Ltd (<i>Note - the performance fee was fully rebated to Merchant Funds Management</i>)	\$1,196,674	(2017: \$2,314,128)
Preparation of Financial Reports	\$Nil	(2017: \$Nil)
Compliance Fees including Custodial Fees	\$1,333	(2017: \$8,000)
Expenses incurred by the Responsible Entity and reimbursed by the Fund in accordance with the Fund's constitution	\$Nil	(2017: \$Nil)

Merchant Opportunities Fund
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Directors' Report (continued)
For the year ended 30 June 2018

FEES PAID TO THE RESPONSIBLE ENTITY AND ASSOCIATES (continued)

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.

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.

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Directors' Report (continued)
For the year ended 30 June 2018

EVENTS SUBSEQUENT TO BALANCE DATE

On 14 September 2018 the Fund completed a \$500,000 redemption for the three months ended 31 August 2018.

Other than the matter discussed above, 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 2018.

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

A handwritten signature in black ink, appearing to be 'DF' with a large loop, positioned above the printed name of the director.

David French
Director

Rockhampton
3 October 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Merchant Opportunities Fund for the year ended 30 June 2018, 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
3 October 2018



M R Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Merchant Opportunities Fund
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Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Income			
Interest income	7	12,541	30,243
Net gain on financial instruments through profit and loss	8	20,094,207	10,207,870
Net investment income		<u>20,106,748</u>	<u>10,238,113</u>
Expenses			
Responsible Entity and Fund Manager fees	4(a)	(797,019)	(619,241)
Auditors' remuneration	4(b)	(50,682)	(49,115)
Consultants' fees		(31,759)	(53,224)
Custodian and administration fees		(43,630)	(43,253)
Compliance fees		(3,058)	(16,621)
Performance fees		(3,004,930)	(1,196,674)
Other expenses		(99,570)	(136,931)
Operating expenses before finance costs		<u>(4,030,648)</u>	<u>(2,115,059)</u>
Profit from operating activities		<u>16,076,100</u>	<u>8,123,054</u>
Finance costs			
Distribution to unitholders	5(a)	-	-
Total profit		<u>16,076,100</u>	<u>8,123,054</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>16,076,100</u></u>	<u><u>8,123,054</u></u>

The above statement of profit or loss and other 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 2018

	Note	2018 \$	2017 \$
Assets			
Cash and cash equivalents	11(a)	5,056,012	391,352
Prepayments, loans and receivables:			
Prepayments, dividends and other receivables		36,775	40,692
Financial assets held at fair value through profit and loss:			
Equity investments and units in listed and unlisted schemes	6	55,510,329	44,981,932
Debentures and convertible notes	6	831,250	1,050,000
Total assets		<u>61,434,366</u>	<u>46,463,976</u>
Liabilities			
Financial liabilities measured at amortised cost:			
Accrued expenses	9	3,037,931	1,249,669
Accounts payable		19,916	23,134
Responsible entity and fund manager fees payable		74,940	57,314
Total liabilities (excluding net assets attributable to Unitholders)		<u>3,132,787</u>	<u>1,330,117</u>
Net assets attributable to unitholders – Liability	10(b)	<u>58,301,579</u>	<u>45,133,859</u>
Represented by:			
Net assets attributable to unitholders at redemption price	10(b)	<u>58,301,579</u>	<u>45,133,859</u>

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

Merchant Opportunities Fund
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Statement of Changes in Equity
For the year ended 30 June 2018

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 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Proceeds from sale of investments		24,302,196	23,202,362
Purchase of investments		(14,517,358)	(19,564,557)
Interest received		12,541	53,529
Payments to suppliers		(213,025)	(240,455)
Payments to responsible entity and fund manager		(2,011,319)	(2,936,568)
Net cash flows from operating activities	11(b)	<u>7,573,035</u>	<u>514,311</u>
 Cash flows from financing activities			
Proceeds from application monies		100,000	100,000
Payments on redemption of redeemable units		(3,008,375)	(1,750,000)
Net cash flows (used in) financing activities		<u>(2,908,375)</u>	<u>(1,650,000)</u>
 Net increase/(decrease) in cash and cash equivalents		4,664,660	(1,135,689)
Cash and cash equivalents at 1 July 2017		391,352	1,527,041
 Cash and cash equivalents at 30 June 2018	11(a)	<u>5,056,012</u>	<u>391,352</u>

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

Merchant Opportunities Fund
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Notes to the Financial Statements
For the year ended 30 June 2018

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. CIP Licensing Limited was appointed as the Responsible Entity of the Fund on 4 May 2015. CIP Licensing Limited is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Suite 1B, 103 Bolsover St, Rockhampton QLD 4700.

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

The financial report of the Fund is for the year ended 30 June 2018.

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 3 October 2018.

(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.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets held at fair value through profit or loss and net assets available for unitholders.

(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 Australian Accounting Standards and interpretations requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 2 Basis of Preparation (continued)

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.

(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

The Fund classifies 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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

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.

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 arm's 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.

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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

(v) Impairment

If any such indication exists, impairment testing is carried out and an impairment loss is recognised in the statement of profit or loss and other 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.

(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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

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.

(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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

(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.

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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

(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, 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.

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 2018

In the year ended 30 June 2018, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Fund 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 Fund and, therefore, no change is necessary to accounting policies.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 3 Significant Accounting Policies (continued)

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 2018. As a result of this review the directors have determined that only “AASB 9 Financial Instruments” will result in a change to the Fund’s accounting policies in future financial periods. The directors have elected not to early adopt this standard.

AASB 9 Financial Instruments

The new standard results in changes to accounting policies for financial assets and liabilities covering classification and measurement, hedge accounting and impairment.

Whilst the standard eliminates the existing AASB 139 categories of held to maturity, loans and receivables and available for sale, as the Fund has no (\$Nil) financial assets categorised as available-for-sale equity investments at 30 June 2018, the directors have determined this change will not have a material impact on the Fund.

The impairment requirements of the new standard for financial assets are based on a forward looking 'expected credit loss' (EGL) model either on a 12-month or lifetime basis rather than the current 'incurred loss' model. The new impairment model will apply to financial assets at amortised cost or fair value through other comprehensive income, except for investments in equity instruments, and to contract assets. The directors have assessed these changes and determined that, based on the current financial assets held at reporting date, this change will not have a material impact on the Fund. Moving forward, should financial assets be acquired that are governed under the new impairment requirements, the Fund will apply the simplified approach and record impairment based on lifetime expected losses.

The changes in the Fund's accounting policies from the adoption of AASB 9 will be applied retrospectively from 1 July 2018 onwards, with the practical expedients permitted under the standard and the Comparatives will not be restated (for the avoidance of doubt, no restatement will be necessary given financial assets held at 30 June 2018).

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	2018	2017
	\$	\$
Note 4 Expenses		
(a) Responsible Entity and Investment Manager fees		
Management fees	797,019	619,241
Total responsible entity and investment manager fees	<u>797,019</u>	<u>619,241</u>
(b) Auditor's remuneration		
Audit services:		
- audit of the financial reports	24,035	23,512
- review of the half year financial report	15,152	14,369
- compliance plan audit	11,495	11,234
	<u>50,682</u>	<u>49,115</u>

Note 5 Distributions paid and payable

(a) Distributions payable		
- for period ended 30 June	-	-
Total distributions	<u>-</u>	<u>-</u>
(b) Per unit distribution		
- for period ended 30 June (cents per unit)	-	-
	<u>-</u>	<u>-</u>

Note 6 Financial assets and liabilities

The following table details the categories of financial assets and liabilities held by the Fund at reporting date:

Assets

Classified as fair value through profit and loss upon initial recognition

-Equity investments	50,610,329	40,081,932
-Managed investment schemes	4,900,000	4,900,000
	<u>55,510,329</u>	<u>44,981,932</u>
-Derivative financial instruments	831,250	1,050,000
Total financial assets at fair value through the profit or loss	<u>56,341,579</u>	<u>46,031,932</u>

Merchant Opportunities Fund
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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

	2018	2017
	\$	\$
Note 6 Financial assets and liabilities (continued)		
Loans and receivables	36,775	40,692
Cash and cash equivalents (Note 11a)	5,056,012	391,352
Total financial assets	<u>61,434,366</u>	<u>46,463,976</u>
Liabilities		
Payables and accrued expenses	3,132,787	1,330,117
Total financial liabilities	<u>3,132,787</u>	<u>1,330,117</u>

Note 7 Interest and dividend income

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

	2018	2017
	\$	\$
Interest income for financial assets carried at amortised cost:		
-cash and cash equivalents	12,541	11,887
-convertible loan	-	18,356
Total interest income	12,541	30,243

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:

	2018	2017
	\$	\$
Classified as fair value through profit and loss:		
-Equity investments and unlisted managed investment schemes	20,094,207	10,207,870
Net gain/(loss) from financial assets and liabilities classified as fair value through profit and loss	20,094,207	10,207,870

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

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 8 Gains and losses from financial assets and liabilities (continued)

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

	2018	2017
	\$	\$
Realised gain	13,551,905	10,042,740
Unrealised gain	6,542,302	165,130
Net gain from financial assets and liabilities classified as fair value through profit or loss	20,094,207	10,207,870

Note 9 Accrued expenses

Audit fees	33,000	33,000
Accounting fees	-	20,000
Performance fees	3,004,931	1,196,669
	3,037,931	1,249,669

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.

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Note 10 Net Assets Attributable to Unitholders (continued)

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.

	2018 Number	2017 Number
Units on issue as at beginning of reporting period	32,784,697	33,599,325
Units issued during the reporting period	53,596	526,962
Units redeemed or otherwise cancelled during reporting period	(1,742,732)	(1,341,590)
Units on issue as at the end of the reporting period	<u>31,095,561</u>	<u>32,784,697</u>

(b) Movement in net assets attributable to unitholders

Net assets attributable to unitholders at beginning of reporting period	45,133,859	38,160,805
Change in net assets attributable to unitholders:		
Profit/ (Loss) from operating activities	16,076,100	8,123,054
Adjustment to opening balance of Net Assets	(5)	-
Units issued during the reporting period	100,000	600,000
Units redeemed or otherwise cancelled during the reporting period	(3,008,375)	(1,750,000)
Net assets attributable to unitholders at the end of reporting period	<u>58,301,579</u>	<u>45,133,859</u>

Note 11 Cash and Cash Equivalents

(a) Cash and cash equivalents

Cash balance comprises:

- Current deposits with banks	<u>5,056,012</u>	<u>391,352</u>
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(b) Reconciliation of cash flows from operating activities

Profit from operating activities	16,076,100	8,123,054
<i>Changes in operating assets and liabilities:</i>		
(Increase) in financial assets	(10,309,645)	(6,570,067)
Decrease in loans and receivables	3,915	102,364
(Decrease)/Increase in trade and other creditors	1,802,665	(1,141,040)
Net cash flows from/(used in) operating activities	<u>7,573,035</u>	<u>514,311</u>

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

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 are:

- To generate an absolute return greater than the prevailing Bank Bill Swap Rate (BBSW) plus a gross margin of 5%.
- 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 new single investment (apart from cash) can represent over 30% of the Fund's portfolio value unless approved by the Investment Committee
- The Investment Manager 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.

Investments in assets are determined by the Fund Manager. Where the Responsible Entity 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 and currency risk on its investments and interest rate risk on its cash and cash equivalents.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

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.

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.

Currency risk

The Fund invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, solely in US Dollars (USD). Consequently, the Fund is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the scheme's financial assets or liabilities denominated in currencies other than the Australian Dollar.

The Fund's policy with respect to managing its currency risk is to limit its total foreign currency exposure to less than 10 percent of the scheme's net assets, with no individual foreign currency exposure being greater than 5 percent of the net assets.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

The scheme's currency risk is managed on a daily basis by the investment manager in accordance with policies and procedures in place. The scheme's currency positions and exposures are regularly monitored by the directors.

At the reporting date the carrying value of the scheme's net financial assets and liabilities held in individual foreign currencies expressed in Australian Dollars and as a percentage of its net assets were as follows:

Currency	2018		2017	
	\$	%	\$	%
USD	2,623,260	4.50	2,528,632	5.60
	2,623,260	4.50	2,528,632	5.60

The table below sets out the effect on the Fund's profit or loss and net assets attributable to unitholders of a reasonably possible weakening of AUD against the USD by 4% (2017: 4%), at 30 June 2018. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in thousands of AUD	2018	2017
	\$	\$
USD	109,303	177,687
	109,303	177,687

Effect in % of net assets	2018	2017
	%	%
USD	0.19%	0.39%
	0.19%	0.39%

A reasonably possible strengthening of AUD against the above currencies would have resulted in an equal but opposite effect to the amounts shown above.

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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

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.

The following table details the sector breakdown:

Total investment assets by industry sector	2018		2017	
	\$	%	\$	%
Consumer discretionary	232,499	0.41	645,000	1.40
Energy	7,044,556	12.50	5,573,246	12.10
Property	494,667	0.88	587,830	1.28
Healthcare	23,146,529	41.08	20,133,392	43.74
Industrials	1,200,810	2.13	91,000	0.20
Materials	7,466,475	13.25	7,751,197	16.84
Information Technology	16,756,043	29.75	11,250,267	24.44
Financials	-	-	-	-
	56,341,579	100.00	46,031,932	100.00

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

	30 June 2018 \$	30 June 2017 \$
Listed equity investments	35,444,583	25,315,445
Unlisted equity investments and unlisted managed investment schemes	20,065,746	19,666,487
Convertible notes	831,250	1,050,000
Total investment assets	56,341,579	46,031,932

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

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 2018 would have increased net assets attributable to unitholders and increased profit from operating activities by \$1,772,229 (2017: \$1,265,772): 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 notes at 30 June 2018 would have increased net assets attributable to unitholders and increased profit from operating activities by \$1,044,850 (2017: \$1,035,824). 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.

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:

	30 June 2018 \$	30 June 2017 \$
Cash and cash equivalents	5,056,012	391,352
Prepayments, dividends, distributions and other receivables	36,775	40,692
Convertible notes	831,250	1,050,000
Total	5,924,037	1,482,044

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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

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 notes do not bear any interest.

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.

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:

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

30 June 2018

	Contractual cashflows \$	Less than 1 month \$	On call* \$
Accounts payable	19,916	19,916	-
Responsible Entity and Fund Manager fees payable	74,940	74,940	-
Net assets attributable to unitholders	58,301,579	-	58,301,579
Total financial liabilities	58,396,435	94,856	58,301,579

30 June 2017

	Contractual cashflows \$	Less than 1 month \$	On call* \$
Accounts payable	23,134	23,134	-
Responsible Entity and Fund Manager fees payable	57,314	57,314	-
Net assets attributable to unitholders	45,133,859	-	45,133,859
Total financial liabilities	45,214,307	80,448	45,133,859

*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.

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.

Merchant Opportunities Fund
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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

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.
- 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

At 30 June 2018, the carrying amounts of equity investments whose fair values were determined directly, in full or in part, by reference to published price quotations amounted to \$35,444,583 (2017: \$25,315,445).

Unlisted investments

Details of unlisted investments and the valuation approach as at 30 June 2018 are set out below:

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 30 June 2018 \$	Fair value as at 30 June 2017 \$
ABIG Pty Ltd*	Information Technology	Net asset backing	June 2018	248,000	372,000
Affinity Business Insurance Pty Ltd*	Information Technology	Net asset backing	June 2018	600,000	900,000

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 30 June 2018 \$	Fair value as at 30 June 2017 \$
Alerte Digital Health Pty Ltd*	Healthcare	Price of MOF's entry price (FOREX adjusted)	December 2016	1,351,504	1,302,753
ArchTIS Limited	Information Technology	Price of MOF's entry price	October 2017	750,000	-
CannPal Pty Ltd	Healthcare	Price of most recent capital raising	June 2017	N/A^^	2,962,151
China Retail Technology*	Information Technology	Price of MOF's entry price	February 2018	150,000	-
Coal Stream Pty Ltd	Energy	Price of MOF's entry price	April 2014	N/A**	554,999
Condor Energy Services Ltd*	Energy	Price of most recent investment (third-party transaction)	March 2014	584,500	584,500
Fibonacci Global Payments Pte Ltd*	Information Technology	Price of MOF's entry price (FOREX adjusted)	April 2017	814,570	785,186
Frugl Pty Ltd	Information Technology	Price of most recent capital raising	February 2018	250,000	-
Geo40 Limited	Industrials	Price of MOF's entry price	October 2017	250,800	-
Infitecs Pty Ltd*	Information Technology	Price of most recent capital raising	June 2015	500,000	500,000
Inhouse Group Limited (previously Trendwise)*	Information Technology	Price of most recent investment (third party transaction)	September 2017	131,953	465,861
Kontrarian Resource Fund No 1*	Materials	Independent valuation of assets	June 2018	4,900,000	4,900,000

Merchant Opportunities Fund
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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 30 June 2018 \$	Fair value as at 30 June 2017 \$
LoneStar Limited (formally Sugar Dragon Limited)*	Materials	Price of most recent capital raising	June 2017	215,625	115,625
Miner Group Pty Ltd	Information Technology	Price of MOF's entry price	May 2018	992,478	-
Mobile Tyre Shop Holdings Pty Ltd	Industrials	Price of MOF's entry price	January 2018	200,000	-
MLS Pty Ltd*	Information Technology	Price of MOF's entry price	March 2018	1,700,000	1,000,000
Nelson Resources Ltd	Materials	Price of the most recent capital raising	May 2017	N/A^^	375,000
Nelson Resources Ltd (options)	Materials	Price of the most recent capital raising	May 2017	N/A^^	-
Nicevend Pte Ltd*	Information Technology	Price of MOF's entry (FOREX adjusted)	March 2017	457,184	440,692
Pro9 Global Pty Ltd	Industrials	Price of MOF's entry price	January 2018	500,010	-
Rate My Agent	Information Technology	Last transaction price	June 2017	N/A^^	949,992
Snapsil Innovations Limited	Industrials	Price of MOF's entry price	December 2017	250,000	-
SC8 Technologies Pty Ltd*	Information Technology	Price of most recent capital raising	June 2017	750,000	750,000
Stack A JV Pty Ltd	Energy	Price of MOF's entry price	January 2018	2,000,000	-
Valiant Resources Ltd*	Energy	Price of most recent capital raising	November 2016	866,670	866,670

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

	Industry Sector	Basis of valuation	Date of transaction	Fair value as at 30 June 2018 \$	Fair value as at 30 June 2017 \$
Village National Limited	Property	Net asset backing	December 2017	494,668	587,830
Wave Park Development Pty Ltd*	Energy	Last transaction price	February 2018	1,107,784	1,162,228
Wangle Technologies Ltd – options	Industrials	Determined by comparing the exercise price of the option with the last bid price of the listed stock	June 2017	N/A**	91,000
Total				20,065,746	19,666,487

Fair Value measurements recognised in the statement of financial position

** The investments in seed and start-up venture capital investments represent 25% 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. 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.*

*** The investments in Coal Stream Pty Ltd and Wangle Technologies Ltd were sold during the 2018 financial year.*

^^ The investments in CannPal Pty Ltd (now Cannpal Animal Therapeutics Ltd), Nelson Resources Ltd and Rate My Agent (now RMA Global Limited) were listed during the 2018 financial year.

The directors of CIP Licensing Limited have determined that the most recent transaction price paid represents the best estimate of fair value as at 30 June 2018.

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.

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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 12 Financial instruments and associated risk (continued)

- 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.

30 June 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets classified as fair value through profit and loss	35,345,129	99,454	20,896,996	56,341,579

30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets classified as fair value through profit and loss	24,676,247	142,323	21,213,362	46,031,932

Reconciliation of Level 3 fair value measurements of financial assets

	Fair value through profit or loss	Fair value through profit or loss
	2018	2017
	\$	\$
Opening	21,213,362	10,008,237
Total gains or losses in profit or loss	(556,486)	13,812,502
Purchases	5,205,538	8,869,709
Sales	(131,400)	(7,660,952)
Transfers into Level 3	-	-
Transfers out of Level 3	(4,834,018)	(3,816,134)
Closing	20,896,996	21,213,362
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(37,413)	7,637,443

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Notes to the Financial Statements (continued)
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Note 13 Related Party Transactions

(a) Responsible Entity

The Responsible Entity of Merchant Opportunities Fund is CIP Licensing Limited (ABN 63 603 558 658). 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.

(b) Details of Directors and Other Key Management Personnel

(i) Directors

The directors of CIP Licensing Limited (the Responsible Entity) during the year were:

David McKay French	Executive Chairman
Owen Evans	Non-Executive Director
Lance Livermore	Executive Director
Christopher Heyworth	Executive Director
Nigel Allfrey	Non-Executive Director

(ii) Other Key Management Personnel

Neither Merchant Opportunities Fund, nor CIP Licensing 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 2018 (2017: Nil).

(e) Fees

The Responsible Entity, CIP Licensing 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 \$1,993,693 (2017: \$2,933,368).

Merchant Opportunities Fund
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Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 13 Related Party Transactions (continued)

The total compliance and accounts preparation fees paid to the Responsible Entity during the period was \$1,333 (2017: \$8,000). Expenses incurred by the Responsible Entity during the period and reimbursed by the Fund in accordance with the Fund's constitution was \$Nil (2017: \$Nil).

CIP Licensing Limited provides investment services to Merchant Opportunities Fund, and outsources custodial and administrative functions.

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

(e) 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 Kontrarian Resource Fund and 1-Page Limited. The Fund has an investment in Kontrarian Resource Fund and 1-Page Limited.

Christopher Mews, the secretary of Merchant Funds Management Pty Ltd (the investment manager for Merchant Opportunities Fund) is also a non-executive director of Kontrarian Resource Fund, 1-Page Limited, Velpic Limited and Lonestar Limited. The Fund has an investment in Kontrarian Resource Fund, 1-Page Limited, Velpic Limited, Lonestar Limited and Stack A JV Pty Ltd.

(f) 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.

(g) 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 2018 and 30 June 2017.

Merchant Opportunities Fund
ARSN 111 456 387
Notes to the Financial Statements (continued)
For the year ended 30 June 2018

Note 15 Events subsequent to reporting date

On 14 September 2018 the Fund completed a \$500,000 redemption for the three months ended 31 August 2018

Other than the matter discussed above, there have been no events subsequent to balance date which require disclosure in this report.

Merchant Opportunities Fund
ARSN 111 456 387
Directors' Declaration
For the year ended 30 June 2018

In the opinion of the Directors of CIP Licensing 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 39 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 2018 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;
- (b) the Directors draw attention to Note 2(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
CIP Licensing Limited



David French
Director

Rockhampton
3 October 2018

Independent Auditor's Report to the Unitholders of Merchant Opportunities Fund**REPORT ON THE AUDIT OF THE FINANCIAL REPORT****Opinion**

We have audited the financial report of Merchant Opportunities Fund ("the Fund") which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration of CIP Licensing Limited, the Responsible Entity of the Fund.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors of CIP Licensing Limited (the Responsible Entity) are responsible for the other information. The other information comprises the information included in the Fund's annual financial report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Responsibilities of the Directors for the Financial Report

The directors of CIP Licensing 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

HLB Mann Judd

**HLB Mann Judd
Chartered Accountants**

**Perth, Western Australia
3 October 2018**



**M R Ohm
Partner**