

## Appendix 4E

### Preliminary Final Report to the Australian Stock Exchange

<b>Name of Entity</b>	Merricks Capital Special Opportunity Fund Limited
<b>ABN</b>	62 111 772 359
<b>Financial Year Ended</b>	30 June 2012
<b>Previous Corresponding Reporting Period</b>	30 June 2011

#### Results for Announcement to the Market

	2012 \$ '000	Percentage increase /(decrease) over previous corresponding period #
<b>Revenue from ordinary activities</b>	1,273	33%
<b>Profit/(loss) from ordinary activities after tax attributable to members (excluding realised capital gains/(losses))</b>	(11,099)	(839%)
<b>Profit / (loss) for the period attributable to members (including realised capital gains /(losses))</b>	(11,099)	(839%)
<b>Dividends (distributions)</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Final Dividend</b>	Nil	n/a
<b>Previous corresponding period</b>	Nil	n/a
<b>Record date for determining entitlements to the dividends (if any)</b>	n/a	

#### Dividends

<b>Date the dividend is payable</b>	n/a
<b>Record date to determine entitlement to the dividend</b>	n/a
<b>Amount per security</b>	Nil
<b>Total dividend</b>	Nil
<b>Amount per security of foreign sourced dividend or distribution</b>	n/a
<b>Details of any dividend reinvestment</b>	n/a

<b>plans in operation</b>	
<b>The last date for receipt of an election notice for participation in any dividend reinvestment plans</b>	n/a

### NTA Backing

	<b>Current Period to 30/06/12</b>	<b>Previous corresponding period</b>
<b>Net tangible asset backing per ordinary security – pre deferred capital gains tax</b>	\$0.7274	\$1.1185

### **Other Significant Information Needed by an Investor to Make an Informed Assessment of the Entity's Financial Performance and Financial Position:**

See attached Annual Report

### **The earnings per security and the nature of any dilution aspects:**

Refer Annual Report

### **Returns to shareholders including distributions and buy backs:**

Refer Annual Report

### **Significant features of operating performance:**

Refer Annual Report

### **The results of segments that are significant to an understanding of the business as a whole:**

Refer Annual Report

### **Discussion of trends in performance:**

Refer Annual Report

### **Any other factor which has affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:**


Refer Annual Report

## Audit/Review Status

<b>This report is based on accounts to which one of the following applies:</b> (Tick one)			
The accounts have been audited	<input checked="" type="checkbox"/>	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	
<b>If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:</b>  Refer Annual Report			
<b>If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:</b>  Refer Annual Report			

## Attachments Forming Part of Appendix 4E

Attachment #	Details
1	Annual Report

<b>Signed By Director</b>	
<b>Print Name</b>	Andrew Brown
<b>Date</b>	31 August 2012

MERRICKS CAPITAL SPECIAL OPPORTUNITY FUND LIMITED

ABN 62 111 772 359

ANNUAL REPORT

For the year ended  
30 June 2012

**Merricks Capital Special Opportunity Fund Limited**  
**ABN 62 111 772 359**

## **1. Directory**

### **Investment Manager**

Merricks Capital Pty Limited  
AFSL 319477  
ACN 126 528 005  
ABN 45 126 528 005  
Level 1  
600 Chapel Street  
SOUTH YARRA VIC 3141  
Telephone: 03 8319 8111

### **Directors**

Andrew Brown (Chairman)  
John Reynolds  
Adrian Redlich  
Henry Adam Lindell

### **Company Secretary**

Henry Adam Lindell

### **Accounting & Administration**

White Outsourcing Pty Limited  
ACN 074 709 210  
ABN 76 074 709 210  
Level 7  
20 Hunter Street  
Sydney NSW 2000  
Telephone: (02) 8236 7700  
Fax: (02) 9221 1194

### **Auditors**

Ernst & Young  
ABN 75 288 172 749  
680 George Street  
Sydney NSW 2001  
Telephone: (02) 9248 5555  
Fax: (02) 9248 5959

### **Registered Office**

Level 1  
600 Chapel Street  
SOUTH YARRA VIC 3141

### **Share Registry**

Boardroom Pty Limited  
ACN 003 209 836  
ABN 14 003 209 836  
Level 7  
207 Kent Street  
Sydney NSW 2000

Shareholder Enquiries

Telephone: (02) 9290 9600

**Merricks Capital Special Opportunity Fund Limited**  
**ABN 62 111 772 359**

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## **2. Chairman's Report**

Dear Shareholder,

For ten months of the fiscal 2012 year, the investments within Merricks Capital Special Opportunity Fund (**MEF** or **the Company**) were proceeding moderately. The share price of the Company's largest exposure at the time, Straits Resources Limited (**SRQ**) had been volatile, in line with many other mid-sized gold-copper companies, but was at approximately the same level as 30 June 2011. MEF's significant loan exposures to Digital Harbour Holdings (**DHH**) were cemented by the on-time construction of the underlying project, together with its other attributes of pre-lease and pre-sale. The third major commitment, being units in IEF Real Estate Entertainment Fund (**IEF**) had just seen a change of responsible entity and an internalisation of the manager, although the share price suggested the changes elicited little interest outside of a highly concentrated share register. Smaller investments made by the fund had generally been disappointing to that time, but MEF's overall equity base was within 5% of its 30 June 2011 level.

Since 30 April 2012, the share price of SRQ has fallen from \$0.78 per share via \$0.36 at 30 June 2012 to current levels around \$0.12 as a result of a very poor fourth quarter production report involving significant difficulties at its Mt. Muro gold-silver mine in Indonesia. SRQ's share price decline alone reduced marked-to-market equity by \$9.4million (33c per MEF share) in the last two months of the financial year, and by an approximate \$14.8million (52c per MEF share) between 30 April 2012 and the current date – a period of around four months.

It is accepted that the exposure to SRQ was large – at cost, around 50% of MEF's equity – but is within the scope of mandate adopted in October 2010. The "tail risk" from SRQ's cash consumptive Mt. Muro operation turned out to be far greater than reasonably expected, particularly given the \$80million of equity raisings made by SRQ during 2012. Accidents do happen within a concentrated portfolio of investments, but unfortunately the magnitude of this one – both in respect of exposure and share price decline – has had a massively deleterious impact on MEF.

This is unfortunate since the benefits of operating with permanent capital were shown by the excellent returns and full repayment from the mezzanine loan exposure to DHH. Further, whilst the time frame over which improvement is being seen is longer than was initially intended, IEF's fortunes appear to be on an upswing, aided by a more sensible structure and attentive micro management.

The SRQ situation does not invalidate the basis of the investment proposition and mandate for MEF put forward in October 2010. This is especially the case at the current stage of the Australian economic and banking cycle, where distressed assets are now being worked off by their owners, and where capital – debt or equity – is in short supply. However, I accept that we cannot sit idly by and allow MEF to function as though the SRQ incident had not happened, even if the SRQ share price recovers to a degree and IEF's market price eventually reflects our belief in its underlying value.

Prior to the AGM, the board will be assessing the various alternatives for MEF, given the now modest size of the permanent capital base. We do not discount the status quo out of hand, albeit with some amendments to the exposure limits within MEF. We do discount winding up MEF since this would potentially waste the off balance sheet assets of a large franking credit pool and tax losses.

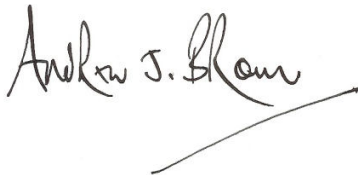
**Merricks Capital Special Opportunity Fund Limited**  
**ABN 62 111 772 359**

We are cognisant that there may be other means to more rapidly extract value for shareholders. Be assured, we are conscious of not sacrificing shareholders' upside to a recovery in share prices of two of the investee companies over a longer period.

Once the recapitalisation process for SRQ is revealed, MEF will be in a better position to realistically assess its longer term options, and we expect to make a more fulsome announcement prior to the AGM in November.

I apologise for the sharp decline in price and value of your investment in MEF over the past few months. I would add that your board members have also keenly felt this descent. We will do our very best to try to restore value to the best extent possible over the coming year.

Sincerely,

A handwritten signature in black ink that reads "Andrew J. Brown". The signature is written in a cursive style and is positioned above a long, thin horizontal line that extends to the right.

Andrew Brown  
Chairman

### **3. Investment Mandate**

- On 1 August 2010, Merricks Capital commenced acting as the Manager of the Fund. On 1 October 2010, Merricks Capital and Independent Directors of the Fund announced the new investment mandate of the Fund.
- The Fund focuses on having between 3 to 10 investments at any given time.
- Generally the Fund focuses on making investments with small to mid-cap Australian listed companies.
- The types of investments that the Fund targets are:
- Obtaining a strategic stake in a desired small to medium sized listed company via placement of new securities or acquisition of securities.
- Construction of unlisted convertible securities offering equity-type returns but with debt security characteristics.
- Combining with other investors to acquire significant stakes in companies with a view to actively agitating for change, which could release hidden value to all shareholders.
- Investments that reward the provision of liquidity.
- The Fund seeks to make investments that will allow the Fund to pay regular and consistent dividends.
- The Fund is able to target sectors of the market where there is a shortage of competitors.
- The Fund also has the ability to co-invest in opportunities with Merricks Capital's other funds.

#### **4. Manager's Letter**

##### ***MEF mandate is underpinned by a very active form of management***

As the largest shareholders in MEF we have been disappointed with the poor performance and have been affected by the losses experienced over the last year. However, we are committed to the investment process and continue to work extremely diligently on the existing investments and a series of potential new investments.

The process of identifying and managing investments for MEF involves far more than simple financial analysis as it also includes:

- very active due diligence,
- engagement with the board and management of all our positions; and
- if necessary, active participation in restructuring or repositioning of our investment.

In the case of all three of our largest investments (Digital Harbour Holdings Mezz (DHH), Straits Resources (SRQ) and IEF Real Estate Entertainment (IEF)) we have been actively involved in trying to influence the strategic direction to achieve the best outcome for our investors.

The down side of active engagement is that we often found ourselves in a position over the last year where we could not communicate our views to our shareholders in fear of breaching confidentiality. This inability to sell our story may have compounded the discount to NTA that listed investment companies generally experience and is something we will look to address in the coming year.

Notwithstanding the poor performance of the last year we continue to believe the pursuit of a few special opportunities with active engagement is a good strategy to generate excess risk adjusted returns in the current environment. As your manager we need to show results that regain the trust of shareholders and drive a strategy that maximises value for MEF. In the context of value creation we are examining several strategic adjustments to the mandate however we do not intend to wind up MEF since this would potentially waste the off balance sheet assets of a large franking credit pool and tax losses.

##### ***The Year Ahead***

We expect the year ahead to continue to be characterized by low Australian economic growth induced by the lack of credit growth as the financial system continues to de-lever and China experiences a further cyclical slowdown. Our region's economic difficulties provide cyclical opportunities that should yield investment results over the coming two years. In contrast the ongoing structural changes in Europe, Japan and the USA may take the rest of the decade to resolve and we do not want to be reliant on these forces to drive investment returns.

Specifically we see several key investment themes which will drive markets:

- The Australian dollar (AUD) is now being artificially supported by foreign investment in the currency as opposed to the underlying support of terms of trade and economic performance. We believe the AUD will depreciate as Chinese iron ore demand slows, interest rates cuts continue and much of Australian industry is proven to be uncompetitive with AUD above parity.

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- The Chinese slow down is cyclical in nature and will rebound once the country transitions to new leadership in 2013. The current slowdown provides a good entry point to industries which will see ongoing benefit from the structural emergence of China
- Credit growth in Australia will remain muted as the banks are reluctant lenders despite stating otherwise. The weak economy, more expensive funding costs and increasing regulatory restrictions on the banks suggests there will be many good opportunities to provide non-bank finance to corporate partners
- Investors will continue to chase income (dividends) and large listed high yielding companies will be well bid introducing an element of downside risk to the market as they are priced on yield and not sustainable earnings growth

As the manager of MEF our most significant reward is achieved via a return on our investment as opposed to the management fee. With an eye squarely focussed on generating a good risk adjusted return we believe the best place to invest in the current environment is to use the semi-permanent capital of MEF to pursue:

- Deeply discounted value opportunities where the some of the parts is not reflected in the current share price. We believe the investment of patient capital will be well rewarded as your manager works with management of the underlying investments to restructure their position - in the case of IEF and SRQ this job is only partly complete
- High Yielding opportunities generally not available to the general investing public that enables MEF to offer something different to other investment vehicles.

We are well aware that performance is all that counts to investors in the end and the score card ranks us poorly over the past year.

**Digital Harbour Holding Mezzanine**  
**Style of investment: High yielding private loan**

On 31 May 2011, (MEF) announced the investment of \$6.1 million in mezzanine funding to Digital Harbour Holdings (“DHH”) for the construction of 990 LaTrobe Street in the Docklands precinct of Melbourne. The funding was for a fifteen month period with principal and interest to be repaid upon completion and settlement of the building.

In November 2011, MEF advanced further funds to DHH in a similar higher yielding instrument, and in May 2012 sold down part of its initial exposure to DHH. At 30 June 2012, inclusive of all capitalised interest to that date, MEF carried its total investment in DHH at \$7.38 million (35% of NTA).

MEF was pleased to confirm that subsequent to the close of the financial year the handover of the building to its new owner took place on 23 August 2012 and that funds of \$7.57 million (27 cents per share) were received on 24 August 2012 by MEF. An effective interest rate of 17% was received for the duration of the loan. This particular investment has proven very successful and we are currently examining other similar high yielding opportunities.

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**IEF Real Estate Entertainment Group (“IEF”)**

**Style of Investment: Deeply discounted value opportunity that is being restructured into a focussed high yield investment property trust**

MEF holds 110.4 million units of IEF or 11.3% of IEF’s issued capital (23% of NTA at June 30 2012). This investment, at prevailing share prices of IEF represents approximately \$5.63 million (20 cents per share) of the current NTA of MEF.

Thesis for IEF investment:

- Own NSW pub properties at the bottom of the cycle when they are yielding 10% plus
- Buy these properties through a listed company which is trading at a further 65% discount to current independent and directors valuations
- Buy into this listed company via equity issuance which reduces debt and place lower risk on the NTA as leverage is reduced
- A belief that the market does not understand the Panthers loans which are in fact senior secured loan with attractive running yield
- A belief that the removal of ING as the manager and replacement with a smaller more aggressive internal team will achieve superior and more cost effective outcomes

***Recent Events***

On 24 August 2012 IEF announced the restructuring and part repayment of IEF’s \$62.9 million loan to Panthers Investment Corporation, and the conversion of IEF’s equity holding in Panthers Property Unit Trust into senior secured debt. In total IEF currently have outstanding loans to the Panthers Group of \$78m paying an annual interest rate of 9.6%. This loan represents approximately 66% of the NTA of IEF and is a core part of the investment thesis for the MEF investment. MEF has long held the view that the market has not recognized the Panthers Group loan as senior secure loan paying attractive interest.

MEF sees these recent developments in a positive light, with the belief that it will focus more attention on the quality of the Panthers investment and IEF’s wholly owned hotel portfolio. The repayment of the majority of the Panthers Investment in the coming year also highlights the pathway towards reduced gearing within the IEF portfolio. MEF believes this should lead to a revaluation of IEF’s unit price from 5.1 cents closer to its NTA of 12 cents.

Research undertaken by MEF indicates that underlying business in the hotel sector has improved significantly over the last year and provides further support to the fundamentals of the investment of IEF.

***Outlook for IEF Investment***

IEF is part way through its transition from an over levered, externally managed hotel REIT which over paid for assets and into a focused hotel owner / operator with moderate levels of leverage whose assets are generating 10%+ cash yields relative to its equity value.

- Continued assets sales, with IEF ultimately being focused on owning and operating hotels in NSW.
- Operational improvements from the hotels which IEF now manages as the benefits of capex investments start to emerge.
- Cash from asset sales and internally generated cash flow used to pay down debt and return capital to unit holders by way of share buy backs or dividends.

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This transformation will take another 12 to 18 months to complete and we expect will result in IEF trading closer to book value. A return to 12 cents per unit would have a see through value in MEF NTA of \$13 million (45 cents per share).

**Straits Resources (“SRQ”)**

**Style of investment: Deeply discounted value opportunity**

MEF holds 22.39 million shares in SRQ. At 30 June 2012 SRQ represented 39% of the NTA of MEF. The SRQ share price has subsequently declined 74% since 30 June 2012 resulting in a 22 cent per share decline in the MEF NTA.

MEF first invested in Straits Resources back in 2010 as it was identified the sum of the holdings in Straits Asia, direct ownership of Precious & Base metal assets and cash on balance sheet was worth significantly more than the share price at the time. In November 2010 the company demerged the metal assets and the holding in Straits Asia. The demerged entity holding cash and Straits Asia was subsequently taken over and resulted in a return all the initial capital and a profit to MEF.

MEF was also left with SRQ shares which held all the residual assets of the initial Straits vehicle. The work undertaken by MEF had previously identified significant upside in the key remaining assets including the Tritton Copper mine (NSW), the Mt Muro Gold Mine (Indonesia), Goldminco Copper development project (NSW) and the Hillgrove Gold/Antimony mine (NSW). Apart from the exploration potential at each of the key assets it was felt the market did not value these residual assets and particularly the off take agreement at Tritton. MEF believed the Tritton mine had 10yrs plus of mine life, yet it was encumbered with an onerous off take agreement with JP Morgan for another two years. This off take agreement was costing the company \$60-70m pa and once expired would result in a significant increase in Tritton free cash flow and demonstrated the value to the market. As a result MEF significantly increased its stake in SRQ.

In hindsight the analysis of the Tritton off take agreement has been proven to be correct and the new discoveries around Tritton mine site make this an increasingly strategic and valuable asset. However the company has failed on several other fronts which have substantially destroyed shareholder value including:

- The ramp of the Mt Muro gold mine has been delayed by almost a year and has necessitated additional equity capital raisings this calendar year of \$80m
- The proposed sale of the Hillgrove mine for \$40m did not complete
- The company has failed to reduce corporate overheads and regional exploration since the demerger. Until recently the company has been spending approximately \$30m on corporate overheads and regional exploration which appears excessive in light of their poor performance and tight cash position

On 31 July 2012 Strait Resources announced “As Mt Muro requires financial support until December 2012, Straits is in advanced discussions for additional funding of up to \$50 million of primarily mezzanine finance. The funds are intended to provide the necessary support to Mt Muro and general Group working capital.” The company also indicated “A process has been initiated to investigate future options for Mt Muro, including a potential demerger or sale of the mine.”

Merricks Capital is currently participating in active discussions with the management of Straits Resources regarding their refinancing and restructuring. MEF expects to be in a position to update unit holders on their position in regards to Straits Resources in the near future.

**5. Portfolio and Sector Allocation as at 30 June 2012**

We provide a breakdown of the investment portfolio by value and sector as a means of highlighting the main areas of the economy we have exposure to:

<b>Security</b>	<b>Market Value</b>	<b>Percentage (%)</b>
<b>Loans</b>		
Digital Harbour Mezzanine Loan	7,375,965	35.77
<b>Real Estate</b>		
ING Real Estate Entertainment Fund	4,859,352	23.56
<b>Materials</b>		
Aziana Limited	96,000	0.47
Straits Resources Limited	8,061,682	39.09
<b>Energy</b>		
Molopo Energy Limited	299,864	1.45
<b>Pharmaceuticals, Biotechnology, and Life Science</b>		
Alchemia Limited	118,800	0.58
Exchange Traded Options	2,100	0.01
Cash	(190,407)	(0.92)
<b>Total Portfolio Value</b>	<b>20,623,356</b>	<b>100.00</b>

## **6. Corporate Governance Statement**

### **CORPORATE GOVERNANCE**

In March 2003, the ASX Corporate Governance Council (“**ASXCGC**”) issued the Principles of Good Corporate Governance and Best Practice Recommendations (“**ASX Recommendations**”) as a guide to the top 500 ASX listed companies. The guidelines were reviewed as at 31 March 2004 by the Implementation Review Group and some relaxations agreed particularly in respect to non top 300 ASX listed companies. The ASX recommendations were extensively revised in August 2007 as a “Second Edition”.

Corporate Governance is the framework by which Merricks Capital Special Opportunity Fund Limited (“**the Fund**” or “**the Company**”) is effectively managed, in respect of its ethics and honest approach to doing business, the accountability of the board of Directors to shareholders of the Company for financial performance and growth, and the management of the inevitable risks which are encountered in running a company reliant upon the performance of financial assets and investments.

The Company is a small company with a strong commitment to containing costs. This commitment, when related to the size and outsourced nature of operations of the Company, makes it difficult to fully attain all of the recommended principles; indeed, many of the principles have limited relevance to the operation of the Company, and as a consequence, the corporate governance framework has been adapted to the operation of a smaller entity. In any event, shareholders are significantly advantaged by the fact that the board of Directors of the Company hold a relevant interest in approximately 23.17% (2011: 27%) of the equity in the Company.

Further, all of the Board and staff are experienced company officers and are well aware of their responsibilities to the Company, to the security holders and to all other stakeholders, and some fulfil similar roles in other corporations. As a consequence, the Company looks to attract Directors who exhibit the requisite innate characteristics of honesty and integrity, rather than simply adopt a series of boilerplate documents, and attempt to justify divergence from them.

The Company’s Board largely supports and is largely, though not totally, in compliance with the ASX Recommendations published by the ASXCGC. The Company’s constitution and various charters and statements in relation of corporate governance discussed in this section are available from the Company upon request in writing.

#### **PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

##### ***A. THE ROLE OF THE BOARD AND MANAGEMENT***

The Board does not have a formal Board Charter given the extensive use of outsourced partners to operate the Company resulting in a clear division between the role of the Board and that of the Investment Manager: The Board believes its primary functions are:

**Merricks Capital Special Opportunity Fund Limited**  
**ABN 62 111 772 359**

- Acting as an interface between the Company and its shareholders;
- Setting the goals of the Company including short, medium and longer term objectives;
- Providing the overall strategic direction of the Company;
- Interfacing with the Investment Manager in respect of capital management;
- Approving all mergers and acquisitions and the establishment of controlled entities;
- Approving investments where a potential conflict of interest may arise or where the investment may breach internally set benchmarks in respect of size of exposure; and
- Ensuring the Investment Manager manages the Company's investment portfolio in the prescribed manner, with respect to style, exposure limits and other facets which will govern the overall performance of the portfolio.

The Board specifically delegates the day to day management of the Company's affairs to three external parties:

- Management of the investment portfolio, via Merricks Capital Pty. Limited ("**Merricks**") pursuant to a management agreement;
- back office functions, such as trade settlement and accounting via White Outsourcing Pty Limited; and
- share registry services via Boardroom Pty Limited.

**B. LETTERS OF APPOINTMENT**

Letters of appointment are prepared for non-executive directors covering duties, time commitments, induction and company policies and corporate governance. Given the small number of these individuals, their remuneration structure and main elements of terms of employment are reproduced in the Remuneration Report section of this Annual Report.

**C. INDUCTION OF SENIOR EXECUTIVES**

The Company has no executives with all functions being outsourced, and it is not planned to hire such individuals in the near future.

**D. PERFORMANCE EVALUATION OF SENIOR EXECUTIVES**

There is no specific performance appraisal of senior executives. Every six months, the Investment Manager formally presents to the Board and certifies that it has acted in accordance with the Management Agreement.

**PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

*A. SIZE AND COMPOSITION OF THE BOARD*

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall comprise not less than three Directors nor more than such number as the Directors may determine at any time.
- The Chairman should preferably be an Independent or Non-Executive Director.
- The Board shall comprise Directors with a diverse and appropriate range of qualifications and expertise and in the event of retirement of a Director with particular expertise, the Board will appoint a Director with skills and experience to balance the needs of the Board in the operations of the Company.
- The Board shall meet at least quarterly and follow meeting guidelines established to ensure that all Directors are made aware of, and have available all necessary information in a timely manner, to participate in an informed discussion of all agenda items.

At the date of this report, the Board of the Company comprises a Non Executive Chairman, a Non Executive Director and two Executive Directors. The Directors' Report provides the details of the Directors in office during the year together with their experience, expertise and qualifications.

The Directors in office at the date of this Statement are:

Non Executive Chairman:	Andrew Brown
Independent Non Executive Director:	John Reynolds
Executive Director:	Adrian Redlich
Executive Director:	Henry Adam Lindell

*B. DIRECTORS' INDEPENDENCE*

Independent Directors are independent of management, do not have a substantial shareholding (i.e. less than 5%) and are free from any business or other relationship which could materially interfere with the exercise of their judgement. The Company presently has one Independent Director. In light of the size and activities of the Company, the Directors do not see any advantage in appointing additional directors.

*CONFLICT OF INTEREST*

The Board has in place a process to ensure that conflicts of interest are managed appropriately. If a potential conflict of interest arises, the director concerned does not receive the relevant Board papers and/or leaves the Board meeting while the matter is considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of the Company.

*C. ELECTION OF DIRECTORS*

The Directors of the Company are elected or re-elected (on a rotational basis) at the Company's Annual General Meeting. Details of the members of the Board, their experience, expertise and qualifications are set out in the Director's Report. It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of Non Executive Directors on a case by case basis and in conformity with the requirements of the Listing Rules and the Corporations Act.

*D. BOARD COMMITTEES*

Establishment of Board committees is commensurate with the size of the Company and is as follows:

Audit Committee

At the date of this statement, the members of the Audit Committee are John Reynolds and Andrew Brown (Chairman of the Audit Committee).

Having regard to the small size of the Company, the duties of a Remuneration Committee and Nomination Committee are handled by the full Board.

*E. DIRECTOR'S ACCESS TO INFORMATION AND ADVICE*

Directors receive a monthly report from the Investment Manager – whether or not a Board meeting is scheduled – and have unrestricted access to company records and information.

Directors may obtain independent professional advice at the Company's expense on matters arising in the course of their Board and Committee duties, after obtaining the Chairman's approval. The Board requires that all directors be provided with a copy of such advice and be notified if the chairman's approval is withheld.

It is the Board's policy that any committees established by the Board should:

- Be entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise.
- Be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require.
- Operate in accordance with terms of reference established by the Board.

The Board appoints and removes the Company Secretary. All directors have direct access to the Company Secretary and, through the Chairman, to the Board on all governance matters.

*F. BOARD EVALUATION*

Since the Company is small in nature, the Board does not undertake a formal annual evaluation process.

### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING**

#### *A. BUSINESS CONDUCT AND ETHICS*

The Directors have adopted a Code of Conduct (“**Code**”) of which the following is a summary:

- Directors must act honestly, in good faith and in the best interests of the Company as a whole at all times.
- Directors have a duty to use due care and diligence in fulfilling the functions of the office and exercising the powers attached to that office.
- Directors must always use the powers of the office for a proper purpose.
- Directors must recognise that their primary responsibility is to the Company’s security holders as a whole but should, where appropriate, have regard for the interests of all stakeholders of the Company.
- Directors must not make improper use of information acquired as a Director.
- Directors must not allow personal interests, or the interests of any Associated Person, to conflict with the interests of the Company.
- Directors have an obligation to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board.
- Confidential information received by a Director in the course of the exercise of Directors duties remains the property of the company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by that company, or required by law.
- Directors should not engage in conduct likely to bring discredit upon the Company.
- Directors have an obligation, at all times, to comply with the spirit, as well as the letter of the law and with the principles of this Code.
- Directors have an obligation to ensure that the continuous and periodic disclosure requirements as set out in the ASX Listing Rules are adhered to at all times.

The policy also includes detailed guidelines for interpretation of the principles of the Code.

#### *B. TRADING IN COMPANY SECURITIES*

Directors and executives are not permitted to buy or sell the Company’s shares other than in the five days after release of the monthly net tangible assets statement to the ASX, unless there is additional price sensitive information known to Directors. Trading at other times is only permitted with the express permission of the Chairman.

#### *C. DIVERSITY*

Since all the functions of the Company are outsourced, the Company has no employees, and hence any percentage composition of female employees is meaningless. MEF has no female Directors at present, and there are no specific plans to recruit female Directors solely based on a quota system.

MEF's outsource partners have significant numbers of female employees and the Company has no barriers to dealing with counterparties exhibiting significant diversity in the areas of gender, age, sexual orientation, race, nationality, social impediment and disability.

#### **PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

##### *A. AUDIT COMMITTEE FUNCTION*

Detailed terms of reference for the Audit Committee in the form of an Audit Committee Charter have been adopted. At present, the Audit Committee does not meet the requirements of the ASX Recommendations, since whilst it contains only non-executive directors and is chaired by an Independent Director, it only has two rather than three members. The board believes that due to the small scale of the Company and clear transparency and simplicity of accounts that the Audit Committee can function adequately in its current composition.

The Audit Committee responsibilities are:

- to review the adequacy of systems and standards of internal control with emphasis on risk management, financial reporting procedures and compliance;
- to review proposed announcements of financial results, financial statements, management questionnaires and external audit reports in advance of the Board;
- to receive any information it requires from the Investment Manager;
- to report its findings and recommendations directly to the Board; and
- to provide a direct link from the Board to the external auditor; the nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year review.

The Audit Committee meets separately with the auditors as required from time to time to discuss the audit and reports, to ensure that there are no outstanding issues and to assess the auditor's continuing independence.

At the date of this statement, the members of the Audit Committee are John Reynolds and Andrew Brown (Chairman of the Audit Committee).

Full compliance with the ASX Recommendations (requires three members including an independent Chairman) will not be achieved unless the Board resolves to appoint an independent Director/Chairman. The Directors do not believe there is any advantage in appointing additional directors at this time. Current members of the Audit Committee have adequate qualifications and are financially literate.

The Audit Committee seeks to ensure the independence of the external auditor. The policy on auditor independence applies to services supplied by the external auditor and their related firms to the Company. Under the policy on auditor independence, the external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for the group, or audits its own professional expertise. The Fund has a very limited number and scope of permissible non-audit assignments. In addition, the external audit engagement partner and review partner must be rotated every five years.

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The external auditor annually confirms its independence within the meaning of applicable legislation and professional standards.

*B. FINANCIAL REPORT ACCOUNTABILITY*

The Company has no full time staff, no CEO and no CFO. The Board of Director's have given a declaration in writing that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Accounting functions and back office functions have been outsourced to an independent party, White Outsourcing Pty Limited.

The Board considers that the independence of the external providers of accounting and back office services ensures that no collusion can occur within the ranks of senior management (if it existed) or the Board of the Company with the outcome that the financial accounts received by the Board are not likely to be significantly flawed.

**PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

The Board has always been very conscious of its disclosure obligations and has adopted a detailed continuous and periodic disclosure policy.

All Directors and the Company Secretary are responsible to ensure that disclosure policy is adhered to. The Investment Manager deals with media contact and any external communications.

Current and archived news items announced by the Company are available free of charge at [www.asx.com.au](http://www.asx.com.au).

The Company provides a review of operations and financial performance in the 2012 Annual Report which includes the company's financial report. Results announcements to the ASX, analyst presentations and the full text of the Chairman's address at the Company's Annual General Meeting are lodged with ASX and available at [www.asx.com.au](http://www.asx.com.au).

**PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

The Board is committed to ensuring that the security holders are at all times provided with information sufficient to allow effective monitoring of the Company's performance by means of:

- the Annual Report which is distributed to security holders (at their election);
- the Half Yearly Report;
- periodic reports and special reports when matters of material interest arise;
- the Annual General Meeting and other meetings called to obtain approval of any Board action as required; and
- Continuous disclosure.

The Directors' Code of Conduct supports this principle.

The Company's auditor is required to attend the Annual General Meeting and be available to answer any questions the Security holders may care to ask in respect to the audit of the financial statements of the Company.

## **PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

### *A. OVERSIGHT OF RISK*

The Board of Directors is the ultimate sponsor of risk oversight within the Company, but does so in a manner which reflects the transparent nature of the Company's systems. The Company pays significant attention to risk as a consequence of its activities which involve dealing in financial assets. As a consequence of the core equity investing activities of the Company, the Company deliberately assumes a level of risk of capital loss, the quantum of which is regularly discussed and debated by the Board.

Through the reporting of the Investment Manager, the Board is able to monitor various measurements of absolute and relative risk.

The Audit Committee Terms of Reference include a requirement for the Committee to review and monitor the risk management practices and activities of the Company.

### *B. IMPLEMENTATION OF RISK MANAGEMENT SYSTEMS*

The Company has access to a series of internal and external controls through the Investment Manager which govern the Company's material business risks. These controls include, but are not restricted to:

- external providers of accounting services to the Company; and
- regular reporting by the Investment Manager to the Board of Directors.

The Company has not appointed a specific internal auditor. The Company does not have a Risk Management Committee due to its small size and scale of activities, but the Audit Committee has a mandate to review and monitor the risk management practices and activities of the Company.

### *C. ACCOUNTABILITY*

In respect of the year ended 30 June 2012, the Audit Committee have made the following certification to the board:

- The Company's Financial Statements and notes applicable thereto represent a true and fair view of its financial position and performance and comply with the requirements of the Accounting Standards, Corporations Act and Corporations Requirements

The Investment Manager has also confirmed to the board that the following are in place during the financial year:

- The risk management and internal compliance and control systems are sound, appropriate, operating efficiently and effectively managing the Company's material business risks.

### **Investment Manager Governance**

As the investment manager of the Company's investment portfolio, the Investment Manager has a fiduciary obligation to act in the best interests of the Company. The Directors of the Investment Manager are conscious of their fiduciary obligations to the Company and continually assess their decisions in light of these obligations.

### **PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

The duties and responsibilities of a Remuneration Committee are handled by the full Board, to ensure that the remuneration practices of the Company are fair and reasonable and structured to encourage enhanced performance. Full details of the remuneration quantum and structure for key personnel is contained in the Remuneration Report within this Annual Report.

#### **Directors Remuneration**

If an Executive Director is appointed, suitable remuneration will be approved by the Board. Such an appointment is not currently envisaged.

The maximum aggregate amount of Non Executive Director's fees must be approved by the company in a General Meeting. Non Executive Directors are not granted options over unissued shares in the Company, and receive no bonus payments nor retirement entitlements other than superannuation.

The Board does not currently offer equity based remuneration for Executive or Non Executive Directors and it is not intended to do so.

## **7. Directors' Report**

The Directors present their report on the Company for the financial year ended 30 June 2012.

### **A. Directors**

The names and details of the Directors of the Company who held office during the year and at the date of this report are:

**Andrew Brown (*Appointed 22 December 2005*)**

**Chairman Non-Executive Director**

Bachelor of Arts (Economics) Honours

Age 53

Andrew Brown has 31 years experience in the Australian equity market as a stockbroker, corporate investor and funds manager. Andrew has an honours degree majoring in economics and econometrics from the University of Manchester, England, and completed the National Association of Securities Dealers (USA) Series 7 Examination (1983).

During the past three years, Andrew has served as a Director of the following other public companies:

- Adelaide Resources Limited (Chairman – ongoing)
- Cheviot Bridge Limited (non-executive Director – ongoing)
- Cheviot Kirribilly Vineyard Property Group (executive Director – ongoing)
- Continuation Investments Limited (appointed 31/10/2011; resigned 8/3/2012)
- Equities and Freeholds Limited (appointed 2/10/2007; resigned 16/3/2010)
- Tidewater Investments Limited (Managing Director – ongoing)

Andrew became a Director of the Company in December 2005, is a Non Executive Director and member of the Audit Committee.

**John Reynolds (*Appointed 30 June 2008*)**

**Independent Non-Executive Director**

FFin

Age 44

John Reynolds is a Senior client advisor with Bell Potter Securities. Bell Potter is one of the largest retail brokers in Australia with close to 300 securities advisors. John has over 19 years experience in the securities industry. He has worked for the last 8 years at Bell Potter having previous experience at the securities firms JB Were, Credit Suisse and Challenger. He is an accredited securities dealer in Australian and International equities, derivatives and numerous equity and non-equity related products.

John has completed a Diploma in Applied Finance and Investment through FINSIA, specialising in portfolio construction and portfolio management. The majority of his advisory work is focused on the Top 50 stocks listed on the ASX. John is also a regular contributor to CNBC and Boardroom Radio.

John became a director of the company on 30 June 2008.

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**Adrian Redlich (*Appointed 2 August 2010*)**  
**Executive Director**

B Econ  
Age 39

Adrian is the co-Founder and Chief Investment Officer of Merricks Capital Pty Ltd. From 2005 to 2007 Adrian worked at Citadel Investment Group in Chicago as the Head of Quantitative Alpha Generation, Global Equities. This team was primarily responsible for the evolution and refinement of the investment process of Citadel's Global Equities & Derivative Portfolio, which ran the world's largest fundamental long/short market neutral portfolio. During this time Adrian was also directly responsible for an Asian focussed derivative portfolio.

Between 2000 and 2005, Adrian was a Director at Merrill Lynch (New York & Hong Kong), where he was Head of the Global Valuation and Analytics Group. Prior to this, Adrian was a Vice President at Merrill Lynch (Melbourne, Australia) where he worked as a commodities and mining analyst from 1993 to 2000. Adrian holds a Bachelor of Economics from Monash University, Melbourne, Australia (1994). He also completed the Quantum Financial Services (Australia) Diploma of Financial Services (2007) and the National Association of Securities Dealers (USA) Series 7 Examination (2000).

**Henry Adam Lindell (*Appointed 2 August 2010*)**  
**Executive Director**

BA (Hons); LLB (Hons)  
Age 40

Adam is the co-Founder and Chief Operating Officer of Merricks Capital Pty Ltd. Prior to joining Merricks in 2007, Adam was a Partner of a national Australian Law Firm, where he specialised in mergers & acquisitions, funds management, capital raisings, initial public offerings, private equity and leveraged buy-outs.

Adam holds a Bachelor of Arts (Honours) and a Bachelor of Law (Honours) from Monash University.

All of the Directors have been in office from the commencement of the 2012 financial year until the date of this report unless otherwise stated.

**B. Company Secretary**

Henry Adam Lindell was appointed Company Secretary on 10 November 2010 and held office until the end of the financial year.

### **C. Interests in the Securities of the Company**

The relevant interests of each Director in the securities of the Company shown in the Register of Directors' Shareholdings as at the date of this report are:

<b>Director</b>	<b>Ordinary Shares</b>
Andrew Brown (Chairman)	660,770
Henry Adam Lindell } Adrian Redlich }	5,904,292
John Reynolds	40,000

Directors are not required under the Company's constitution to hold any Shares, Options or any other Securities in the Company.

### **D. Interests in Contracts or Proposed Contracts with the Company**

There were no interests in contacts or proposed contracts with the Company.

### **E. Principal Activities**

The principal activities of the Company during the year included investments in listed securities, loans and other investments permitted by the Company's updated Investment Mandate lodged with the Australian Securities Exchange ("ASX") on 1 October 2010.

There were no changes in the nature of the Company's principal activity during the financial year.

### **F. Operating Results**

The loss of the Company after providing for income tax is (\$11,099,309) (2011: \$1,501,947 profit).

### **G. Dividends**

No dividend has been declared for the financial year ended 30 June 2012 (2011: nil). For further details in respect of the dividends paid or recommended, refer to Note 16 of the financial statements.

### **H. Review of operations**

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Operating (Loss)/ Profit before income tax benefit	(10,786,106)	2,626,797
Income tax expense	(313,203)	(1,124,850)
Operating (Loss)/ Profit for the year	(11,099,309)	1,501,947

The net tangible asset backing of the Company as at 30 June 2012 was \$0.7274 per share before tax (\$0.7274 after tax). 2011: \$1.1155 per share before tax (\$1.1185 after tax).

### **I. Significant Changes in State of Affairs**

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2012.

### **J. Earnings Per Share**

Basic and diluted earnings were (38.90) cents per share (5.26 cents per share in 2011).

### **K. Environmental Regulation**

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

### **L. Future Developments**

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Further information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Company.

### **M. Events Subsequent to Balance Date**

Since 30 June 2012, the following subsequent events had arisen:

#### **(1) Significant decline in share value of Straits Resources Limited (“SRQ”)**

During July/August 2012, the market had seen a significant decline in the share price of SRQ from \$0.360 per share to \$0.115 per share at 31 July 2012. Based on the Portfolio and Sector Analysis breakdown as at 30 June 2012, SRQ accounted for \$8,061,682 or 39.09% of the Company's total portfolio value. With the drop in SRQ share price at 31 July 2012, the Company's total portfolio value had declined in July 2012 by \$5,486,422 or 68.06%.

#### **(2) Loan repayment from Digital Harbour Mezzanine Loan**

MEF is carrying a secured loan to DHH at a value of \$7,375,965 being the total sum of principal and accrued interest on two such loans to DHH. On 23 August 2012, MEF received funds of \$7,567,543 in full repayment of loan principal and accrued interest. After payment of outstanding minor creditors and an overdraft facility, as at the date of this report, the residual of these funds are being held in cash.

## **N. Meetings of Directors**

The number of Directors' Meetings (including Meetings of committees of Directors) and number of Meetings attended by each of the Directors of the Company during the 2012 financial year were:

	<b>Directors' Meetings</b>		<b>Audit Committee Meetings</b>	
	<b>Meetings eligible to attend</b>	<b>Meetings attended</b>	<b>Meetings eligible to attend</b>	<b>Meetings attended</b>
Andrew Brown (Chairman)	6	6	2	2
Henry Adam Lindell	6	6	-	-
Adrian Redlich	6	6	-	-
John Reynolds	6	6	2	2

The number of Directors' Meetings and Audit Committee Meetings has been adjusted for each member to reflect the number of Meetings held during their tenure.

## **O. Remuneration Report (Audited)**

The Company has no employees other than its Directors. The Company's policy is to offer a sufficient level of remuneration to attract employees (Directors) who are financially literate and knowledgeable of investment management best practice. All Directors must have a deep understanding and commitment to good corporate governance.

As the Company has a performance fee scheme in place with the Manager, the Company has effectively linked performance with compensation in relation to the management of the Company's assets. With regard to Directors, no performance-based compensation exists nor is planned. This is because the primary role of the Directors is to ensure adherence to good governance and oversight of the Manager. In this capacity, performance based compensation schemes are not deemed to be appropriate by the Board.

Under the Company's constitution, each Director (other than a Managing Director or an Executive Director) may be paid out remuneration for ordinary services performed as a Director. Salary is the only form of compensation. No option or bonus plans are in place.

Under ASX Listing Rules, the maximum fees payable to directors may not be increased without prior approval from the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The Directors will be entitled to receive the following benefits:

- (a) the maximum total remuneration of the Directors of the Company has been set at \$135,000 per annum to be divided amongst them in such proportions as they agree. The Board is not required to allocate the entire amount.
- (b) Henry Adam Lindell and Adrian Redlich are Directors of the Manager. The Manager will receive a management fee and performance fee (where relevant) for managing the Portfolio.
- (c) Entities associated with Henry Adam Lindell and Adrian Redlich are shareholders of the Manager. The Manager will receive a management fee and performance fee (where relevant) for managing the Portfolio.

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The Directors' remuneration for the year ended 30 June 2012 is detailed in the following table:

<b>Name of Director</b>	<b>Base fee</b>	<b>Superannuation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Andrew Brown (Chairman)	41,000	Nil	41,000
John Reynolds	30,000	2,700	32,700
Adrian Redlich	Nil	Nil	Nil
Henry Adam Lindell	Nil	Nil	Nil
<b>TOTAL</b>	<b>71,000</b>	<b>2,700</b>	<b>73,700</b>

The Directors' remuneration for the year ended 30 June 2011 is detailed in the following table:

<b>Name of Director</b>	<b>Base fee</b>	<b>Superannuation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Andrew Brown (Chairman)	41,000	Nil	41,000
John Reynolds	30,000	2,700	32,700
Henry Adam Lindell (appointed 2 August 2010)	Nil	Nil	Nil
Adrian Redlich (appointed 2 August 2010)	Nil	Nil	Nil
Angus Geddes (resigned 30 July 2010)	Nil	Nil	Nil
Richard Fabricius (Alternative Director) (resigned 30 July 2010)	Nil	Nil	Nil
<b>TOTAL</b>	<b>71,000</b>	<b>2,700</b>	<b>73,700</b>

No Director of the Company has received or become entitled to receive a benefit, other than a remuneration benefit as disclosed in note 11(b) to the financial statements, by reason of a contract made by the Company or a related entity with the Director or with a firm of which they are a member, or with a Company in which they have a substantial interest.

This concludes the Remuneration Report which has been audited.

**P. Insurance of Directors**

During the financial year, the Company has given indemnity and paid insurance premiums to insure Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Directors of the Company, other than conduct involving a wilful breach of duty in relation to the Company. During the year, premiums were paid in respect of the key management personnel liability and legal expenses insurance contract. Details of the nature of the liabilities covered and the amount of premiums paid have not been disclosed as disclosure is prohibited under the terms of the contract.

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**Q. Proceedings on behalf of the Company**

There are no legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

**R. Non-Audit Services**

No non-audit services have been provided by the Auditor or by another person on the Auditor's behalf during the year. This statement has been made in accordance with advice provided by the Company's audit committee and has been endorsed by a resolution of that committee.

**S. Auditor's Independence Declaration**

The lead auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 27.

Signed in accordance with a resolution of the Board of Directors.

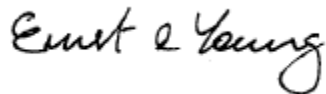
A handwritten signature in black ink that reads "Andrew J. Brown". The signature is written in a cursive style and is followed by a long, sweeping horizontal line that extends to the right.

Andrew Brown  
Chairman  
Dated this 30th day of August 2012 at Sydney

## Auditor's Independence Declaration

### Auditor's Independence Declaration to the Directors of Merricks Capital Special Opportunity Fund Limited

In relation to our audit of the financial report of Merricks Capital Special Opportunity Fund Limited for the year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Jonathan Pye'.

Jonathan Pye  
Partner  
Sydney  
30 August 2012

**9. Statement of Comprehensive Income**  
 For the year ended 30 June 2012

	Notes	2012 \$	Restated 2011 \$
<b>Investment Revenue from ordinary activities</b>	3	1,272,546	954,739
<b>Expenses</b>			
Administrative expenses		(63,345)	(63,934)
Management fees		(350,146)	(400,226)
Audit fees	10	(72,486)	(31,604)
Share registry fees		(20,567)	(33,874)
Directors' fees		(73,700)	(73,700)
Company secretarial fees		(22,000)	(21,833)
ASX listing fees		(24,624)	(24,236)
Legal fees		(4,253)	(7,584)
Tax fees		(14,299)	(14,300)
Other		(48,441)	(59,933)
<b>Total expenses</b>		(693,861)	(731,224)
Change in fair value of financial assets at fair value through profit or loss		(11,364,791)	2,403,282
<b>Operating (loss)/profit before income tax</b>		<u>(10,786,106)</u>	<u>2,626,797</u>
<b>Income tax expense</b>		<u>(313,203)</u>	<u>(1,124,850)</u>
<b>Operating (loss)/profit for the year</b>		<u>(11,099,309)</u>	<u>1,501,947</u>
<b>Total comprehensive (loss)/profit for the year</b>		<u>(11,099,309)</u>	<u>1,501,947</u>
Basic and diluted earnings per share (cents per share)	15	<u>(38.90) cents</u>	<u>5.26 cents</u>

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

10. Statement of Financial Position  
 As at 30 June 2012

	Notes	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	14 (b)	11,427	3,205,861
Trade and other receivables	4	11,223	142,585
Prepayments		9,680	9,677
Financial assets at fair value through profit or loss	6	13,437,798	21,781,218
Loans	6	7,375,965	-
<b>Total current assets</b>		<u>20,846,093</u>	<u>25,139,341</u>
<b>Non-current assets</b>			
Deferred tax assets	5 (c)	241,910	708,094
Loans	6	-	6,230,139
<b>Total non-current assets</b>		<u>241,910</u>	<u>6,938,233</u>
<b>Total assets</b>		<u>21,088,003</u>	<u>32,077,574</u>
<b>Current liabilities</b>			
Bank overdraft	14 (b)	201,833	-
Trade and other payables	7	96,369	80,309
<b>Total current liabilities</b>		<u>298,202</u>	<u>80,309</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	5 (d)	-	108,155
<b>Total non-current liabilities</b>		<u>-</u>	<u>108,155</u>
<b>Total liabilities</b>		<u>298,202</u>	<u>188,464</u>
<b>Net assets</b>		<u>20,789,801</u>	<u>31,889,110</u>
<b>Equity</b>			
Share capital	8	28,629,952	28,629,952
Retained earnings	9	(7,840,151)	3,259,158
<b>Total equity</b>		<u>20,789,801</u>	<u>31,889,110</u>

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

11. Statement of Changes in Equity  
 For the year ended 30 June 2012

Notes	Share Capital \$	Investment Portfolio Revaluation Reserve \$	Retained Capital Profit Reserve	Retained Earnings \$	Total \$
<b>Total equity as at 1 July 2010</b>	<b>28,690,067</b>	<b>682,995</b>	<b>825,795</b>	<b>248,421</b>	<b>30,447,278</b>
Adjustment on adoption of revised AASB 9	-	(682,995)	(825,795)	1,508,790	-
<b>Adjusted equity as at 1 July 2010</b>	<b>28,690,067</b>	<b>-</b>	<b>-</b>	<b>1,757,211</b>	<b>30,447,278</b>
Shares bought back	(60,115)	-	-	-	(60,115)
<b>Total transactions with shareholders</b>	<b>(60,115)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(60,115)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,501,947</b>	<b>1,501,947</b>
<b>Total equity as at 1 July 2011</b>	<b>28,629,952</b>	<b>-</b>	<b>-</b>	<b>3,259,158</b>	<b>31,889,110</b>
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,099,309)</b>	<b>(11,099,309)</b>
<b>Total equity as at 30 June 2012</b>	<b>28,629,952</b>	<b>-</b>	<b>-</b>	<b>(7,840,151)</b>	<b>20,789,801</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

12. Statement of Cash Flows  
 For the year ended 30 June 2012

	Notes	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Interest received		58,079	647,436
Foreign exchange gains		68,209	-
Dividends received		-	387,172
Trust distributions		-	36,256
Other income		-	250
Investment manager's fees paid		(362,300)	(397,920)
Other expenses paid		(312,414)	(340,923)
<b>Net cash (used in)/provided by operating activities</b>	14 (a)	<u>(548,426)</u>	<u>332,271</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		4,208,918	35,739,550
Purchase of investments		(7,056,759)	(33,676,313)
<b>Net cash (used in)/provided by investing activities</b>		<u>(2,847,841)</u>	<u>2,063,237</u>
<b>Cash flows from financing activities</b>			
On market buyback of shares		-	(60,116)
<b>Net cash used in financing activities</b>		<u>-</u>	<u>(60,116)</u>
<b>Net (decrease)/increase in cash held</b>		(3,396,267)	2,335,392
Cash at the beginning of the financial year		3,205,861	870,469
<b>Cash and cash equivalents at the end of the financial year</b>	14 (b)	<u>(190,406)</u>	<u>3,205,861</u>

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

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**1 Reporting Entity**

Merricks Capital Special Opportunity Fund Limited (formerly Fat Prophets Australia Fund Limited) is a company domiciled in Australia. The financial statements of Merricks Capital Special Opportunity Fund Limited are for the year ended 30 June 2012. The Company is a for profit entity and is primarily involved in making investments and deriving revenue and investment income from listed and unlisted securities and unit trusts in Australia.

**2 Summary of significant accounting policies**

**(a) Basis of Preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The accounting policies are consistent with those of the previous year and corresponding interim reporting period, with exceptions noted below. In order to reflect changing market values the Directors have adopted a policy to revalue all investments on a daily basis. Apart from this policy, the financial statements have been prepared on the basis of historical cost.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial report covers Merricks Capital Special Opportunity Fund Limited which is a listed public company, incorporated and domiciled in Australia. The financial report has been prepared on an accruals basis, and is based on historical cost, with the exception of valuation of investments as described in Note 2(b) below.

The financial statements were authorised for issue by the board of directors on 30th August 2012.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Adoption of New and Revised Accounting Standards**

The Company has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period.

The adoption of these new and revised standards and interpretations has resulted in changes to the presentation of the financial statements in the following areas:

(i) The Company has elected to early adopt Phase 1 of AASB 9 *Financial Instruments* from 1 July 2010. This new standard has been adopted because it includes requirements for the classification and measurement of financial assets which improve and simplify the approach when compared with the requirements of the previous Accounting Standard AASB 139 *Financial Investments: Recognition and Measurement*.

Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 July 2010 classified as equity instruments revalued through profit or loss. All gains and losses on equity instruments are recognised in the profit or loss including the tax effect thereof, which prior to the restatement were being taken to the other comprehensive income as previously required under AASB 139. Consequently, adoption of AASB 9 has no effect on the valuation of the Company's net assets.

Opening balances of the prior period at 1 July 2010 have been restated as disclosed below to transfer the balance of investment portfolio revaluation reserve to retained earnings.

Statement of Financial Position, Statement of Comprehensive Income and income items, other than those mentioned below, were not affected by the adoption of AASB 9.

	Balance	Revaluation	Restated
	1 July 2011	gains	balance
		reclassified	1 July 2011
<b>Investment portfolio revaluation reserve</b>	\$ 196,156	\$ (196,156)	\$ -
<b>Realised capital profits reserve</b>	\$ 2,626,522	\$ (2,626,522)	\$ -
<b>Retained earnings</b>	\$ 436,480	\$ 2,822,678	\$ 3,259,158

As a result of adoption of AASB 9 and the accounting policy change, the following adjustments were made to the financial statements:

**As of 1 July 2010:**

Decrease in investment portfolio revaluation reserve: \$682,995

Decrease in realised capital profits reserve: \$825,795

Increase in retained earnings: \$1,508,790

**As of and for the year ended 30 June 2011:**

Increase in Change in fair value of financial assets at fair value through profit or loss:	\$ 2,368,990
Decrease in Net realised (losses)/gains on Investment Portfolio:	\$ 3,133,052
Increase in Income Tax benefit/(expense) on Investment Portfolio:	\$ 1,332,329
Decrease in Net unrealised losses on Investment Portfolio:	\$ 695,478
Decrease in Tax on unrealised losses on Investment Portfolio:	\$ 208,643
Decrease in Investment portfolio revaluation reserve:	\$ 196,156
Decrease in Realised capital profits reserve:	\$ 2,626,518
Increase in Retained earnings:	\$ 2,822,678
Increase in Basic and diluted earnings per share (cents per share)	\$ 4.60

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**2 Summary of significant accounting policies (continued)**

**(a) Basis of Preparation (continued)**

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective 1 January 2011).

In December 2009 the AASB issued a revised *AASB 124 Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The revised standard removes the requirement for governments-related entities to disclose details of all transactions with the government and other governments-related entities and clarifies and simplifies the definition of a related party. The revised standard requires the Company to disclose any transactions between its subsidiaries and its associates. However, as the Company does not have any subsidiaries and associates, the amendment will not have any effect on the Company's financial statements.

With effect from 1 July 2011, the Company has adopted the revised Standards. No adjustments have been necessary as a result of applying the revised standard.

(iii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011).

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends *AASB 1 First-time Adoption of Australian Accounting* and *AASB 7 Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties.

With effect from 1 July 2011, the Company has adopted the revised Standards. No adjustments have been necessary as a result of applying the revised rules.

(iv) *Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011).

**(b) Compliance with IFRS**

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board, and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgments, which are included below.

**(c) Investments at Market Value**

The Company's investments are all measured at fair value through profit or loss in accordance with AASB 9: *Financial Instruments*. All its investments are listed equities, and their fair value is determined from the amount quoted on the primary exchange of the country of domicile. Changes in the fair value of investments are recognised in the Statement of Comprehensive Income.

Transaction costs directly attributable to the acquisition of the investments are expensed in the Statement of Comprehensive Income as incurred.

**(d) Impairment of financial assets**

The Company assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'impairment expense'.

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced. If a previous write-off is later recovered, the recovery is credited to the 'impairment expense'.

Interest revenue on an impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**(e) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the Statement of Financial Position.

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**2 Summary of significant accounting policies (continued)**

**(f) Foreign Currency Translation**

The functional and presentation currency of the Company as determined in accordance with AASB 121: *The Effects of Changes in Foreign Exchange Rates* is the Australian dollar.

Transactions denominated in foreign currencies are translated in to Australian currency at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Australian Dollars at the foreign currency closing exchange rate ruling at the Statement of Financial Position date.

Foreign currency exchange differences arising on translations, and realised gains and losses on disposal or settlements of monetary assets and liabilities, are recognised in the Statement of Comprehensive Income. Non-monetary assets and liabilities denominated in the foreign currencies that are measured at fair value are translated to Australian dollars at the foreign currency closing exchange rates ruling at the dates that the values were determined. Foreign currency exchange differences relating to monetary items, including cash and cash equivalents, are presented separately in the Statement of Comprehensive Income.

**(g) Investment Income**

**Dividend income**

Dividend income is recognised on the applicable ex-dividend date.

**Net changes in fair value of investments**

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Comprehensive Income.

**(h) Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit and loss.

No deferred income tax is recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective assets and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**(i) Revenue Recognition**

- ▶ Dividend Income - dividends and distributions are brought to account when the right to receive a dividend has been established.
- ▶ Interest Income - interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.
- ▶ Other Income - other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured.

**(j) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with bank, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

For the purposes of the Statement of Cash Flows, cash includes deposits held at call with financial institutions net of bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Statement of Financial Position.

**(k) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

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

**(l) Earnings per share**

Basic and diluted earnings per share including realised profits and losses on the investment portfolio are calculated by dividing profit attributable to members of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for any bonus element.

**(m) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**2 Summary of significant accounting policies (continued)**

**(n) New standards and interpretations not yet adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended, but are not yet effective, have not been adopted by the Company in the presentation of this financial report. The following standards, amendments to standards and interpretations have been identified as those which may apply to the Company in the period of initial application:

**(a) AASB 10: Consolidated Financial Statements**

AASB 10 established a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation- Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Consequential amendments were also made to other standards via AASB 2011-7.

AASB 10 is applicable to annual reporting periods beginning on or after 1 January 2013. These changes are not likely to have a material impact on the Company's financial statement.

**(b) AASB 11: Joint Arrangements**

AASB 11 replaces AASB 131 *Interest in Joint Ventures* and UIG-113 *Jointly – controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves are accounted for by recognising the shares of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

AASB 11 is applicable to annual reporting periods beginning on or after 1 January 2013. These changes are not likely to have a material impact on the Company's financial statement.

**(c) AASB 12: Disclosure of Interests in Other Entities**

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 12 is applicable to annual reporting periods beginning on or after 1 January 2013. These changes are not likely to have a material impact on the Company's financial statement.

**(d) Amendments to AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual reporting periods beginning on or after 1 January 2011)**

In June 2010, the AASB made a number of amendments to the Australian Accounting Standards as a result of the IASB's annual improvements project. The Company does not expect that any adjustments will be necessary as the result of applying the revised rules.

**(e) IFRS 13: Fair Value Measurement**

IFRS 13 is applicable to annual reporting periods beginning on or after 1 January 2013. These changes are not likely to have a material impact on the Company's financial statement.

**(o) Functional and presentation currency**

The functional and presentation currency of the Company is Australian dollars.

**(p) Fair value of financial assets and liabilities**

The fair value of cash and cash equivalents, and non-interest bearing monetary financial assets and liabilities of the Company approximates their carrying value. The fair value for assets that are actively traded on market is defined by AASB 9 as 'last bid price'.

**(q) Comparatives**

Where necessary, comparative information has been reclassified to be consistent with current reporting period.

**(r) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company has recognised deferred tax assets relating to carried forward tax losses on the basis that it expects to derive future capital gains sufficient to utilise the current losses within a 3 to 5 year time period. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. The entity may fail to satisfy the continuity of ownership test and therefore has to rely on the same business test. If the entity fails to satisfy that test, carried forward losses that are currently recognised as deferred tax asset of \$241,910 would have to be written off to income tax expense.

13. Notes to the financial statements  
For the year ended 30 June 2012

	2012	2011
<b>3 Revenue from investments</b>	<b>\$</b>	<b>\$</b>
Dividends received	-	200,890
Trust distributions	-	12,800
Interest received	1,272,546	740,799
Other income	-	250
	<u>1,272,546</u>	<u>954,739</u>
<b>4 Trade and other receivables</b>	<b>2012</b>	<b>2011</b>
<b>Current</b>	<b>\$</b>	<b>\$</b>
Accrued interest and dividends	-	2,482
Unsettled sales	-	125,792
GST receivable	11,223	14,311
	<u>11,223</u>	<u>142,585</u>

Receivables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

The credit risk exposure of the Company in relation to receivables is the carrying amount.

	2012	2011
<b>5 Income tax</b>	<b>\$</b>	<b>\$</b>
<b>(a) Income tax expense recognised in the Statement of Comprehensive Income</b>	<b>\$</b>	<b>\$</b>
The components of income tax expense		
Current income tax expense	(313,203)	(1,091,855)
Deferred tax income relating to the origination and reversal of temporary differences	-	(32,995)
Total income tax expense	<u>(313,203)</u>	<u>(1,124,850)</u>
<b>(b) Income tax expense</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
The prima facie income tax benefit on accounting profit reconciles to income tax benefit as follows:		
Prima facie income tax benefit calculated at 30% (2011: 30%) on the operating profit before realised gains/(losses) on the financial asset at fair value through profit or loss	(313,203)	(56,767)
Add/(Less) effect of:		
Imputation gross up on dividends received	-	(46,797)
Franking credits on dividends received	-	155,990
Timing differences	-	(53,590)
Adjustment on adoption of revised AASB 9	-	(1,123,686)
Income tax (expense)/benefit (before realised gains/(losses) on investment portfolio)	<u>(313,203)</u>	<u>(1,124,850)</u>
The applicable weighted average effective tax benefit rates are as follows:	<u>2.76%</u>	<u>-0.62%</u>

The weighted average effective rate for 2012 is a result of the utilisation of prior year tax losses.

	2012	2011
<b>(c) Deferred tax assets and liabilities</b>	<b>\$</b>	<b>\$</b>
Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:		
Deferred tax assets	241,910	708,094
Deferred tax liabilities	-	(108,155)
	<u>241,910</u>	<u>599,939</u>

At 30 June 2012, unrealised capital and trading losses have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2012	2011
	<b>\$</b>	<b>\$</b>
Unrealised capital losses	3,523,803	-
	<u>3,523,803</u>	<u>-</u>

Deferred tax assets currently presented on the Statement of Financial Position of the Company relates mainly to prior year tax losses carried forward and temporary differences.

Unrealised capital losses of \$3,523,803 not recognised arises largely from the sharp decline in the share price of the Company's holding in Straits Resources Limited at balance sheet date. The Australian Accounting Standards impose a stringent test for the recognition of a deferred tax asset where there is a history of recent tax losses. The Company has deferred the recognition of further tax assets arising from Capital losses until a return to taxable profits has been demonstrated.

Whilst deferred tax assets from unrealised capital losses were not recognised in the financial reports, the benefit of these losses will still be available to the Company in the future, if income of an appropriate nature is earned. The deductible temporary differences and tax losses do not expire under current tax legislation.

	2012	2011
	<b>\$</b>	<b>\$</b>
Deferred tax assets comprises the estimated expenses at current income tax rates on the following items:		
Temporary differences	9,900	1,749
Tax losses	232,010	706,345
Total provision	<u>241,910</u>	<u>708,094</u>
<b>(d) Deferred tax liabilities</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Provision for deferred income tax comprises the estimated expense at current income tax rates of 30% on the following items:		
Provision for capital gains tax on unrealised loss on financial assets at fair value through profit or loss	-	78,283
Temporary differences	-	29,872
	<u>-</u>	<u>108,155</u>

13. Notes to the financial statements  
 For the year ended 30 June 2012

5 Income tax (continued)

(e) Reconciliations

The overall movement in the deferred tax account is as follows:

	2012	2011
	\$	\$
Opening balance	599,939	1,180,054
(Charge)/credit to the Statement of Comprehensive Income	(358,029)	(580,115)
Closing balance	<u>241,910</u>	<u>599,939</u>

6 Investment

Current

Financial assets at fair value through profit or loss  
 Secured Loan - Digital Harbour

	2012	2011
	\$	\$
Financial assets at fair value through profit or loss	13,437,798	21,781,218
Secured Loan - Digital Harbour	7,375,965	-
	<u>20,813,763</u>	<u>21,781,218</u>

Non-Current

Secured Loan - Digital Harbour

	-	6,230,139
	<u>-</u>	<u>6,230,139</u>

The Loan – Digital Harbour is secured, but ranks below senior lenders, and relates to the construction of a property at 990 LaTrobe Street, Melbourne. The facility has been provided for a period of fourteen months, is repayable in August 2012, and accrues interest at a rate of 17%pa. The property has been pre-sold to Motor Accident Commission of South Australia, is 97% pre-leased to Melbourne Water Corporation on a 15 year lease and is being constructed under a guaranteed maximum priced design and construct contract. Based on the timely and budgeted progress of the project to the current date, the Directors do not believe the loan should be subject to impairment. Refer to Note 18 regarding repayment of loan subsequent to year-end.

7 Trade and other payables

Current

Trade creditors  
 Interest payable  
 Management fees

	2012	2011
	\$	\$
Trade creditors	71,850	44,623
Interest payable	987	-
Management fees	23,532	35,686
	<u>96,369</u>	<u>80,309</u>

Payables are non-interest bearing and unsecured. Outstanding settlements are on the terms operating in the securities industry, which usually require settlement within three days of the date of a transaction.

8 Share capital

Ordinary shares

	<u>28,629,952</u>	<u>28,629,952</u>
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	2012	2012	2011	2011
	No.	\$	No.	\$
Opening balance	28,535,436	28,629,952	28,603,671	28,690,067
Share buy backs during the year	-	-	(68,235)	(60,115)
Closing balance	<u>28,535,436</u>	<u>28,629,952</u>	<u>28,535,436</u>	<u>28,629,952</u>

At 30 June 2012, 28,535,436 ordinary shares were on issue (2011: 28,535,436). No shares were cancelled during the year (2011: 68,235) under the share buy-back as described in the Directors' Report and in note 5.

(a) Terms and conditions

The Company has ordinary shares on issue. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

(b) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor and market confidence.

To achieve this the Board of Directors monitor the monthly Net Tangible Assets ("NTA") results, investment performance, the Company's management expense ratio (MER), and share price movements.

The Company is not subject to any externally imposed capital requirements.

Capital relates to equity attributable to investors.

The primary objective of the company's capital management is to ensure that it maintains healthy capital ratios to support its business and maximise shareholder value.

The company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to investors, capital returns or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2012 and 30 June 2011.

The company monitors capital and performance via NTA Backing reporting which were released on ASX's website each month.

	2012	2011
	\$	\$
Opening balance	3,259,158	1,757,211
(Loss)/profit attributable to members of the Company	(11,099,309)	1,501,947
	<u>(7,840,151)</u>	<u>3,259,158</u>

10 Auditor's remuneration

Auditing and reviewing the financial reports  
 Ernst and Young  
 Others

	2012	2011
	\$	\$
Auditing and reviewing the financial reports	46,596	-
Ernst and Young	25,890	31,604
Others	72,486	31,604
	<u>144,972</u>	<u>63,208</u>

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**11 Related party information**

**(a) Key management personnel**

The names of the persons who were key management personnel of the Company during the financial year were:

Andrew Brown (Chairman)  
 John Reynolds (Director)  
 Henry Adam Lindell (Director)  
 Adrian Redlich (Director)

**(b) Key management personnel remuneration**

Income paid to key management personnel by the Company and related parties in connection with the management of affairs of the Company were:

	Short-term Employee Benefit Cash salary & Fees	Post- Employment Benefit Superannuation	Total
<b>2012</b>	71,000	2,700	73,700
<b>2011</b>	71,000	2,700	73,700

The directors' remuneration excludes insurance premiums paid and payable by the Company in respect of directors' liability insurance.

Apart from the details disclosed in this note, no key management personnel have entered into a material contract with the Company during the financial year.

The Board of Directors of Merricks Capital Special Opportunity Fund Limited is responsible for determining and reviewing compensation arrangements for the Directors. The Board of Directors assess the appropriateness of the nature and amount of emoluments of each Director on a periodic basis by reference to workload and market conditions. The overall objective is to ensure maximum stakeholder benefit from the retention of a high quality Board whilst constraining costs.

Key management personnel remuneration has been included in the remuneration report section of the Directors Report.

**(c) Shareholdings of key management personnel (and their related entities)**

**For the year ended 30 June 2012**

	Balance at 1 July 2011	Shares held on appointment	Shares acquired / (disposed)	Shares issued upon option exercise	Balance at 30 June 2012
<b>Ordinary Shares</b>					
Andrew Brown (Chairman)	1,936,467	-	(1,275,697)	-	660,770
John Reynolds	40,000	-	-	-	40,000
Henry Adam Lindell and Adrian Redlich	5,853,869	-	50,423	-	5,904,292
Angus Geddes (resigned 30/07/10)	1	-	(1)	-	-
	<u>7,830,337</u>	<u>-</u>	<u>(1,225,275)</u>	<u>-</u>	<u>6,605,062</u>

**For the year ended 30 June 2011**

	Balance at 1 July 2010	Shares held on appointment	Shares acquired / (disposed)	Shares issued upon option exercise	Balance at 30 June 2011
<b>Ordinary Shares</b>					
Andrew Brown (Chairman)	1,850,346	-	86,121	-	1,936,467
Angus Geddes (resigned 30/07/10)	1,466,883	-	(1,466,882)	-	1
John Reynolds	-	-	40,000	-	40,000
Henry Adam Lindell and Adrian Redlich (appointed 2/08/10)	-	-	5,853,869	-	5,853,869
Richard Fabricius (alternate to Angus Geddes) (Resigned 30/07/10)	-	-	-	-	-
	<u>3,317,229</u>	<u>-</u>	<u>4,513,108</u>	<u>-</u>	<u>7,830,337</u>

Key management personnel transactions concerning dividends and ordinary shares are on the same terms and conditions applicable to ordinary members.

**(d) Transactions with related parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Henry Adam Lindell and Adrian Redlich are directors of Merricks Capital Pty Ltd ("Merricks") the Investment Manager. Merricks received \$350,146 (2011: \$400,226) in management fees. Adam Lindell received \$22,000 (2011: \$21,833) for company secretarial services to Merricks Capital Special Opportunity Fund Limited.

In addition, Merricks may receive a performance fee of 15% p.a. of the gross return of the Portfolio that it is in excess of the ASX 300 Accumulation Index. In its capacity as manager, Merricks was not entitled to performance fees for the year ended 30 June 2012 (2011: Nil).

**12 Segment information**

The Company has only one reportable segment. The Company is engaged solely in investment activities conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its investments.

**13. Notes to the financial statements**  
**For the year ended 30 June 2012**

**13 Financial risk management**

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

AASB 7 Financial Instruments: Disclosures identify three types of risk associated with financial instruments (i.e. the Company's investments, receivables and payables):

**(i) Credit risk**

The standard defines this as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

There are no other material amounts of collateral held as security at 30 June 2012.

Credit risk is managed as shown in Note 4 and with respect to receivables, Note 6 for Loans and Note 4 for cash and cash equivalents. None of these assets are over-due or considered to be impaired.

The Company has entered into a Prime Brokerage Agreement ("PBA") with UBS AG, Australia Branch ("UBS"). The services provided by UBS include clearing and settlement of transactions, financing, securities lending and acting as custodian for the Company's assets. The PBA in with UBS is in a form that is typical of Prime Brokerage Agreements. The Company's equity investments held by UBS may be used by UBS for its own purposes or the purpose of any third party up to an agreed limit, whereupon such investments will become the property of UBS and the Company will have a right against UBS for the return of equivalent assets. In the unlikely event of UBS becoming insolvent, the Company may rank as an unsecured creditor in regard to the investments lent or used as collateral.

The Credit quality of UBS AG's long term foreign issuer rating by S&P as at 30 June 2012 is A- (A as at 30 June 2011).

**(ii) Liquidity risk**

The standard defines this as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager monitors the Company's cash-flow requirements daily taking into account upcoming dividends, tax payments and investment activity.

The Company's inward cash-flows depend upon the level of dividend and distribution revenue received. Should these decrease by a material amount, the Company would amend its outward cash-flows accordingly. As the Company's major cash outflows are the purchase of securities and dividends paid to shareholders, the level of both of these is managed by the Board and Investment Manager.

Furthermore, the assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary.

The table below analyses the Company's non-derivative financial liabilities in relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$	More than 1 month \$	Total
<b>At 30 June 2012</b>			
Bank overdraft	201,833	-	201,833
Trade and other payables	96,369	-	96,369
Total financial liabilities	<u>298,202</u>	<u>-</u>	<u>298,202</u>
<b>At 30 June 2011</b>			
Trade and other payables	80,309	-	80,309
Total financial liabilities	<u>80,309</u>	<u>-</u>	<u>80,309</u>

**(iii) Market risk**

The standard defines this as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market

By its nature as a Listed Investment Company that invests, the Company can never be free of market risk as it invests its capital in securities and loans which are not risk free - the market price of these securities can fluctuate.

A general fall in market prices of 5 per cent and 10 per cent, if spread equally over all assets in the investment would lead to a reduction in the Company's equity of \$470,323 and \$940,646 respectively (2011: \$762,343 and \$1,524,685 respectively), assuming a flat tax-rate of 30 per cent.

The Company's investment sectors as at 30 June are as below:

	2012 %	2011 %
Energy	1.44	59.11
Financials	-	38.95
Materials	39.20	-
Pharmaceuticals, Biotechnology, and Life Science	0.57	-
Real Estate	23.35	1.94
Loans	35.44	-
	<u>100.00</u>	<u>100.00</u>

Securities and loans representing over 5 per cent of the investment portfolio at 30 June were:

	2012 %	2011 %
Straits Resources Limited	38.74	57.24
Digital Harbour Mezzanine Loan	35.44	21.89
ING Real Estate Entertainment Fund	23.35	16.59
	<u>97.53</u>	<u>95.72</u>

No other security represents over 5 per cent of the Company's investments.

The Company is also not directly exposed to currency risk as all its investments are quoted in Australian dollars.

The Company is engaged in investment activities conducted solely in Australia.

13. Notes to the financial statements  
 For the year ended 30 June 2012

13 Financial risk management (continued)

(iv) Derivative financial instruments

A derivative is a financial contract whose value depends on, or is derived from, underlying assets, liabilities or indices. Derivative transactions include a wide assortment of instruments, such as forwards, futures, options and swaps.

Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of proper portfolio management.

- (i) hedging to protect an asset of the company against a fluctuation in market values or to reduce volatility;
- (ii) as a substitute for physical securities; and
- (iii) adjustment of asset exposures within the parameters set out in the investment strategy.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

The Company holds the following derivative instruments:

**Options**

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. During the year, the Fund held currency options that are traded over the counter.

As at 30 June 2012, the notional principal amounts of derivatives held by the Company were as follows:

	Notional principal amounts 2012 \$'000	Notional principal amounts 2011 \$'000
Currency options	-	8,000
Exchange traded options	2,100	-
	<u>2,100</u>	<u>8,000</u>

(v) Interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

*Sensitivity analysis - interest rate risk*

An increase of 75 basis points in interest rates as at the reporting date (assuming a flat tax rate of 30 per cent) would have increased the Company's profit by \$37,724 (2011: \$49,539). A decrease of 75 basis points would have an equal but opposite effect.

As at 30 June 2012, the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>				
Cash assets	2.68%	11,427	-	11,427
Trade and other receivables		-	11,223	11,223
Financial assets at fair value through profit or loss		-	13,437,798	13,437,798
Loans	17.00%	7,375,965	-	7,375,965
		<u>7,387,392</u>	<u>13,449,021</u>	<u>20,836,413</u>
<b>Financial liabilities</b>				
Bank overdraft	4.35%	201,833	-	201,833
Trade and other payables		-	96,369	96,369
		<u>201,833</u>	<u>96,369</u>	<u>298,202</u>
<b>Net financial assets</b>		<u>7,185,559</u>	<u>13,352,652</u>	<u>20,538,211</u>

13. Notes to the financial statements  
 For the year ended 30 June 2012

13 Financial risk management (continued)

(v) Interest rate risk (continued)

As at 30 June 2011, the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating interest rate \$	Non- interest bearing \$	Total \$
<b>Financial assets</b>				
Cash assets	6.17%	3,205,861	-	3,205,861
Trade and other receivables		-	142,585	142,585
Financial asset at fair value through profit or loss		-	21,781,218	21,781,218
Loans	17.00%	6,230,139	-	6,230,139
		<u>9,436,000</u>	<u>21,923,803</u>	<u>31,359,803</u>
<b>Financial liabilities</b>				
Trade and other payables		-	80,309	80,309
<b>Net financial assets</b>		<u>9,436,000</u>	<u>21,843,494</u>	<u>31,279,494</u>

(vi) Fair value hierarchy

AASB 7 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Company's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June.

	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
<b>At 30 June 2012</b>				
<b>Financial assets</b>				
Financial asset at fair value through profit or loss	13,437,798	-	-	13,437,798
Loans	-	-	7,375,965	7,375,965
<b>Total</b>	<u>13,437,798</u>	<u>-</u>	<u>7,375,965</u>	<u>20,813,763</u>

During the reporting period ending 30 June 2012, there was no transfers between Level 1 and Level 2 fair value measurements.

**At 30 June 2011**

**Financial assets**

Financial asset at fair value through profit or loss	21,781,218	-	-	21,781,218
Loans	-	-	6,230,139	6,230,139
<b>Total</b>	<u>21,781,218</u>	<u>-</u>	<u>6,230,139</u>	<u>28,011,357</u>

During the reporting period ending 30 June 2011 there was no transfers between Level 1 and Level 2 fair value measurements.

Financial instruments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Loan investments are classified within level 3.

The following table shows a reconciliation of the movement in the fair value of financial instruments categorised within level 3 between the beginning and the end of the reporting period:

	\$
Balance as of 1 July 2011	6,230,139
Additional loan granted	1,431,359
Accrued interest	1,212,199
Payment received	(1,497,732)
Balance as of 30 June 2012	<u>7,375,965</u>

13. Notes to the financial statements  
 For the year ended 30 June 2012

14 Statement of Cash Flows

	2012	2011
	\$	\$
(a) Reconciliation of net profit from ordinary activities after income tax to net cash provided by operating activities		
Operating (loss)/profit	(11,099,309)	1,501,947
Change in operating assets and liabilities:		
Change in fair value of financial assets at fair value through profit or loss	11,364,791	(2,403,282)
Net loss on financial instruments held at fair value through profit or loss	68,208	1,123,686
(Increase)/decrease in trade and other receivables	(1,211,379)	117,738
Increase in prepayments	-	(1,384)
Increase/(decrease) in trade and other payables	16,060	(7,598)
Decrease in tax assets	313,203	1,164
Net cash (outflow)/inflow from operating activities	<u>(548,426)</u>	<u>332,271</u>

The effective interest rate on bank deposits was 2.68% (2011: 6.17%).

(b) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	2012	2011
	\$	\$
Cash on hand	-	1
Cash at bank	11,427	3,205,860
Bank overdraft	<u>(201,833)</u>	<u>-</u>
	<u>(190,406)</u>	<u>3,205,861</u>

The credit risk exposure of the Company in relation to cash is the carrying amount and any accrued unpaid interest. Cash investments are made with ANZ which is rated AA by Standard and Poor's.

15 Earnings per share

	2012	2011
	cents	cents
Basic and diluted earnings per share (cents per share)	<u>(38.90)</u>	<u>5.26</u>

Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted earnings per share

	<u>28,535,436</u>	<u>28,538,173</u>
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Diluted earnings per share is the same as basic earnings per share. The Company has no securities outstanding which have the potential to convert to ordinary shares and dilute the basic earnings per share.

16 Dividends

No dividends were declared or paid during the 2011 and 2012 financial years.

17 Franking account

	2012	2011
	\$	\$
Opening balance of franking account	1,723,473	1,567,483
Franking credits on dividends received	-	155,990
Closing balance of franking account	<u>1,723,473</u>	<u>1,723,473</u>
Adjustments for tax payable/refundable in respect of the current year's profits and the receipt of dividends	<u>-</u>	<u>-</u>
Adjusted franking account balance	<u>1,723,473</u>	<u>1,723,473</u>
Impact on the franking account of dividends proposed or declared before the financial report authorised for issue but not recognised as a distribution to equity holders during the year	<u>-</u>	<u>-</u>
	<u>1,723,473</u>	<u>1,723,473</u>

18 Events occurring after reporting date

Since 30 June 2012, the following subsequent events had arisen:

(i) Significant decline in share price of Straits Resources Limited (SRQ)

At 30 June 2012 and at the date of the accounts, MEF held 22,393,561 shares of SRQ. The share price of SRQ has declined from \$0.36 per share on 30 June 2012 to a current price of \$0.12 per share. The impact of this share price decline, if sustained, would be to further increase the negative change in fair value of financial assets through profit and loss by \$5,374,455. Based on the current policy in respect of accounting for deferred tax assets, it is likely that this adjustment to fair value through profit and loss would not be reduced by the take up of a deferred tax asset and would correspondingly reduce total equity of MEF by this figure.

(ii) Repayment of mezzanine loan to Digital Harbour Holdings (DHH)

In note 6 to these accounts, MEF is carrying a secured loan to DHH at a value of \$7,375,965 being the total sum of principal and accrued interest on two such loans to DHH. On 23 August 2012, MEF received funds of \$7,567,543 in full repayment of loan principal and accrued interest. After payment of outstanding minor creditors and an overdraft facility, as at the date of this report, the residue of these funds are being held in cash.

19 Contingent liabilities

There are no contingent liabilities as at 30 June 2012.

20 Company details

The registered office and principal place of business of the Company is:  
 Level 1, 600 Chapel Street  
 South Yarra VIC 3141

**14. Directors' declaration**

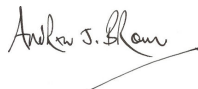
In accordance with a resolution of the Directors of Merricks Capital Special Opportunity Fund Limited, I state that:

1 In the opinion of the Directors:

- (a) The financial statements, notes and the additional disclosures included in the Director's Report designated as audited, of the Company are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the financial position of the Company as at 30 June 2012 and of its performance for the year ended on that date.
  - (ii) complying with Australian Accounting Standards, International Financial Reporting Standards (IFRS) as disclosed in Note 1(a) and Corporations Regulations 2001.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

On behalf of the Board



Andrew Brown  
Chairman

Dated this 30th day of August 2012 at Sydney

## Independent auditor's report to the members of Merricks Capital Special Opportunity Fund Limited

### ***Report on the financial report***

We have audited the accompanying financial report of Merricks Capital Special Opportunity Fund Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

The directors of the company 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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

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

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

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

### ***Independence***

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

## Opinion

In our opinion:

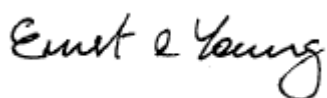
- a. the financial report of Merricks Capital Special Opportunity Fund Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

## Report on the remuneration report

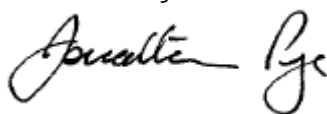
We have audited the Remuneration Report included in pages 24 to 25 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Merricks Capital Special Opportunity Fund Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Jonathan Pye.

Jonathan Pye  
Partner  
Sydney  
30 August 2012

**Merricks Capital Special Opportunity Fund Limited**

ABN 62 111 772 359

**16. Additional ASX Information – Year Ended 30 June 2012**

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this Annual Report is set out below.

The security holder information set out below was applicable as at 31st July 2012.

**A. Distribution of shareholders**

As at 22nd August 2012, there were 28,535,436 shares held by 1,543 shareholders, all of which were quoted on the ASX. There are no restricted shares on issue. There are no unquoted shares on issue.

Category (size of holding)	Number of shareholders	Shares	Percentage
1 - 1,000	399	88,316	0.31%
1,001 - 5,000	446	1,951,183	6.84%
5,001 - 10,000	304	2,620,118	9.18%
10,001 - 100,000	373	10,608,641	37.18%
100,001 and over	21	13,267,178	46.49%
	<b>1,543</b>	<b>28,535,436</b>	<b>100.00%</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 419.

**B. Top 20 Shareholders as at 5th July 2012**

Holder Name	No of shares held	%
Merricks Capital Pty Limited <Merricks A/C>	3,925,000	13.76%
Merrill Lynch (Australia) Nominees Pty Limited	1,632,028	5.72%
BNP Paribas Noms Pty Ltd <Master Cust DRP>	1,205,473	4.22%
BNP Paribas Noms Pty Ltd <DRP>	1,191,686	4.18%
Bond Street Custodians Limited <Van Eyk Blueprint Bal A/C>	1,000,000	3.50%
RBC Investor Services Australia Nominees Pty Limited <Bkcust A/C>	665,542	2.33%
Mr Andrew John Brown	597,609	2.09%
Dr Stephanie Phillips	421,261	1.48%
Citicorp Nominees Pty Limited	394,202	1.38%
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	322,269	1.13%
Paderne Holdings Pty Ltd <Paderne Holdings S/F A/C>	302,879	1.06%
Somoke Pty Limited <Pulman Super Fund A/C>	270,000	0.95%
Como Super Funds Pty Ltd <Como Executive S/F A/C>	210,976	0.74%
Mr Alan Udell & Mrs Rosemary Udell <The Udell Super Fund A/C>	196,000	0.69%
Mr Robert Bruce Ralston & Mrs Deborah Eileen Ralston	195,000	0.68%
Ms Deborah Elizabeth Kneebone & Prof Alexander Cowell Mcfarlane <Debbie Kneebone S/F A/C>	167,107	0.59%
Mr Leigh Andrew Mcgarvie & Mrs Elaine Mcgarvie <Comfortplus Super Fund A/C>	137,201	0.48%
Di Iulio Homes Pty Limited <Di Iulio Super Fund A/C>	115,000	0.40%
Mr Rohan John Armstrong & Mrs Laura Armstrong <Super Fund A/C>	109,945	0.39%
Mr Theo Van Den Berg	105,000	0.37%
	<b>13,164,178</b>	<b>46.13%</b>

**Merricks Capital Special Opportunity Fund Limited**

ABN 62 111 772 359

**16. Additional ASX Information – Year Ended 30 June 2012 (Continued)**

**C. Voting rights**

At a general meeting, shareholders are entitled to one vote for each share held. On a show of hands, every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

**D. Substantial Shareholders**

The Company has been notified of two shareholders who hold relevant interests of in excess of 5% of the Company's ordinary shares as at 22nd August 2012:

Entity	No of shares held	%
Merricks Capital Pty Limited <Merricks A/C>	3,925,000	13.76%
Merrill Lynch (Australia) Nominees Pty Limited	1,632,028	5.72%

**E. Buy-back**

There is a current on-market buy back program in effect.

**F. Security Transactions**

The Company conducted 97 (2011: 180) security transactions during the financial year. Brokerage paid during the year including GST was \$4,254 (2011: \$119,490) for the portfolio .

**G. Company Secretary**

The company secretary is Henry Adam Lindell.

**H. Registered Address and Principal Place of Business**

The registered office and principal place of business of the Company is:  
Level 1  
600 Chapel Street  
South Yarra VIC 3141

**I. Registry**

Share registry functions are maintained by Boardroom Pty Limited and their details are as follows:

Boardroom Pty Limited  
ACN 003 209 836  
ABN 14 003 209 836  
Level 7  
207 Kent Street  
Sydney NSW 2000

**J. Stock Exchange Listing**

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.

**K. Corporate Governance**

The Company has followed all applicable best practice recommendations set by ASX Corporate Governance Council, except for those indicated in the Corporate Governance report, during the reporting period, unless otherwise stated.

**L. Management Agreement**

The Manager is entitled to receive a management fee payable monthly in arrears equivalent to 0.1035746% of the value of the portfolio calculated on the last business day of each month.

In addition, Merricks Capital Pty Limited may receive a performance fee monthly of 15% of the gross return of the Portfolio that it is in excess of the ASX 300 Accumulation Index. In its capacity as manager, Merricks Capital Pty Limited was not entitled to performance fees for the year ended 30 June 2012 (2011: Nil).