MERRICKS CAPITAL

"where preparation meets opportunity"

Manager's presentation post the AGM of
Merricks Capital Special Opportunity Fund Limited

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Presentation Content

MERRICKS CAPITAL

Summary of Performance

- As the largest shareholder in MEF, the Manager is acutely aware of and disappointed in the decline in the Post Tax NTA and the MEF share price during the past 12 months

2011	2012	Year on Year % Change
$1.05 per share post tax NTA at 31 October 2011	$0.61 per share post tax NTA at 31 October 2012	-41.9%
$0.70 per share closing price on 24 November 2011	$0.42 per share closing price on 21 November 2012	-40%

- As the Manager of MEF, we remain committed and dedicated to MEF and to managing the investments

- Much of the loss in value of MEF is attributable to the steep decline in the value of MEF’s investment in Straits Resources Limited which we will discuss in detail

Manager's objective

- There has been no change in the Manager's objectives for MEF
- Performance of the underlying investments will ultimately drive value for MEF shareholders
- The Manager continues to hold the belief that a key strength of MEF is the ability for its capital to be used in opportunities requiring patient capital
- Having MEF pay regular and consistent dividends from profit
- Closing the discount between the NTA and the share price via dividend payments and share buybacks
- Being the largest shareholders of MEF, the Manager is clearly aligned with all shareholders and its sole desire is to increase value for all shareholders

Investment Mandate

- MEF will focus on 3 to 10 investments at any given time - currently there are 4 investments
- MEF will often provide access to investments not available to the general public via:
  - Taking placement of new securities in small to medium listed companies
  - Construction of unlisted convertible or fixed income 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 release hidden or locked up value
- MEF will seek to make investments that will allow it to pay regular and consistent dividends, underpinning a strong yield for investors

MEF Portfolio – 31/10/ 2012

MEF Portfolio as at 31 October 2012

Performance	Net Asset Backing	Year on Year % Change
31 October 2012 Post Tax NTA	0.61 Per Share	-41.90%
31 October 2011 Post Tax NTA	1.05 Per Share	-3.58%

Investment	Weight
Cash	26.52%
Shareholdings	73.48%

Company	Code	Weight
ING Real Estate Entertainment Funds	IEF ASX	53.38%
Straits Resources Ltd	SRQ ASX	44.62%
Molopo Energy Ltd	MPO ASX	1.42%
Aziana Limited	AZK ASX	0.58%

Investment - SRQ

Straits Resources Limited (SRQ)

Background

- Straits is a company involved in the exploration, production and sale of copper and gold in Australia and Indonesia
- Market Capitalization A$92m (at 20th November 2012)
- Straits undertook three capital raisings during 2012 raising circa $140m as a result of the failure to deliver the Mt Muro project on time and on budget

Thesis – sum of the parts worth significantly more than current share price

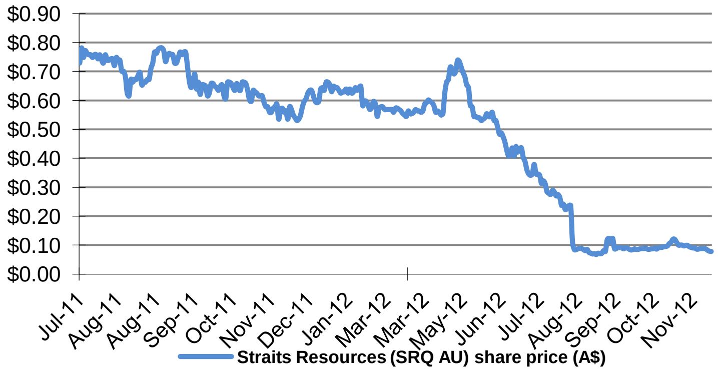
- **Tritton copper mine:** Steady state copper production currently 26kt. Value creation expected from development of new high grade Avoca Tank ore body discovery. This should boost production and reduce costs in FY15
- **Mt Muro gold mine:** responsible for the cash drain due to a series of interruptions and operational failures during 2012, the mine has now been recapitalized and in ramp up to full production. Mt Muro is forecast to produce 100koz of Gold equivalent in FY13, mostly in H2
- **Restructuring:** the company is pursuing a demerger of Copper assets (Tritton) from Gold assets (Mt Muro), has reduced corporate overheads by $8M and is in the process of restructuring executive management

Catalysts

- Adrian Redlich has joined the board to insure restructuring
- Search underway for new executive management
- Demerger of Copper & Gold assets and sale of non-core asset (Hillgrove)
- Successful ramp up of Mt Muro operations
- Drill out of the new discoveries at Tritton – Avoca Tank

Risks

- Commodity price declines
- Poor execution of Mt Muro ramp up



Investment - SRQ

SRQ AU

Realising the Investment

Stage 1:

- Demerger of the coal and metal assets
  - ✓ Would make the coal assets far more attractive to a potential bidder
  - ✓ Daylight the value of the metals assets

Stage 2:

- Post demerger, engaging with management to market the coal assets to a number of potential suitors
  - ✓ Straits Asia was sold of to PTT crystallizing $1.72 in profit for SRL share holders

Stage 3:

- Looking at further divestments of non key assets while focusing on core assets such as the Triton copper mine and Mt Muro
  - ✓ Bought out the TCRC agreement with Sempra metals. Sempra under that arrangement received 33% of the copper price over $1/lb
  - Now a year behind schedule and required the raising of $130m following poor execution of Mt Muro development. The company is now re-capitalised and in transition to day light value through demerger and/or asset sales on the back of improved operations and rejuvenated executive management team

Investment - IEF

IEF REAL ESTATE ENTERTAINMENT GROUP (IEF)

Background

- ASX listed real estate investment trust (formerly known as ING Real Estate Entertainment Fund)
- IEF has transformed from being an investor in the freehold of entertainment and leisure venues in Australia and New Zealand, to becoming the owner and operator
- AUM $239.0m (FY-12)

Why did we initially invest ?

- **Complicated structure** – external manager looking to exit and complicated arrangement with Panthers which was poorly understood by the market
- **Weak operator performance (insolvency)** - due to GFC, environmental factors (floods), high gearing, etc lowered IEF revenues, asset values and refinancing options
- **Share price** - fallen sharply (>90% from peak) to significantly below written down value of asset (that are well located and have alternative uses)

What changes have been made?

- Stapling and internalisation of management
- New board & management team
- $15m underwritten right issue
- Acquisition of leasehold interest from the major tenant
- Restructuring and part repayment of Panthers debt
- $4m investment of capital to improve properties

What are we still expecting to see?

- Unrecognised value of Panthers Loan of $74m expected to be repaid to IEF in the coming 24 months
- At current security price for IEF the implied yield on the hotels is 17%+. Equivalent hotels selling for sub 10% yields
- Trading conditions for NSW pubs have improved significantly and we expect to see this reflected in the rejuvenated IEF assets

Investment - IEF

IEF AU

Status of Panthers transaction

- Sale or Repayment of Panther debt – matures June 2014
  - Carrying value is $74m - senior secured with significant asset backing of land bank in west Sydney
  - LVR less than 50% and ICR 2x+
  - Panthers actively seeking to sell assets currently to fund repayment to IEF
  - Post repayment IEF will have a conservative debt to equity level of 30-35% on a portfolio of pubs
  - Low debt levels would allow working capital and flexibility a growth strategy

Risks

- Further declines in property values
- Poor trading conditions for pubs
- Recent move to owner operator of pubs increases execution risk
- Delay of Panthers debt realisation

Completed Investment
Digital Harbour Mezzanine Loan

Digital Harbour Holdings Pty Ltd (DHH) - Total return to MEF on invested capital was 20%

Background

- DHH is a developer of modern infrastructure in the Melbourne Docklands
- DHH has commenced construction on 990 LaTrobe, the new Melbourne Water Corp HQ office building

Thesis – Highly cash flow generative investment, underpinned by quality developer

- **Stable Investment Income –** High annualized interest on loan principle; Mezzanine loan was issued May 2011
- **Low Risk Investment –** Construction on 990 LaTrobe street broke ground in November 2010 and was completed on time and within budget in mid-2012
- **Quality Developer**- DHH has built successful, award winning projects in the Docklands, as a result, the project carries relatively low execution risk
- **Interest paid very attractive given**
  - Pre-leased 97% of building to Melbourne Water Corporation with a 15-yr lease
  - Pre-sold completed building to Motor Accident Commission of South Australia

Catalysts:

- Construction completed by mid-2012
- Full principle and interest repaid in 2H2012

Risks

- Construction delay

Realised Investment

Stage 1:

✓ Construction on time and on budget

Stage 2:

✓ Construction completed and sale closed mid 2012

Stage 3:

✓ Loan and principle fully repaid in August 2012

✓ Total return to MEF on invested capital was 20.11%

Outlook

- IEF restructured and well positioned to deliver returns in the coming year
- SRQ in transition and still in high risk phase with ramp up of Mt Muro and significant organizational change underway. MEF management has taken a more proactive role joining the board of SRQ to drive shareholder returns
- Current investment pipeline is focussed on high yielding debt investments similar in nature to Digital Harbour. Due diligence is underway on two potential investments
- Buyback to continue
- Dividends contingent on the realisation of value and return to profit

Disclaimer

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