The background features a dark blue field with a series of overlapping, stylized arches or chevrons. The arches are rendered in a gradient of colors, starting with a dark olive green on the left and transitioning to a bright yellow on the right. The arches are layered, creating a sense of depth and movement.

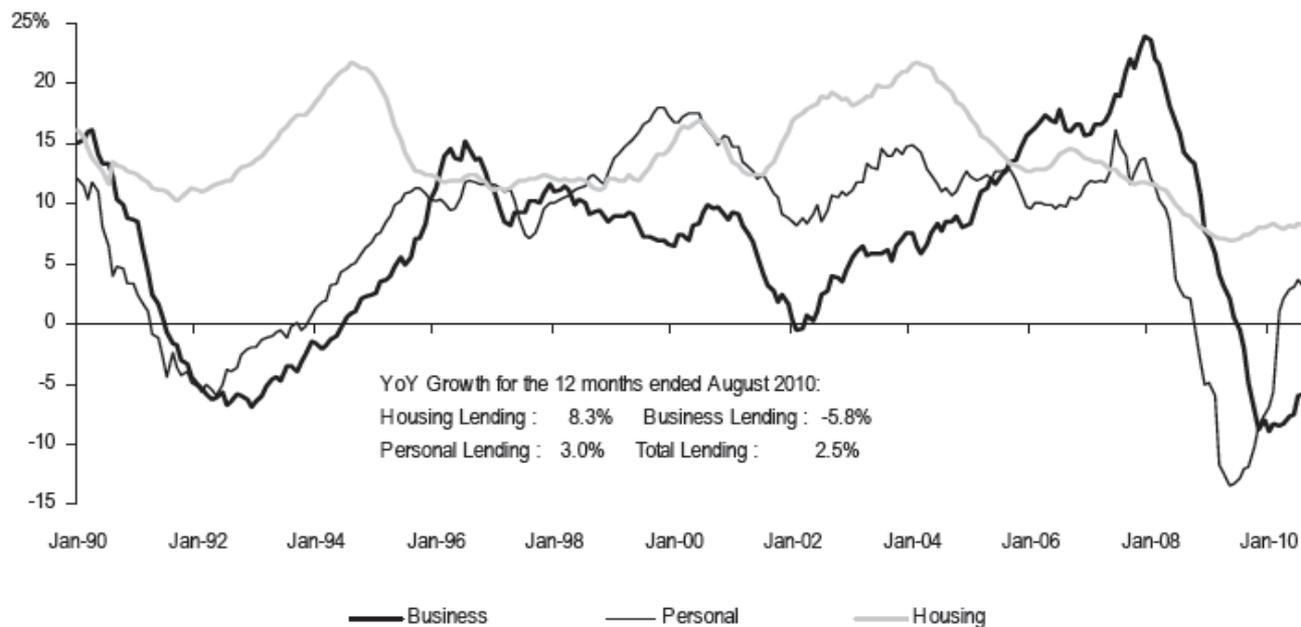
# MERRICKS CAPITAL

*“where preparation meets opportunity”*

- Prior to Merricks Capital’s involvement, Fat Prophets Australia Fund Limited (“FAT”) was trading at a 20%+ discount to NTA. This was because, in large part, it was an expensive version of the very common investment strategy to track the largest ASX stocks. It was increasingly becoming an unviable competitor to:
  - Lower cost unit trusts
  - Individually managed accounts
  - Index fund / ETF structures
- As such it was clear in our view that FAT would continue to trade at a permanent discount to NTA, reflecting high costs and a strategy that was easily available in more attractive structures
- Ironically the unsuitable structure of FAT as a modern day ASX300 tracking fund makes it ideal to pursue some of the best risk adjusted returns when:
  - Stable and permanent capital is scarce in the Australian economy
  - Fund managers are not pursuing the best risk adjusted investments but rather tracking an index
  - The major banks and other credit providers are reducing the provision of capital

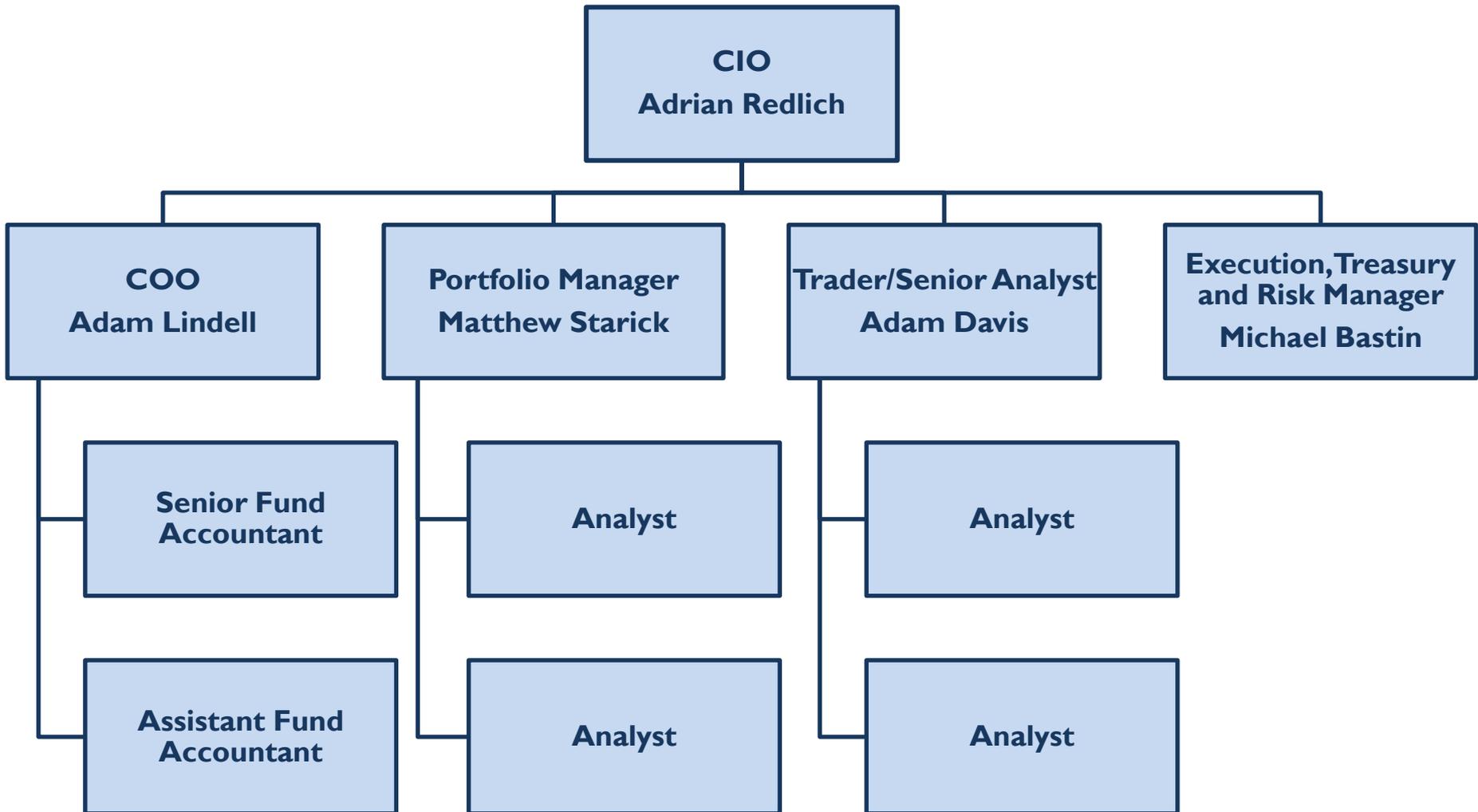
- The Merricks Capital Special Opportunity Fund will focus on making investments in small to mid-cap Australian listed companies in segments where there is a shortage of capital currently being allocated

**Figure 6: System Credit Growth by Loan Type**



Source: RBA, J.P. Morgan estimates.

- Merricks Capital is a Melbourne based Funds Manager established in 2007 by Adrian Redlich (Chief Investment Officer) and Adam Lindell (Chief Operating Officer)
- Adrian Redlich was previously a senior member of the Global Equities Group at Citadel Investment Group (Chicago) and prior to that was the Head of Merrill Lynch Global Valuation & Analytics Group (Hong Kong & New York)
- The Merricks Capital team consists of 11 people. The senior investment professionals have extensive experience having worked in the US and Asia with global fund managers, investment banks and trading houses
- Merricks Capital is backed by some of Australia's wealthiest and most reputable family offices which provides unique access and deal flow into otherwise extremely niche areas of the market



Note: All positions are filled

- The Fund will focus on 3 to 10 investments at any given time (currently holds 2 investments)
- The Fund may hold significant cash until we are able to deploy capital to outstanding opportunities. We are currently at advanced stages on 3 new potential investments
- The Fund 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 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
- The Fund will seek to make investments that will allow it to pay regular and consistent dividends, underpinning a strong yield for investors
- Being the largest shareholders of the Fund, Merricks Capital is clearly aligned with all shareholders to use the strengths of the Funds structure to maximise returns

- 3 million Straits Resources shares = \$6.3m
- 52 million ING Real Estate Entertainment Fund listed units = \$6.0m
- Cash Balance = \$18.7m
- Total Assets held as of 12/11/ 2010 = \$31.0m

- NTA of the Fund will be disclosed on approximately the 15<sup>th</sup> of each month
- All material investments will be disclosed to the market at the time of completion of acquisition of these investments or sooner if required by law
- On a quarterly basis Merricks Capital will provide an overview of significant investment as well as our involvement in working to achieve a positive outcome
- On a quarterly basis, in conjunction with the Board, Merricks Capital will provide an indication of the expected dividend yield based on the progress of the Fund's underlying investments

## Strategic Investment - Recapitalisation

### Background

- ASX listed real estate investment trust that invests in the freehold of entertainment and leisure venues in Australia and New Zealand
- IEF acquired high quality pubs and clubs during a period of competition for properties which resulted in high prices being paid
- IEF was over leveraged and was impacted by the GFC, NSW smoking ban and over leveraged tenants
- IEF has recently raised \$38m of new equity to pay down debt
- IEF has written down the carrying value of its properties to reflect a 9% + rental yield and \$0.21 per share Net Tangible Asset (NTA)

### Investment Thesis

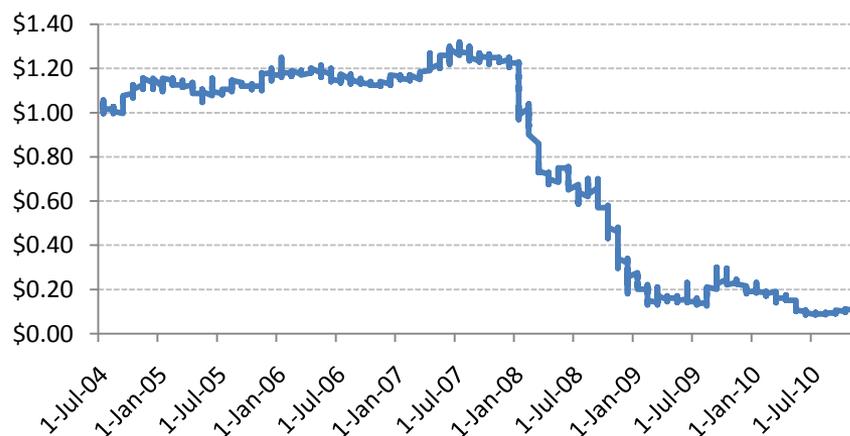
- Our Fund sub-under wrote the recapitalization of IEF which allowed the purchase of approximately 8% of IEF at a greater than 50% discount to NTA
- Independent research has confirmed the underlying value of the pubs at \$200m+ and the investment in Panthers at \$80m+ which supports the recently written down NTA of IEF
- Whilst the market value of NSW based pubs is well down from the 2007 highs the demand for high quality properties is vibrant and the sale of several key properties in the portfolio will allow realization of book value and further reduction of debt
- Post the sales of several assets and rectification of defaulting tenants we estimate IEF will be able to pay 15%+ running dividend yield based on our funds entry price

### Catalysts:

- Completion of sale of NZ properties – now partially complete
- Sale of Kings Cross or other properties at book value or higher
- Internalization of management contract and strong board appointed
- Major tenant in Icon who is in default to be replaced or internalised
- Reintroduction of dividends as LVR declines towards 50%

### Risks

- Delay/failure to complete sale of NZ properties (in depressed NZ property market)
- Further declines in pubs/clubs property values
- ING Groups internal issues impact outcome for IEF



## Investment Timeline

### 1. Stage 1: August to November 2010

- Review of carrying value of IEF properties and potential future income
- Met with management of IEF, leading competitors, industry experts and existing and potential loan providers
- Purchased 8% of IEFs outstanding units via sub-underwriting rights issue and purchase from other major shareholders

### 2. Stage 2: November 2010 to February 2011

- Lobbying IEF Board and Management to rectify uncertainty of ING Groups ongoing involvement
  - We have requested ING to either commit to managing IEF long term or facilitate the internalization of the management contract and allow unit holders to have independent board representation
  - The speedy resolution of this issue is critical as there is potential impending assets sales and the looming default of major tenant Icon
- Biggest tenant Icon (43% of non-Panthers rent roll) due to rectify defaults on current leases in December
  - Icon could be recapitalized and back rent paid which would provide very attractive rental yield
  - Icon could be put into administration which would
    - Result in Commonwealth Bank & other creditors recovering debts from Icon via sale of leasehold to strong and viable party which would result in attractive rental yields again being paid to IEF
    - IEF have step in rights to properties and could run the operating company which appears to have solid earnings if stripped of significant debt
- Sale of several properties. Our market research suggests there is interest in several significant properties owned by IEF which could be sold in the near future above carry value

### 3. Stage 3: Mid 2011

- Post several assets sales IEF would be dramatically deleveraged and should be in shape to pay a 15% running yield based on our entry price

## Straits Resources Limited (SRL AU)

### Background

- SRL is involved in the exploration, production and sale of copper, coal and gold in Australia and Indonesia
- SRL has a complex structure for a relatively small ASX company that has resulted in the share price trading at a significant discount to the value of its measurable holding in a major Singaporean listed coal company and cash on its balance sheet

### Thesis – Significantly undervalued world class assets

- Our sum of the parts valuation of SRL is \$3.28 based on discounted cash flow valuation and verified by comparison to market values of similar assets
- Shareholder value will be achieved through corporate action via the demerger between the coal and metals assets and the eventual sale of the company's coal assets

### SUM OF PARTS VALUATION

	<u>A\$M</u>	<u>A\$/FDsh</u>
Net Cash	\$184.8	\$0.58
MV of SAR stake (PTT-APM)	\$401.3	\$1.27
PTT-APM other coal assets (IE report)	\$40.5	\$0.13
Tritton NPV (11% DR)	\$220.6	\$0.70
Mt Muro (10% DR)	\$78.3	\$0.25
MV of Listed Equity Investments	\$53.5	\$0.17
Gfe & Magontec (Trade sale value)	\$30.0	\$0.09
Hillgrove Antimony (Trade sale value)	\$30.0	\$0.09
<b>Sum of the parts valuation</b>	<b>\$1,038.9</b>	<b>\$3.28</b>

### Catalysts:

- Forestry permit approval for SAR's Sebuk coal mine
- Demerger of coal and metal assets to daylight value
- Proving the value of the Tritton Copper mine to the market
- Sale of coal company/assets post demerger
- Sale of non-core assets such as Magontec and Hillgrove

### Risks

- Failure of management to execute at Tritton and Mt Muro mines
- Acquisition of other mining interests
- Severe commodity price declines



## Investment Timeline

### 1. Acquisition phase and lobbying the company to restructure : September – November 2010

- The fund co invested with an existing Merricks Capital Syndicate to become the biggest shareholder of SRL at approximately 10%
- Merricks Capital met with management, board members and bankers of SRL to express concerns with structure and investment in non core assets
- Merricks Capital has worked with several stock broking firms to encourage them to focus on SRL and raise profile of investment opportunity
- SRL announced share buy back and announced demerger of coal company and metal company to “daylight” underlying value

### 2. PTT bid for SRL conditional upon demerger of Coal company and Metals Company: 1H 2011

- SRL is unable to solicit other bids under agreement with PTT. However Merricks Capital will be working with advisors to canvass other major coal companies to make a competitive bid for SRL as we believe the current offer is opportunistic being made several weeks before impending permit approval for expansion of the Sebuku coal mine. The permit approval will most likely see significant appreciation in value of SRLs investment in Straits Asia Resources
- Merricks Capital will be engaging with SRL management to insure Metals Co does not transfer legacy liabilities and contracts of existing company (SRL). Metals Co has the opportunity to be a lean and focused copper company which is currently given no value beyond cash holdings by the market. Merricks Capital believes the value of Metal Co is in excess of \$1.50/share which combined with the current \$1.72 per share bid for the demerged SRL ‘Coal Company’ would value the current shares at in excess of \$3.00 versus current share price of \$2.10

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