



SUMMARY- R8 MILLION INVESTMENT OPPORTUNITY

DECEMBER 2009

Nature of investment	Loan
Loan Amount	R8 million
Term	6 months commencing 15 January 2010
Return	Prime plus 10% p.a. (20,5% p.a. x loan amount x period utilised)
Key Security	1 st Mortgage Bond over property with a total value of R100 million (Loan-to-Value 8%)
Geographical Location	Bestwood Estate, Kathu, Northern Cape
Minimum Investment	R2 million
Repayment	Senior debt

MARKET OPPORTUNITY AND SECTOR FOCUS

Supply of bank funding for vacant land is limited creating opportunities for mezzanine finance

Some six months ago the financing of vacant land at loan-to-values of less than 60% and at rates of Prime (currently 10,5% p.a.) would have been relatively easy funding for a developer to secure from a commercial bank. However, the commercial banks in South Africa currently have a very limited appetite for exposure to vacant land regardless of the risks of the transaction.

As such, tighter credit conditions have created an opportunity for mezzanine finance operators like M Capital to earn equity related returns secured by a 1st Mortgage Bond over property where the loan-to-value is between 20% and 40%.

M Capital's strategy is to provide bridging finance for these types of transactions on a fully secured basis which allows the developer sufficient time to conclude pre-sales and secure senior debt funding from the bank.

In time the banks will revert back to normal lending practices but there is currently a window of opportunity to earn equity related returns secured by a 1st charge over property and without taking on any development risk.

The **Bestwood, Kathu** transaction presents such an opportunity for investors.

Investing in a sector with superior demand/supply dynamics and undergoing structural change driven by the South African Government

Notwithstanding, the opportunities created for mezzanine finance by the structural changes in the banking sector we are also investing in a niche sector of the market being mixed use developments (including affordable housing) in close proximity to the mines.

Recent changes in the South African Mining Charter which inter alia regulates the provision of suitable housing accommodation for employees within the mining sector, has resulted in governmental pressure on South African mining houses to facilitate increased home ownership for their employees, failing which they could lose their mineral rights. Further, recent regulation means that mining houses can no longer house their staff on land that has mining rights. These changes in regulation have resulted in an increase in demand for homes for mine workers in existing towns in close proximity to the mines.

Over the past two years M Capital has aligned itself with those developers who identified the opportunity early and now have first mover advantage (i.e. the first developers to secure planning permission) in their respective geographical locations. Early completion of developments in growth areas generally carries less demand risk.

M Capital has aligned itself with developers who have secured land in the following regions:

- **Kathu**, Northern Cape (iron-ore and manganese);
- Klerksdorp, North West Province (gold and uranium);
- Burgersfort, Limpopo (platinum group metals);
- Mashishing (previously Lydenburg), Limpopo (platinum group metals); and
- Mokopane (previously Potgietersrus), Limpopo (platinum group metals).

BACKGROUND TO INVESTMENT

In December 2008 M Capital provided the developers of the Bestwood Estate in Kathu with a R3,75 million senior debt facility secured by a 1st Mortgage Bond over a property worth R60m.

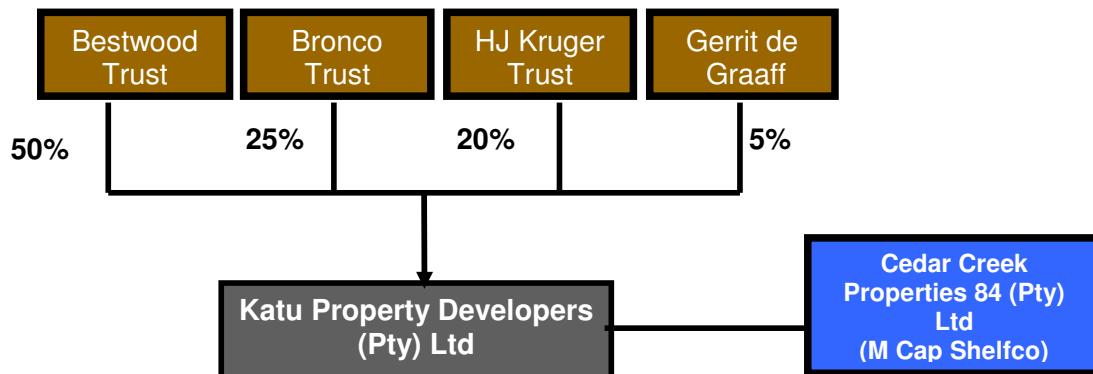
The term of the loan was 12 months and expires on 9 December 2009. The developer had procured the Record of Decision (“ROD”) for the property in November 2008, and at the time it was anticipated that Township Establishment / Site Development Plan would be approved within this period which would enable senior debt to be put in place to settle M Capital.

Due to various delays with respect to the issuing of the water licence during the course of 2009 the Township Establishment was finally approved at the end of November 2009 after receipt of the water licence from the Department of Water & Forestry.

As a result of approval of the development we anticipate the value of the land to have increased from R60m to R100m. Due to the substantial equity and resultant low level of gearing in this transaction it has been decided to extend further facilities to the developer (as opposed to just extending the expiry date) resulting in a very low loan-to-value of 8,0% secured on a 1st Mortgage Bond basis.

BESTWOOD, KATHU - ORGANIGRAM

The developer is Katu Property Developers, being a development consortium comprising the landowner, the consulting engineers and the town-planner.



Cedar Creek Properties 84 (Pty) Ltd is the shelf company used by M Capital for this investment.

The proceeds of the new investment will be utilised to settle the existing M Capital facility.

BESTWOOD, KATHU - VALUE OF THE SECURITY

The loan capital of R8 million will be secured by a 1st Mortgage Bond over a 200 hectare property located in Kathu in the Northern Cape which is a rich mining area.

The loan capital is well secured with a loan to value (“LTV”) of 8% based on a market valuation of MCAP’s security and 13,3% LTV based on a forced sale valuation of our security, as follows:

Based on Market Value:

200 Hectares @ R500/m² = R100m (R35 000 per opportunity)

Loan-to-Value of 8%

Based on a Forced Sale Value:

200 Hectares @ R300/m² = R60m (R21 000 per opportunity)

Loan-to-Value of 13%

BESTWOOD, KATHU - TOWN-PLANNING STATUS

The Record of Decision for planning permission (“ROD”) for the subject property was received in November 2008, and all objections have been satisfactorily addressed.

The water licence for the Bestwood project has been issued by the Department of Water Affairs and Forestry (“DWAF”) which has enabled the local municipality (Gamagara Municipality) to finally approve the Township Establishment.

BESTWOOD, KATHU - SETTLEMENT OF THE M CAPITAL LOAN FACILITY

The source of funding for repayment of our loan facility will be from senior debt from a local commercial bank.

Although the supply of bank funding in South Africa is constrained (which accounts for the favourable terms of this facility), we do not foresee any problems in procuring senior debt facilities for the Bestwood development for the following reasons:

- Higher than normal level of equity contribution in the form of the increased land value (circa R100m contribution).
- Highly favourable demand and supply dynamics for this development (strong demand from mining houses and limited supply of product in Kathu region).
- Contained and identifiable target market (mines, mine employees) presents a more secure target market for the home loans divisions of the commercial banks, which further helps to secure the development loan's exit.

Favourable discussions have been held with FirstRand Bank, Nedbank and Absa regarding the provision of senior debt / development loan finance and a workshop seminar is being held on 8 December 2009 with the big four banks in terms of the provision of end-user finance (home loans) for this market. Previous discussions with Absa Home Loans were very favourable with Absa providing in-principle approval for 100% of the development which does not happen often and is indicative of the desirability of this project from a banking perspective.

Although discussions have been favourable with the senior debt providers we anticipate that the senior debt facility will only realistically be in place by April 2010.

GENERAL SECURITY

The following security, warranties and rights are already in place and will be ceded proportionately to the investors:

Security

- Registration of a 1st Continuous Covering Mortgage Bond in the amount of R14,280,000 (plus a cost clause of 20% over the Property) over the Kathu property;
- Pledge and cession of 100% of the shares of the Borrower (to include the provision of a signed CM42 Transfer Form in respect of 100% of the shares of the various Borrowers);
- Limited suretyships (joint and several) from shareholders and principals behind the transaction.

Warranties and Indemnities

- The parties made representations and warranties customary for a facility of this nature, which included warranties specific to the necessary authority and capacity of the Borrower, provision of accounts and records, no engagement in litigation and compliance with necessary laws and insolvency.

Subordination of claims

- The parties provided subordination of claims customary for a facility of this nature, for as long as any amount is owing to M Capital.

Monitoring:

- Balsillies Strauss Daly Attorneys will draft loan agreements and have conducted the legal due diligence.
- The costs of monitoring are included in the total facility provided to the Borrower.

RECOMMENDATION

The investment of R8 million as set out herein is supported for the following reasons:

- The total M Capital loan amount equates to 8% of the land value and is fully secured on a 1st Mortgage bond basis, together with personal and parent suretyships standing behind the deal as well as a pledge and cession of 100% of the share capital of the Borrower;
- Strong demand for the development;
- Non correlated investment return of approximately 20.5% p.a; and
- Experienced developer consortium driving the development.

Annexure

Introduction

The Bestwood project in Kathu will cater for the active mining industry in the area by providing housing, retail and industrial opportunities to the market.



The Background to Kathu

Kathu was established 12 km north east of Dingleton (then called Sishen) to accommodate workers for a new iron ore mine that opened in 1973, and acquired municipal status in 1980.

Kathu is known as the iron ore capital of the Northern Cape Province and its name means "town under the trees", after the Camel Thorn forest it is situated in.

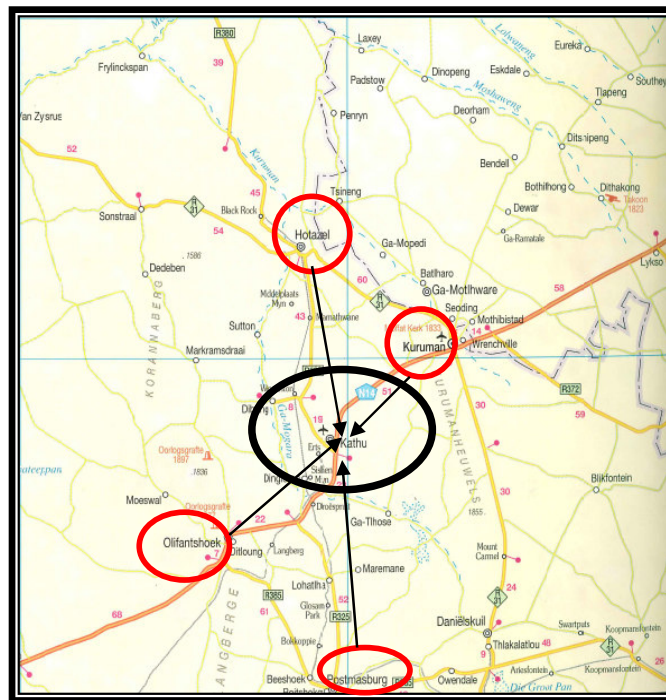
The 700 hectares camel thorn forest around Kathu is one of the largest in South Africa and is part of a 2 245 hectares nature reserve that is home to several species of game, including camels and a large variety of birds.

Kathu is connected by road, rail and air to the nearby city of Kimberley and is strategically situated as well as being the origin of some of the world's longest ore trains that travel through harsh territory to offload their iron cargo at Saldanha Bay.

Kathu forms part of the Kalahari Region and is situated 50km west of Kuruman on the N14 between Johannesburg and Cape Town.

Geographical Areas

Due to its central location Kathu is destined to become the regional hub for the area providing housing and amenities for the various mining groups who are currently expanding their operations to keep up with global demand.



The Mining Role-Players in the Area

The intention has been to focus on the role-players in the **IRON ORE** and **MANGANESE** sectors of the mining industry, of which the following are the main players in the area:

- Kumba Iron Ore
- Assmang Limited (iron ore)
- BHP Billiton (manganese)
- Kalagadi Magnesium

Housing is an attractive recruitment and retention strategy, and has many positive social benefits as it improves the quality of life of employees, their health and wellbeing and that of their families.

Mining groups are by law, no longer permitted to provide housing / accommodation on land which has been allocated for mining.

In addition mining groups are encouraged to provide housing and accommodation for their staff within the urban edge of the nearest town.

The Mining Activities in the Area

Kumba Iron Ore (part of Anglo American plc group)

In 2001 Kumba Resources was unbundled from its former parent, the South African Government-owned Iscor (re-named Mittal Steel with effect from 11 March 2005) and was listed on the JSE in the same year. Iscor had been the major integrated South African steel producer for more than 70 years and its mining division, Iscor Mining, had provided security of iron ore supply for its steel mills.

Iscor's first mine, Thabazimbi mine, was established in the Limpopo Province in 1932 to supply iron ore to the Pretoria Works steel plant, where the first steel was cast in 1934.

Sishen mine was established in the Northern Cape Province in 1954 as a mine that served Iscor only. In 1976, however, the South African Government invested in the infrastructure to enable the export of iron ore from the Sishen mine via the Sishen-Saldanha rail link and port facility. This opened up a new era of growth for the iron ore business.

In 1989, Iscor was privatised and in 2001 was unbundled into two separately listed mining and steel companies, namely Kumba Resources and Iscor, respectively. At the time of the unbundling, the mines that had been developed by Iscor for coal, zinc and certain industrial minerals used in steel production, together with its two iron ore mines as well as its heavy mineral interests, became part of Kumba Resources.

Kumba Iron Ore's secure access to high quality reserves and to existing infrastructure provides the basis from which to rapidly expand its production capacity. Proven reserves and resources can support an increase in production from the current 32 Mtpa to more than 70 Mtpa by 2015.

Two features of Sishen Mine stand out: firstly, its physical size and secondly the impact – socially, environmentally, and economically – of this mine.

From an environmental perspective, the scale of this footprint has consequences on land management, especially rehabilitation and biodiversity, groundwater management and the efficient use of resources in terms of mining and processing.

Kathu's Sishen Iron Ore Mine is big and produces 28.8 million tons of high quality ore annually, employs 3 200 people, and the open pit will eventually extend for 12 kilometers.

Socially and economically, the mine's impact is significant. It is the Northern Cape's largest employer and a major trainer of artisans in the country; it uses 75% of the dedicated 861km-long Sishen-Saldanha railway line and export facilities.

Kumba Iron Ore encourages the concept of Home Ownership and new initiatives include an evaluation of home affordability, and the implementation of employee assistance programmes to promote home ownership. The hostels in Kathu are being converted into bachelor flats and employees are encouraged to bring their families to Kathu.

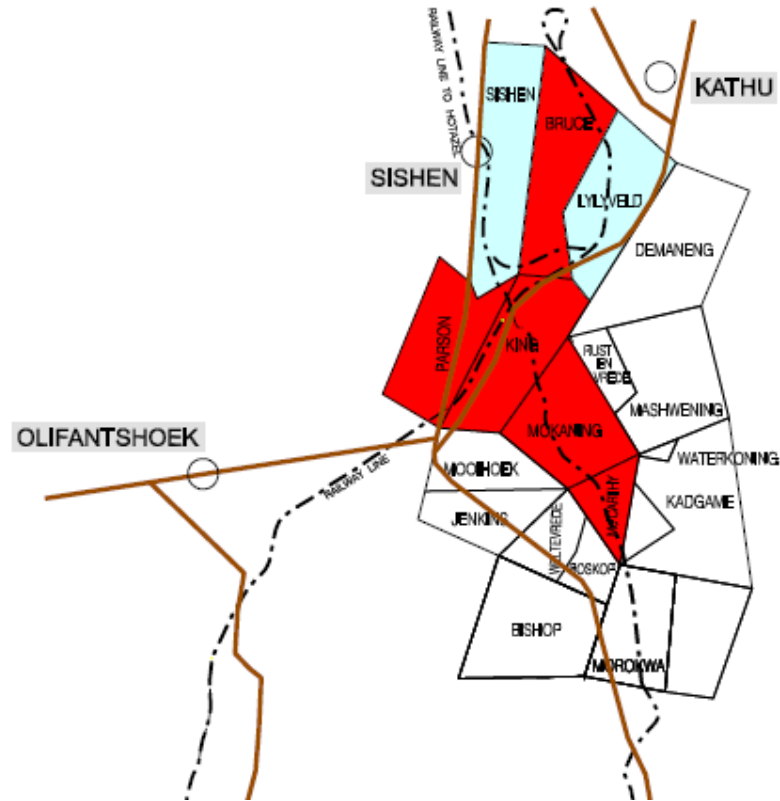
Assmang Limited

Formed in 1935 and listed on the Johannesburg Stock Exchange in 1936, the Group employs 2 865 permanent employees (Assmang was de-listed in February 2006).

Originally named The Associated Manganese Mines of South Africa Limited, it changed its name to Assmang Limited on 30 May 2001. Assmang is jointly owned by African Rainbow Minerals Limited (50%) and Assore Limited (50%) and currently has three operating divisions based on its three commodities, chrome, manganese and iron ore. Although each division operates independently, together they strive to achieve optimum efficiencies.

Assmang's Manganese Division consists of the manganese mines in the Northern Cape and the ferromanganese works at Cato Ridge in KwaZulu-Natal. The Chrome Division consists of chrome and ferrochrome mines in Mpumalanga, while the Iron Ore Division is made up of the Beeshoek mine and the Khumani iron ore project in the Northern Cape around Postmasburg, and on the three farms adjacent to Kumba Resources' Sishen mine.

Assmang have committed to acquiring 660 plots in the Bestwood project.



KHUMANI IRON ORE MINE (in red above)

Assmang's current Beeshoek iron ore mine is reaching the end of its economic life and will not be able to sustain its current production level of 6 million tons per year.

The new mine, the Khumani Iron Ore Mine has been commissioned to replace these tonnages. The Khumani resources are amongst the best iron ore resources in South Africa in terms of quality and quantity. Based on current reserves a new mine producing 8,4 million Mtpa would have a life in excess of 40 years and at 16,8 million Mtpa a life in excess of about 25 years.

Khumani iron ore deposits are located approximately 60 km north of the Beeshoek mine and adjacent to Kumba's Sishen Iron Ore Mine.

MANGANESE

South Africa has 80% of the world's known economically mineable manganese ore reserves which occur near Hotazel in the Northern Cape Province (reserves are estimated at 12 billion tons).

Although other countries produce greater tonnage's (e.g. China, Ukraine and other CIS countries), their metal content is low (23% manganese) compared to ores produced by South

Africa, Gabon, Australia and Brazil. If low grade production discontinues from these countries, South Africa will then have 92.7% of global total reserves

BHP Billiton

South African manganese interests held through a 60% holding in Samancor Manganese Pty Ltd, with the remaining 40% held by Anglo American plc.

Hotazel Manganese Mines (HMM) - located in the Kalahari basin in the Northern Cape Province of Southern Africa, is one of the largest single producers of manganese ore in the world. Samancor Manganese has a 91 per cent shareholding in HMM, with Ntsimbintle Mining owning the remaining 9 per cent. It comprises two manganese mines - Wessels and Mamatwan.

Kalagadi Magnesium

The project involves the development of a R3,2 billion manganese mine and 2,4-million-ton sinter plant on site in the Kuruman area.

PRODUCT AND FEASIBILITY OVERVIEW

One of the positives coming out of the delays in township approval has been that the team has been able to procure increased interest in the development from both financiers (both in respect of senior debt and equity finance) and from the various mining houses in terms of sales / off-take.

A comprehensive Market Report has also been concluded by Dr Ernst Drewes of Erioloba Studies which highlighted the highly favourable demand / supply dynamics for this project and includes an in depth analysis of the salary scales of the mine employees in the region. This report was used to determine the product and pricing applicable for this development.

A workshop was recently held in Kathu with all the relevant role players in the mining industry in and around Kathu to ascertain and finalise their demand for product in Bestwood.

The feasibilities for both Phase 1 (126 units aimed at the entry-level purchasers) and for the entire development (2 875 units) have been completed. The project reflects a Gross Development Value of R1.5 billion and projected Net Profit of almost R370 million based on demand indicated at the general meeting attended by mining representatives.

THE TARGET MARKET

In the current economic climate it has become increasingly critical for residential property developers to fully understand the development's target market, both in terms of supply and

demand dynamics, and more importantly in terms of the affordability levels defined in the target market, as this will assist in potential purchasers being able to qualify for end-user finance.

Without confirmed appetite from end-user banks, the development finance arms of those banks will not release funds for development loan purposes and there is no development.

It is therefore imperative that developers collate as much quality information to ensure that the end-user finance houses are able to understand the profile of end-users and therefore become more comfortable to lend to the purchasers in their developments.

The dynamics surrounding the developments related to the towns benefitting from the mining expansion programmes are considerably easier to identify and quantify, than say another affordable housing project in Johannesburg.

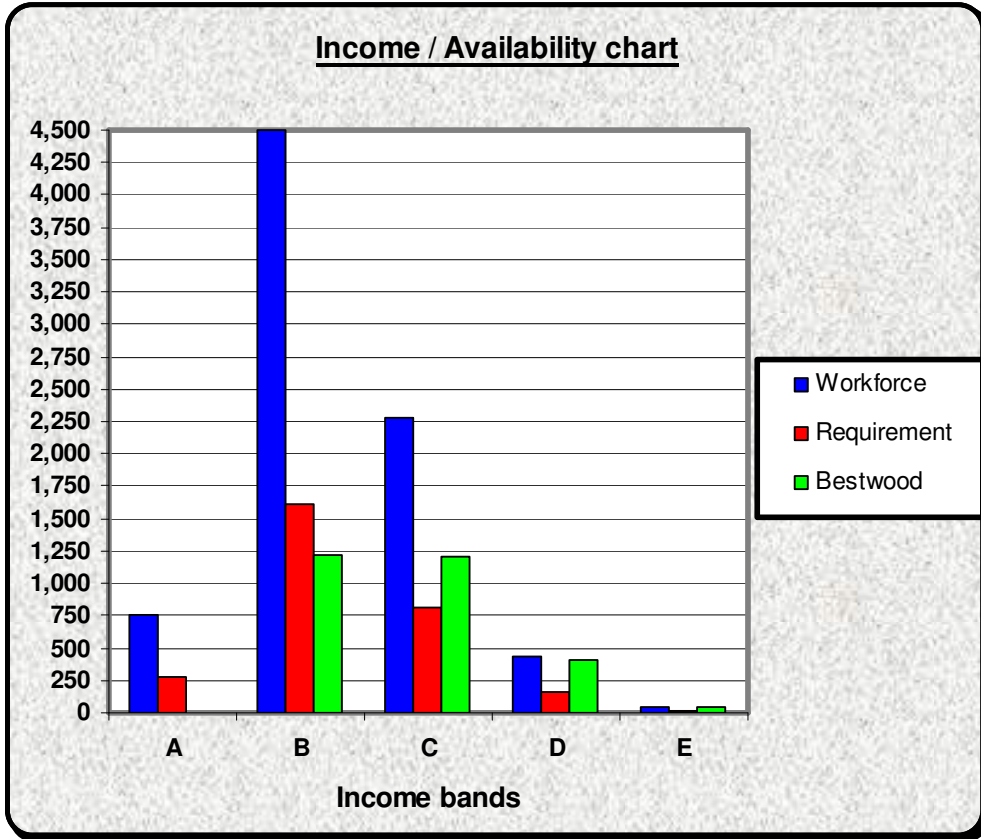
With this in mind, Dr Ernst Drewes of Erioloba Consulting was introduced to the project by CMC (the company responsible for facilitating the senior debt and end-user finance) and he was commissioned to undertake a comprehensive study of the Kgalagadi Region which resulted in the Housing Development Profile for the region (a copy of which is available on request).

The salient aspects of this study included the following:

1. Analysis of the demand (housing need) and supply in the catchment area;
2. Analysis of Income and Affordability levels (per the Paterson Band table below)
3. Spatial and planning proposals according to the Integrated Development Plan (IDP);
4. Existing demand and proposed expansions of mining houses;
5. Overview of the Mining Charter (DME, 2002) and particular impact on mining houses in respect of promoting home ownership

BROAD BANDS	MINIMUM GROSS MONTHLY INCOME	MAXIMUM GROSS MONTHLY INCOME
A-BAND	R 6,064.00	R 7,111.50
B-BAND	R 5,000.00	R 12,877.00
C-BAND	R 15,889.00	R 28,870.00
D-BAND	R 36,667.00	R 66,000.00
E-BAND	R 56,667.00	R 145,500.00

Paterson Band / Income Band



Income band	Workforce	Requirement	Bestwood Mix	2,875
A	760	272	0	
B	4,499	1,611	1,223	
C	2,285	818	1,207	
D	438	157	408	
E	48	17	37	

Although the above graph illustrates a housing requirement of some 272 houses for Income Band A, no houses were provided for in this bracket as the CMC's end-user model for Bestwood allows some of these individuals to purchase units in the B income band (similarly for Income Band B). Phase 1 will be aimed at Band B income level employees (Phase 1 entails 126 units or 8% of the above requirement) and will be pre-sale driven.

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