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## A word from your Manager



LinQ Capital Limited ABN 66 098 197258, your Manager of the LinQ Resources Fund ARSN 108 168 190 (the "Fund"), is pleased to present the following highlights for the June Quarter 2010.

### Overview

LinQ Resources Fund is an actively-managed mineral resources Fund which specialises in investments in resources companies both in Australia and overseas. The strategy of the Fund revolves around investment in companies at all stages of development from exploration through to production. The focus is on a wide variety of mineral commodities, in particular precious metals, base metals, bulk minerals and energy with portfolio exposure through a single listed vehicle. Investments are predominantly in companies in the latter stages of exploration and economic evaluation.

### Quarter highlights

- The Fund outperformed major and local stock indices (FTSE, DOW and ASX) which all declined by circa 10% to 13%.
- The Fund's unit price increased by 6.15% to \$0.69 reducing the discount to NTA by 6%. Net tangible asset ('NTA') backing per unit decreased by 2.83% to \$1.03.
- The Fund divested some minor holdings in non-core investee companies realising gains and improved its cash position through partial divestment of some larger holdings. Cash has been earmarked for new investments.
- Gold prices increased over 10% quarter on quarter but major base metals were much weaker declining between 16% to 27% quarter on quarter.
- Global economic recovery is expected to be largely driven by continued strong economic performance in the emerging economies, particularly China and India.
- The current Federal Government made public its plans to introduce an additional tax on mining ('Mining Super Profits Tax'). After significant debate and public discontent the original tax proposal has been significantly altered, potentially resulting in a far less onerous tax impost (and now renamed the 'Mining Resource Rent Tax'). Whilst the details are still to be worked through by a specially formed advisory panel, if promulgated, the tax would become effective in 2012.

## Outlook

With the global economy seemingly operating in a two speed environment with slow United States and European growth and positive steady performance from the Asian region, the market volatility trend continues. The current market continues to present itself with opportunities for the Fund and recent trading by your Manager (increasing the cash position) has positioned the Fund to benefit from these value opportunities.

Pressure on the finance sector and tougher lending conditions from banks to mining enterprises still remains. The use of convertible notes and other similar structured finance instruments mitigate risk whilst maintaining the equity upside and are a key investment strategy of the Fund.

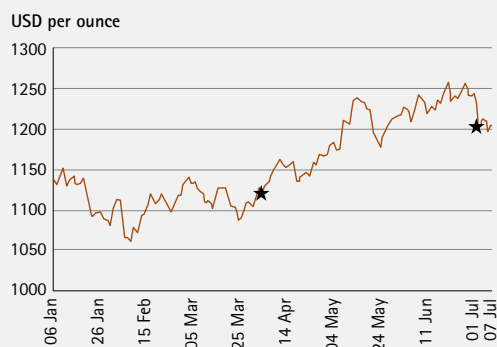
In Australia, the introduction and details of the Mining Resource Rent Tax are still to be worked through. The current opposition party heading into the August 2010 Federal election has stated that it will not implement the tax if elected into office. Nonetheless, industry opinion seems to be that even if the new tax is introduced, its net effect on mining companies may not be significant.

The Fund is well placed to identify and capitalise on undervalued resource assets and securities that present in the current market with current deal flow in abundance.

## COMMENTARY

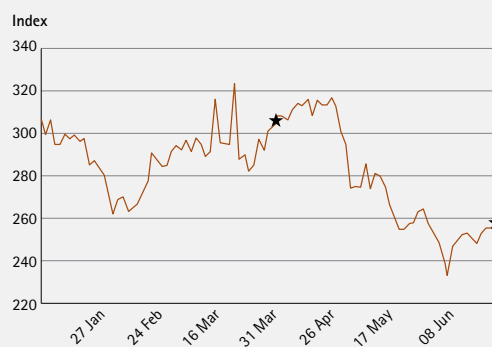
The June quarter brought mixed results across commodity markets with gold prices increasing over 10% quarter on quarter (Figure 1). Conversely, prices of the major base metals were much weaker losing between 16% to 27% quarter on quarter (Figure 2). The Baltic Dry Index (key indicator of global shipping volumes of bulk materials as reflected in shipping prices) was down circa 15% compared with last quarter (Figure 3). The fall in shipping prices is an indication of demand for materials globally and the trend is fitting with the decline in base metal prices. The strength in gold price contrary to most other commodity prices may also be a sign of continued uncertainty in global markets as movement to the safe haven of gold is sought whilst sovereign debt uncertainty continues, particularly in Europe. Coal prices also strengthened early in the year but have since fallen away (Figure 4).

**Figure 1: Gold - 6 Month Performance (Kitco)**



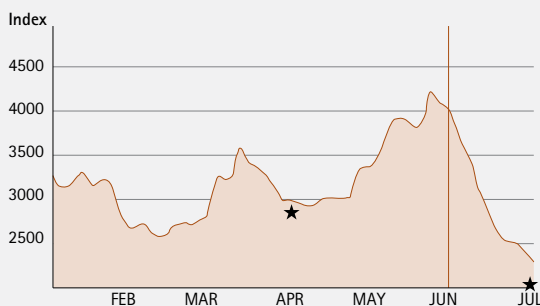
Source: Kitco.com

**Figure 2: Base Metals - 6 Month Performance (GFMS)**



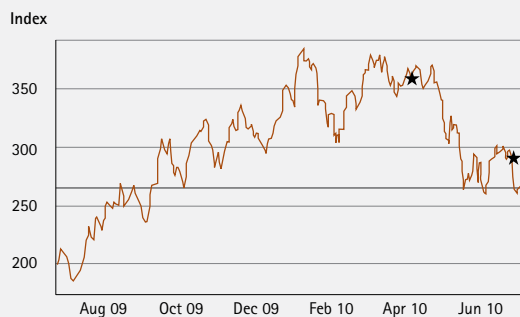
Source: Kitco.com

**Figure 3: Baltic Dry - 6 Month Performance (Bloomberg)**



Source: Bloomberg

**Figure 4: Coal - 12 Month Dow Jones U.S. Coal Index (ADVFN)**



Source: Advfn.com

There was a general decline experienced on global and local equity markets during the quarter. The FTSE 100 index declined by 13.43% during the quarter eroding the gains of the previous two quarters and closing below the September 2009 value. Similarly the Dow Jones Industrial Average closed only 0.6% higher than its September 2009 value as a result of a 9.98% decline during the quarter. On local markets the S&P/ASX Small Resources Index and S&P/ASX All Ordinaries Index closed below their September 2009 quarter levels declining by 9.29% and 11.61% respectively. The S&P/ASX 300 Metal & Mining Index also dropped 10.79% of value during the June quarter. In summary, the gains experienced by the aforementioned indices over the December 2009 and March 2010 quarters were mostly given up during the June 2010 quarter.

Heading into the June quarter there were concerns over some sovereign nations' creditworthiness. Rising public debt is creating significant downside risk and as a result the expectation for growth in major OECD economies, especially in Europe, is weak (ABARE). Global economic recovery therefore is expected to be largely driven by continued robust economic performance in the emerging economies, particularly China and India. This assessment is based on the assumption that economic growth in China and India will not be significantly affected by the recent developments in Europe (ABARE).

Substantial growth in Chinese domestic demand, supported by the government's fiscal stimulus package has led to concerns about the possibility of an asset boom-bust cycle in China. While the Chinese authorities have taken measures to tighten bank lending and to increase governance in asset markets, considerable uncertainty remains in the outlook for economic growth in China. While the probability of a 'hard-landing' in the Chinese economy is regarded as low at this stage, the debt crisis in Europe has increased the downside risks to the economic outlook. Given the importance of China in the world commodity markets, a significant slowdown in economic growth in China would have important adverse implications for world commodity demand (ABARE).

In the second half of 2010, world prices for most energy and mineral commodities are forecast to average lower compared with the first half of the year. This mainly stems from the expected effect of the European debt crisis on economic growth in Europe, and the intention of the Chinese Government to slow its rapid economic growth to a more sustainable pace. In addition, a relatively high level of stocks for most metals will place downward pressure on prices (ABARE).

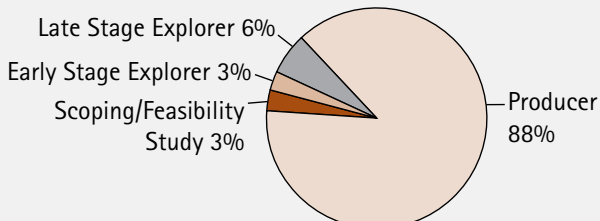
Locally, the Reserve Bank of Australia continued to increase interest rates with two 25 basis point rises over the June Quarter. The continued interest rate rises are a sign that the Australian economy is recovering, with the economy still expected to benefit from the Federal Government's economic stimulus spending.

## LinQ Resources Fund – key market statistics

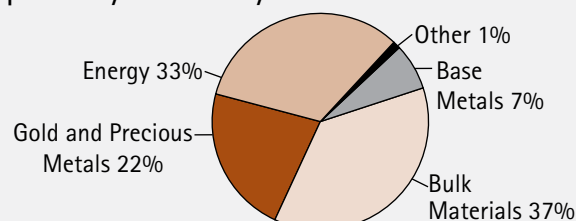
	30 Sep 2009	31 Dec 2009	31 Mar 2010	30 Jun 2010 <sup>1</sup>
Unit price (LRF)	\$0.60	\$0.63	\$0.65	\$0.69
Net Tangible Assets (NTA)	\$0.89	\$0.96	\$1.06	\$1.03
Discount to NTA	33%	34%	39%	33%
Units on issue <sup>2</sup>	170.6 million	170.6 million	170.6 million	174.0 million

Based on NTA, the Fund outperformed the major global stock indices, the Australian All Ordinaries, the S&P/ASX Small Resources and the S&P/ASX 300 Metal & Mining indices. This was a good result for the Fund over the June quarter, particularly given that during the period the Federal Government proposed its increased tax on the mining industry, which had an immediate adverse impact on the stock market and mining companies specifically. Fund value remained relatively steady with declines in coal and iron ore holdings being offset with strong performances in gold stocks. The increased cash position through the partial divestment of some of the larger holdings provides increased capital for further investment opportunities. The Fund's total trade value for the quarter was \$26 million (acquisition and divestment) resulting in net additional cash of \$12 million.

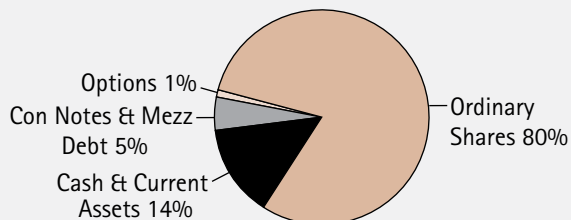
### Exposure by Project Stage



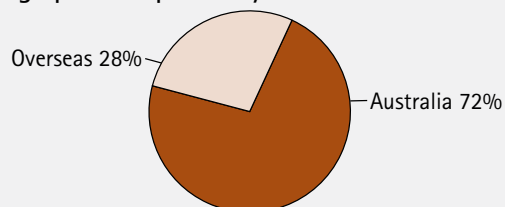
### Exposure by Commodity



### Investment Instrument



### Geographical Exposure by LRF Value



<sup>1</sup> Unaudited

<sup>2</sup> Excludes LRF 2 units which are excluded on a consolidated basis

## LinQ Resources Fund – Top 5 investments as at 30 June 2010

Company	Key Project Domicile	Commodity Focus
Riversdale Mining Limited	Southern Africa	Coal
Atlas Iron Limited	Australia	Iron Ore
Ferrous Resources Limited	Brazil	Iron Ore
Lihir Gold Limited	PNG, Australia & West Africa	Gold
Continental Coal Limited	South Africa	Coal

### RIVERSDALE MINING LIMITED

Riversdale is an anthracite coal producer in South Africa with a large coking coal project in Mozambique. The company's large land holding in Mozambique in the Moatize Basin has been identified as a world class coking coal belt. Significant events for the quarter are as follows:

- Upgrade of Benga coal resource to 9 billion tonnes, with total coal resources of 13 billion tonnes now managed by the Company;
- Subsequent to the quarter end, the Company undertook a \$337 million capital raising to facilitate accelerated development of the Benga Coal Project.

### ATLAS IRON LIMITED

Atlas is an iron ore producer in the Pilbara region of Western Australia and is targeting exports at an annualised rate of 6 million tonnes by the end of 2010. Significant events for the quarter are as follows:

- Subsequent to quarter end Aurox Resources Limited (Aurox) advised that its shareholders approved the proposal for a merger between Aurox and Atlas;
- Mining started at Atlas' Wodgina Direct Shipping Ore (DSO) Project, located 110 kilometres south of Port Hedland in the Pilbara of Western Australia;
- Atlas completed a \$63.5 million capital raising to enable it to accumulate a significant ore stockpile in the lead-up to the start of exports from the Utah Point port facility at Port Hedland.

### FERROUS RESOURCES LIMITED

Ferrous is a large unlisted Brazilian iron ore company, which has a number of projects located within the world class Iron Quadrilateral region of Brazil. These projects have a current mineral resource of over 4.4 billion tonnes and an additional 1.8 billion to 2.6 billion tonnes in exploration potential,

reported in accordance with JORC (2004) guidelines. The Company continues to work to increase the confidence of its mineral resource inventory as well as to gain approval for infrastructure (including a pipeline for the transfer of processed iron ore to a dedicated port for onward shipment).

### LIHIR GOLD LIMITED

Lihir is an Australian listed gold producer ranked in the S&P/ASX 50, and has operations primarily in Papua New Guinea, Australia and the Ivory Coast. Significant events for the quarter are as follows:

- Lihir released the scheme booklet for the proposed merger of Lihir with Newcrest Mining Ltd;
- Company is projected to produce at about 1 million ounces this year;
- Cash margin is expected to be \$576/oz gold;
- The Directors have unanimously agreed to the Scheme with Newcrest (8.43 LGL shares per Newcrest share plus \$0.225/share cash).

### CONTINENTAL COAL LIMITED

Continental Coal is an ASX listed emerging South African focused coal company which has a 74% interest in over 370 million tonnes of combined coking and export grade thermal coal in South Africa. Significant events for the quarter are as follows:

- The Company achieved a major milestone with the commencement of coal production at the Vlakvarkfontein coal mine in South Africa;
- Subsequent to quarter end, the Company signed an off-take and funding agreement with EDF Trading following the completion of all necessary legal documentation and associated detail due diligence.

## About the LinQ Resources Fund

LinQ Capital Limited (ABN 66 098 197258) is the Responsible Entity of the LinQ Resources Fund (ARSN 108 168 190). The LinQ Resources Fund is a registered managed investment scheme, which successfully completed an initial public offer and listed on the Australian Stock Exchange on 20 January 2005 (ASX code LRF). The Fund has become a public trading Trust. Further information about the LinQ Resources Fund can be found on the website [www.linqresources.com](http://www.linqresources.com) or by contacting [info@linqresources.com](mailto:info@linqresources.com).

**Disclaimer:** Any financial product advice contained in this quarterly report is general advice only. Any such advice has been prepared without taking into account your objectives, financial situation or needs. Accordingly, before acting on this advice, you should consider whether the advice is appropriate having regard to your objectives, financial situation and needs. Full details of remuneration and other benefits received by LinQ Capital Limited AFSL 239785, its Directors, associates and any related body corporate are contained in the Product Disclosure Statement dated the 11 October 2004 and lodged with ASIC for the offer of units and options in the Fund. Past performance is not necessarily indicative of future performance. Interests in the LinQ Resources Fund may be purchased on the ASX through a licensed securities broker. Should you wish to receive soft copy of this and other communications please email us at [info@linqresources.com](mailto:info@linqresources.com) or call on 08 9488 8888.

