

9th October 2018

Dear fellow MRG shareholder and dear company director,

My name is Erling Sorensen. I am a private investor based in Melbourne. I was the co-founder of the business which became MRG and was the inaugural managing director of MRG. I am a Fellow of the Australian Institute of Company Directors and have been involved in a number of ASX listed and Euronext listed companies in the past 13 years. I now solely manage my own capital.

My family trust, The Sorensen Family Trust, is one of the five largest shareholders in MRG, out of its total of some 1500 shareholders.

I am writing this letter because I am seeking clarification on a number of matters that I believe are critically important at this time, and before the capital raise proposed by MRG proceeds. With this letter I am notifying the directors of MRG that I am not convinced that the proposed capital raise is in the best interest of all the shareholders. **I believe it is incumbent on the directors, before the capital raise proposed proceeds, to ensure shareholders are being provided comfort and evidence that all recapitalisation options have been explored and that detailed explanation and justification for the chosen option is provided in writing for all shareholders to read.**

I am pleased to note that MRG in its various communication to the market frequently states that its Board and Management are “committed to acting in the best interest of shareholders” and that “the company is exploring all strategic options to maximise the value to shareholders”. The directors of MRG appear to be well aware of their fiduciary duty that they must act honestly, in good faith and to the best of their ability in the interest of the company, which in practice means in the interest of the shareholders. I note, for the benefit of my fellow MRG shareholders who may not be aware, that under the Corporations Act 2001 there are four main duties for directors that have been specified:

- **Care and diligence** – requiring a director to act with the degree of care and diligence that a reasonable person might be expected to show in the role.
- **Good faith** – requiring a director to act in good faith in the best interest of the company and for proper purpose, including to avoid conflicts of interest, and to reveal and manage conflicts if they arise.
- **Not to improperly use position** – requiring a director to not improperly use their position to gain an advantage for themselves or someone else, or to the detriment to the company.
- **Not to improperly use information** - requiring a director to not improperly use the information they gain in the course of their director duties to gain an advantage for themselves or someone else, or to the detriment to the company.

I also believe the directors of MRG would be well aware of the general guide, to them fulfilling their duties as directors, issued by Professor Baxt in *Duties and Responsibilities of Directors and Officers 21e* (2016) and referenced by the Australian Institute of Company Directors

“During times of difficulty and conflict, the yardstick by which a director may safely judge their own action is this:

Taking account of all the circumstances, is what I propose to do “in my honest belief” in the best interest of all the shareholders (present and future) of the particular company of which I am a director?

If the answer to the question is 'yes', then the director need not fear an action for breach of duty under either the statute of the common law"

With the above in mind I feel certain **the directors of MRG will agree to organise that this letter is shared with all MRG shareholders the same day it has been received by the company**, and that the directors of MRG will appreciate that, as it is written by a shareholder, the letter is nothing but an attempt to ensure that the best interest of the shareholders are indeed preserved.

Should you, as an MRG shareholder, find that you, like me, are also not convinced the proposed capital raise is in the best interest of shareholders and that you too would like clarification on some of the matters raised in this letter, prior to the capital raise proposed by MRG in its various recent communication to the market proceeding, then I would encourage you to also advise the company thereof as soon as possible.

Through announcements made by MRG to the market I have been made aware that the company is proposing to undertake a capital raise of \$30 million. The company has also stated in its announcements that it "is in discussion with parties, including existing shareholders, regarding support for a potential equity raising" (12 June 2018), that it "continues discussions with NAB, its major shareholders and other potential equity investors, including underwriters for its proposed equity raising" (31 July 2018) and that it is "continuing to progress discussions with its bank and major shareholders regarding the capital requirements of the business" (31 August 2018). Despite being one of the five largest shareholders of MRG I have not been party to any of the discussions referenced by MRG. I know that at least three other top ten shareholders have also not been party to any such discussions. **Why we have not been contacted, who these discussions have been held with and what, if not in the top five, constitutes a major shareholder, I am unaware? I believe it is incumbent on the directors to advise its shareholders who such discussions have been held with, and how they have determined which shareholders to hold these discussions with?**

The Chairman's Review letter in the FY18 Financial Report states that "We have worked hard to ensure a committed alignment of the share register, board and executive". In light of my comments above in respect of not being contacted at any point till after about three months after MRG first announced it was discussing a potential equity raise with existing shareholders **I would like to understand what hard work it is that have been undertaken to ensure a committed alignment of the share register?** I will raise my queries in respect of the suggested alignment between the shareholders, the board and the executive later in this letter.

I was on September 2018 invited to attend a meeting with management and the broker appointed for the proposed raise, Shaw and Partners. This meeting took place 6th September 2018 and management provided a presentation of the company including the \$30 million raise which was presented as being "required" rather than as being "proposed".

During the meeting no structure in respect of the raise was provided, no pricing of the raise was provided, no timeline for the raise was provided and I was advised that no underwriting was in place. I did suggest to the broker and the company that there were certain institutional investors that I believed it may not be beneficial for the company to engage with should it decide to proceed with the raise. In my opinion these institutional investors, judging from their participation in many other capital raises in the Australian market, partake in such capital raises merely for the purpose of making a quick profit and tend to exit the shareholders register within a reasonably short time after a raise has been completed, often resulting in a declining share price of the company that has raised capital. I was glad to note that the company and the broker both agreed and stated that indeed that type of institutional investor would not be considered. **In light of recent media I believe a confirmation of the statement made by the company and its broker, and the company's intent in this respect, would be appropriate.**

Also attending the same meeting was another very long-standing top ten MRG shareholder. This shareholder has the ability to raise significant capital and he offered his interest to assist with underwriting should that be required. I do not believe he has been contacted since by neither the broker nor the company about this which I find peculiar in light of the article in the Australian Financial review 4th October 2018 and the response by MRG thereto. I believe it to be in the best interest of shareholders to ensure that all options in respect of any underwriting required have been explored in full. **I believe a confirmation by the directors to the shareholders that all options in respect of any underwriting required have been explored in full, to be appropriate. This should include an explanation as to why existing shareholders of MRG have not been approached as the first point of call.**

I note from announcements made by MRG to the market that the proposed raise of \$30 million is to “recapitalise the business and execute the turnaround strategy” (4 October 2018). The Chairman’s Review letter in the FY18 Financial Report further states that “having assessed various options for shareholders, we are moving ahead with a plan to restructure the balance sheet through a \$30 million equity raising. This equity raising will be used to support the needs for this growing business. We are also reporting proactively and frankly to our shareholders and the market, and attracting the capability needed to execute the plan, whilst establishing new systems of accountability and performance monitoring.”

I have not yet seen a detailed summary of the outcome of the strategic review the company undertook during FY18. There is a brief summary of the strategic objective of MRG on page 13 of the FY18 Financial Report. As a shareholder I believe it is highly relevant and important to be informed of the findings of a strategic review undertaken on the business and also of the details of a turnaround strategy resultant from such strategic review. Being informed that a significant capital raise is being undertaken, at what is a highly dilutive price (if the Australian Financial Review is remotely close to being right re pricing), to fund the execution of a turnaround strategy of which no details have been made available in my opinion goes against the directors’ duty of acting with the degree of care and diligence that a reasonable person might be expected to show in the role. **Prior to a capital raise proceeding, I would welcome a detailed presentation by MRG of the key findings of its strategic review, a detailed overview of its turnaround strategy including key objectives, key milestones and how the company intends to measure the ongoing progress and success of the turnaround strategy.**

In respect of the recapitalisation of the business, I believe it is incumbent on the directors to advise the shareholders what the various options are that have been considered by the directors for the shareholders? After my 6th September meeting with management I sent an email to management, the appointed broker and the Chairman on the 12th September 2018. In this email I outlined an alternative to recapitalise the company that would lead to MRG being able to pay down its entire term debt and its equipment leases, keeping only its working capital facility in place. The alternative outlined would result in the business holding more than \$10 million in cash and did not involve the need for any capital raise. The alternative I outlined did involve selling properties while maintaining control of the key produce from these properties. As a shareholder I would rather that a recapitalisation of the company was done along the lines I have just described, than done by means of a significant equity raise where I do not even know if it is intended debt will be materially reduced.

Despite having been advised by the Chairman that the alternative I had outlined appeared to be a good one that should be explored, and on two occasions having been informed that I would receive a response to my email I have yet to receive any such response.

Going back to the guide to directors by Professor Baxt, if the directors of MRG believe that what they propose is “in their honest belief” in the best interest of all shareholders then **all I am asking for is that the directors please provide their detailed justification and explanation for the chosen path that must sit behind such honest belief.**

I am curious to understand how under a continuous disclosure regime, coupled with this stated intent by the Chairman to “report proactively and frankly” to the shareholders how it is possible that the company has a no point made the market aware that it has received proposals to recapitalise the company by means of a convertible note with a strike price at a significant premium to the share price and also that it has received indicative and non-binding proposals to acquire the company. While I understand and believe that neither of these proposals have been in a format that could be accepted by the company, I do believe it to be in the best interest of shareholders had such matters been reported frankly and proactively.

The last point I wanted to raise in this letter was the matter of alignment between the shareholders, the board and the executive referred to in the Chairman’s Review letter in the FY18 Financial Report. I do not believe it is correct to say that committed alignment currently exists for the following reasons: the board and management does not currently own any or many shares in MRG and KPIs related to the key executives short term incentives are unknown just as the hurdles related to the key executives long term incentives are unknown. **I have asked for details of the KPIs and hurdles since April 2018 but am yet to receive any response from the company in this respect. I have asked and suggested to the management and the Chairman that if MRG does decide to proceed with a capital raise then it would be a strong sign of alignment if management and the board committed to and ensured that between them a meaningful amount of money was invested by participation in such raise. Importantly, I suggested, such participation should not be via options, shares granted or other such instruments. Participation should be by cash held by the respective directors and executives, that is extracted from their bank accounts and invested alongside the shareholders which the directors are asking participate in a capital raise because the directors believe it in their honest belief is in their best interest.**

With this letter I have sought clarification on a number of matters that I believe are critically important before a capital raise, as proposed by MRG, proceeds. I have notified the directors of MRG that I am not convinced that the proposed capital raise is in the best interest of all the shareholders and that I therefore believe it is incumbent on the directors to ensure shareholders are being provided evidence that all recapitalisation options have been explored and that detailed justification for the chosen option is provided.

The letter is an attempt to ensure that only the best interest of the shareholders of MRG are preserved and I believe it to be a fair request, that is in the interest of all shareholders, that a detailed response to the matters raised in this letter is provided within 24 hours of the company receiving this letter.

Should you, as an MRG shareholder, find that you, like me, are also not convinced the proposed capital raise is in the best interest of shareholders then I would encourage you to also advise the company thereof as soon as possible.

Kind regards

Erling Sorensen
On behalf of the Sorensen Family Trust