



Managing Member – Tim Eriksen

Eriksen Capital Management, LLC

December 13, 2010

Subject: Cedar Creek Partners November 2010 Unaudited Results

Dear Partner:

The fund rose 6.3% net of fees and expenses in November, which was better than all of the major indices (as shown below). Year to date the fund is up 19.5%, net of fees and expenses, which is also better than all the major indices. More importantly we have significantly outperformed the general market indices since our inception nearly five years ago.<sup>1</sup>

	Nov '10	YTD	Inception*	Ave Annual Return
<b>Cedar Creek</b>	<b>6.3%</b>	<b>19.5%</b>	<b>141.3%</b>	<b>19.82%</b>
DJIA	-0.6%	8.3%	14.7%	2.85%
Russell 2000	3.5%	17.5%	9.5%	1.89%
Nasdaq	-0.4%	10.1%	7.8%	1.56%
S&P 500	0.0%	7.8%	1.5%	0.30%

\* fund inception January 15, 2006. Index Returns as reported on Yahoo! Finance, Morningstar, Dow Jones and Russell.

Fund performance during November was led by China MediaExpress (CCME), which we exited with a nice profit, Trek Resources (TRKX), Diamond Hill (DHIL), Aberdeen International (AAB.TO), which is profiled below, and a position that we are not disclosing, which was up 34%.

In recent update letters we have tried to provide insight into our thought process by including a look at individual securities. Last month we looked at the fund's holdings in the asset management industry. This month, we are going to look at a couple of natural resource holdings.

### **A Couple of Cedar Creek's Natural Resource Plays**

Many fund managers have poured money into natural resource stocks based on their belief in higher inflation. While we would agree that higher inflation is very

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<sup>1</sup> While, no single index is directly comparable to Cedar Creek Partners, we believe that it is important to compare our performance to a passively managed approach. At the core of our investment philosophy is the belief that we can generate superior risk-adjusted returns by holding a more concentrated portfolio of undervalued securities, than an index holding a far greater number of securities. Index returns as reported on Yahoo! Finance, Dow Jones, and Russell (see the DISCLAIMER for more information).

likely, we still look for companies that can be prosperous in a non-inflationary environment as well. The two natural resource companies profiled below are not Cedar Creek's only positions in the sector. For example, in August we profiled our oil and gas holdings. This month we are profiling Aberdeen International and Pardee Resources.

**Aberdeen International (AAB.TO)** – Aberdeen trades on the Toronto Stock Exchange. It is a global investment and merchant banking company focused on small cap companies in the resource sector. It will seek to acquire significant equity participation in pre-IPO and/or early stage public resource companies with undeveloped or undervalued high-quality resources. Aberdeen's focus is on companies that: (i) are in need of managerial, technical and financial resources to realize their full potential; (ii) are undervalued in foreign capital markets; and/or (iii) operate in jurisdictions with moderate local political risk. Aberdeen's intention is to optimize the return on its investment over an 18 to 24 month investment time frame.

Aberdeen trades at a significant discount to its net asset value (NAV), which as of July 31 was comprised of publicly traded companies (35% of NAV), private and other investments (14%), loans (18%), and two gold royalty streams (33%). There is a legal dispute regarding a \$10 million loan, which is equal to about 10 cents per share. From what I have read, the company's case appears strong.

The current share price is approximately 64 cents. As of July, Aberdeen's NAV (including deferred taxes) was \$1.12 per share. In a recent press release the company announced that its investment portfolio rose in value by 30 cents per share in the October quarter. After adjusting for proforma taxes and fees, we estimate the October month end NAV to be \$1.25 to \$1.30 per share.

Since the value of Aberdeen's royalty and loan holdings don't fluctuate much, we can track Aberdeen's publicly traded investments in order to give us an approximate NAV on a daily basis. Since the end of October the portfolio has continued to rise significantly. We estimate that Aberdeen's investment portfolio is up another 25 cents per share since the end of October. After adjusting for proforma taxes and fees, we estimate current NAV to be near \$1.40 per share. Thus current buyers are paying less than 50 cents on the dollar for a basket of micro-cap resource companies and a gold royalty stream. We think that is an excellent investment proposition.

**Pardee Resources (PDER)** – Pardee Resources, listed on the pink sheets, is a diversified natural resources company that owns, acquires, manages and develops land and natural resource properties. The Company owns significant timber, coal and oil & gas properties located in the Appalachian region, including West Virginia, Kentucky, and Virginia, as well as other parts of the U.S. including Colorado and the Gulf Coast.

Pardee has 713,000 shares outstanding at a current price of \$250 per share, resulting in a market cap of nearly \$175 million. In the last twelve months the company has earned \$29.60 per share, although \$6.35 per share was due to a non-recurring lease option payment. What we like about the company is that it is a cheap way to gain exposure to coal, timber, natural gas, and undeveloped land.

Pardee has 350 million tons of coal on its properties, of which, 80 million is permitted. Approximately 20% of its reserves are metallurgical coal, which sells for a substantial premium to normal Appalachian coal. Instead of mining its own coal, the company collects royalties that vary with the market price. Currently they collect about \$3.50 per ton on average. We would note that the company collects around \$2 per ton for standard coal and \$6 to \$8 per ton on metallurgical coal.

In the past twelve months, approximately 10 million tons of coal were mined and Pardee realized gross profits of \$25 million. Based on 35 years of reserves, we would argue that the \$175 million market capitalization doesn't fully reflect the value of Pardee's coal royalties, let alone the value of the timber, natural gas, and undeveloped land. Even if one allocated all of the company's \$5 million in annual G&A costs to the coal operations, the market is valuing the coal at 9 times pre-tax profits.

In addition, much of Pardee's operations are based in West Virginia, which has begun to draw significant attention due to the presence of the Marcellus Shale, the second biggest US gas shale, which runs from West Virginia up through Pennsylvania and eastern Ohio and into New York (see map). Pardee owns roughly 200,000 acres of land, most of which is in West Virginia, thus there is the potential for significant future oil and natural gas royalties as well.



The recent economic downturn has hurt Pardee's timber operations. For a few years they were earning \$3 to \$4 million in gross annual profits from timber sales. Currently timber operations are at breakeven. Of course the good thing about timber is even if you don't harvest it, the trees continue to grow resulting in additional value.

The company has historically paid a dividend of approximately 30% of annual earnings. Currently the annual dividend is only \$4.40 per share. We think

the dividend is likely to be increased in the coming months. Pardee did pay an additional \$1.10 per share dividend in December. In addition, Pardee undertook tender offers for shares in both 2007 and 2008 at \$187 and \$220 per share, respectively.

In summary, Mr. Market is valuing Pardee Resources at around ten times earnings, which we think is too low for a company with high quality assets. On a per acre basis, it works out to only \$900 per acre, for land with substantial resources attached to it. While we still believe the stock is attractive at current prices, we would note that we entered our position in early summer at approximately \$186 per share (\$663 per acre).

### **Room for New Members and/or Additional Funds**

We have plenty of room for existing partners to increase their investment and for others to join. Please consider referring friends of yours who may be potential new investors. The basic requirements are 1) that each invests a minimum of \$50,000 and 2) that new members are accredited (high net worth) individuals. Subsequent investments can be for less than \$50,000.

Should you have any questions regarding the fund, please don't hesitate to call me at my home office (360) 393-3019, or on my cell at (360) 354-3331.

Sincerely,



Tim Eriksen  
Manager  
Cedar Creek Partners LLC  
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## DISCLAIMERS

### Fund Performance

*The financial performance figures for 2010 presented in this report are un-audited estimates based on the best information available at the time of the letter, and are subject to subsequent revision by the Fund's auditors. Past performance may not be indicative of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.*

*Net Return reflects the experience of an investor who came into the Fund on inception and did not add to or withdraw from the Fund through the end of the most recently reported period. The reported net return figures will therefore include the impact of high water marks in the cumulative return. Individual investor returns will vary depending upon the timing of their investment, the effects of additions and withdrawals from their capital account, and each individual's high water mark figure, if any.*

### Index Returns

*The S&P500 Index returns are reported using the S&P500 Depository Receipt Trust (SPDR) which trades under the ticker symbol SPY. Reinvested dividends are included in these figures. A spreadsheet showing the SPY performance versus the fund since inception is available upon request.*

*Nasdaq performance excludes dividends, which are generally immaterial to the total return of that index.*

*Russell 2000 performance is from data reported on Russell's website, and includes reinvested dividends.*

*DJIA is from Yahoo! Finance and Dow Jones and includes dividends.*

*Index returns are provided as a convenience to the reader only. The Fund's returns are likely to differ substantially from that of any index, and there can be no assurance that the Fund will achieve results that are superior to such indices.*