



ANGAS SECURITIES LIMITED ABN 50 091 942 728
AUSTRALIAN FINANCIAL SERVICES LICENCE NO. 232 479

DEBENTURE HOLDER RUN-OFF UPDATE

31 MARCH 2017

The Angas Securities first ranking debenture fund in Run-Off is invested in registered first mortgage loans and direct property. There is cash held during the Run-Off of not less than \$5M. Angas want to keep you informed about when assets will be realised and how much you will receive. This quarterly update covers the information provided to you each month as well as addressing broader issues as fully and frankly as possible. You will appreciate that sensitive market confidentiality must be maintained by Angas. Doing this will protect your returns.

1. THE LATEST PORTFOLIO INFORMATION

- 1.1. There was one loan repaid in full, another loan partially discharged and one new settlement during March. There is a small settlement postponed to April but it is subject to finance which has not been approved for the purchaser yet.
- 1.2. As reported last month, all five individual allotments comprising the Mayfair precinct of Fernhill Estate in NSW have executed sale contracts with deposits paid. Aggregate prices of over \$5.5M are nearly double the Trustee's valuation of \$2.8M. All contracts are still awaiting the final step by the NSW Land Title authorities.
- 1.3. An allotment from the Western precinct of Fernhill Estate has an executed sale contract for \$1.75M. The deposit has been paid to Angas. The sale is the subject of BA190 issued by the Office of Environment and Heritage ("OEH") last December. It can settle as soon as BA190 is registered on the title.
- 1.4. You will recall that \$17M of the loan secured over Fernhill Central at Mulgoa NSW became syndicated to new investors in 2013 with Angas retaining a minority interest in the loan. Angas Contributory Mortgage Fund ("ACMF") manages the syndicate. ACMF has entered into a Heads of Agreement to sell Fernhill Central. This is subject to a minimum 3 month due diligence period. Should the transaction settle, then excess funds from the sale proceeds will flow to debenture holders.
- 1.5. Angas has executed a conditional sale contract for a residential development property at Wellard in WA with the approval of the Loans Realisation Committee ("LRC"). The price of \$6.95M exceeds the Trustee's valuation of \$2.25M. Settlement is expected in May but is conditional on due diligence by the purchaser.

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- 1.6. A conditional contract was presented to Angas by a borrower for sale of a retail development site at Dayton, WA. The price was \$5.5M subject to mortgagee consent by Angas. Following consultation with the LRC, the borrower submitted a counter offer of \$5.8M and has now agreed to a sale price of \$5.65M. This is greater than the Trustee's valuation for Dayton of \$4.4M as at July 2016. The purchaser's conditions are that the borrower must, within sixty (60) days of contract, provide an amended DA and expressions of interest for fifty per cent of the commercial tenancies. The revised plan is permissible within current zoning.

In this Investor Update, there are two case studies which detail individual challenges Angas is facing to recoup your funds, an update on other avenues of recovery, a review of operating expenses and other costs of the Run-Off, as well as a review of certain rights and entitlements of The Trust Company Limited ("Trustco") which could be payable in priority to you. Finally, I have included an update on the status of the other mortgage funds managed by Angas. These businesses continue to meet operating costs for Angas as it pursues the Run-Off. The positive trends referred to in recent Investor Updates continue to flow through the property markets in which many of your invested funds have first mortgage loans. Last year, Angas found it very hard going to generate serious interest across the portfolio. I had postulated that the succession of an extended federal election in Australia, the Brexit vote in Europe and the Presidential election in the United States had cast a pall on the Australian property market. Then, as though right on cue, once these events had passed, respectable purchase offers began to flow to Angas last November and have kept flowing up to the present.

The Angas Commercial Property Trust is a good example of the positive trend. The three principal assets listed for sale following the commencement of the Run-Off in 2015 attracted three offers each. Some of the offers were conditional on due diligence. Other offers were subject to finance. Acacia Ridge sold on the third contract and settled in November 2016. I was quite happy with the price because the lease had expired and the property was sold with vacant possession. Winnellie sold on the third contract and eventually settled in January 2017 in line with valuation. I was less happy with the sale price as Angas had negotiated a lease extension for ten years. There is pressure on Angas to achieve asset sales in order to fund your redemptions so the deal was struck. Morningside had three bids at book value. Angas accepted each of these bids in 2016 but none proceeded to settlement. This is a high quality asset. Market interest remains solid. Morningside is offered for sale with a five year plus five year lease renewal which commenced last month.

2. LOAN REALISATION CASE STUDIES

Further case studies will illustrate some of the challenges Angas has faced during the Run-Off and how Angas has responded to the challenges to maximise investor returns. Borrower identification and property location remain confidential.

- 2.1. Angas advanced a loan secured over a residential subdivision set in a bustling hills township with ready commuter access to Perth situated thirty kilometres away. The loan to valuation ratio was 54.73%. The development comprised 19 lots in an over 55s community. The site overlooked natural bushland with a creek running through the middle. This has been transferred to the local Shire and been designated as a corridor for indigenous fauna, particularly bandicoots. The township is established with restaurants, cafes, shops, schools and recreation facilities. The nearest major retail centre at Midland is 15 minutes away by car or with reliable public transport. When approved, a Bushfire Rating for the site was determined to be 12.5 out of a maximum of 40. At the time that Angas settled on the loan, the borrower had pre-sales of 8 of the 19 lots. Each of these sales proceeded to settlement and houses constructed on each lot are now occupied. Repayment of the balance of the Angas loan was to come from sale by the borrower of the remaining 11 lots.

A downturn in the WA economy led to depressed interest in the subdivision in line with statewide trends in the general property market. The borrower achieved only one more sale. Angas took over and sold three lots in 2015 and two lots in 2016. Five lots remain to be sold. Market interest picked up with there now being ten new houses constructed on site together with the scarcity factor as the number of remaining blocks for sale diminishes. As market conditions improve, Angas expected the last five lots to be sold this year. However, the most recent sale did not proceed due to the Fire Danger Rating for the site having been revised from 12.5 to Flame Zone. The factors for the re-assessment were increased fire risk from the growth of tree canopies and undergrowth. The cost of building a Flame Zone compliant house are prohibitive.

Angas engaged an environmental consultant to review the site and submit a proposal which would mitigate the issues identified. Angas has failed to persuade the Shire to Permit the thinning of vegetation to reduce bushfire risk. Angas will trim back the tree canopy to the boundary of the fauna corridor (no bandicoots live in the reserve but use the creek banks as a transit corridor). This should be sufficient to at least warrant a rating of 40 but the Shire is yet to be convinced. Angas has proposed trimming the tree apron and clearing the undergrowth in the actual fauna corridor itself but the Shire has refused its consent. The Shire contends that residents living in the subdivision have “developed an affinity” for the fauna corridor despite it being in place for environment reasons not aesthetic reasons. Of course, a bushfire is the worst outcome for both environmental and aesthetic reasons, not to mention the possible loss of life and destruction of property.

Angas is now canvassing all residents to ascertain if the “affinity” they seem to have developed for the fauna corridor is greater than their desire to have prudent works carried out to protect their houses and their safety. Meanwhile, the five remaining blocks are unsaleable with a Flame Zone rating in place. You may be surprised that a conventional subdivision surrounded by housing and located near the centre of a bustling township can be undermined and rendered virtually worthless three quarters of the way through a realisation process. This is an extreme but sadly not uncommon case study of the issues that Angas and its borrowers have to deal with. Purchasers want the property to build houses like those already on site but they are blocked. Meanwhile the Shire continues to levy rates upon Angas for the vacant blocks.

- 2.2. On the other side of the country in Queensland, Angas has the balance of another subdivision to realise. The EcoVillage was conceived and developed as Australia’s first sustainable urban living community with resort style amenities. It has received numerous awards for its achievements. Situated in the unspoilt hinterland adjacent to the Gold Coast, the estate contains a total of 141 residential allotments plus 6 home studio lots, commercial lots and common areas. Development of the first two stages of the EcoVillage were funded by a major bank. Stage One and Stage Two sold out. Angas then became involved with funding Stage Three comprising 38 lots and took out the bank’s security over the six home studio lots and the commercial lots (all of which were located within the Village Centre).

The borrower’s tragic and untimely death in 2012 ultimately saw the failure of his development company and Angas was forced to step in. Ongoing residential allotment sales have been realised with Angas personnel engaging with the committee of residents comprising the Principal Body Corporate. All of the remaining 26 residential blocks have been sold along with most of the commercial sites. There is also a permissible Development Application under way to add 14 additional residential sites. In mid 2015, a “jointly instructed” valuation was provided to Angas and the Trustee assessing the value of the land still unsold to be \$510,000.00. There are several parties interested in acquiring the remaining land for \$1.0M plus GST, subject to approval of the permissible change request by Gold Coast City Council.

3. OTHER AVENUES OF RECOVERY

3.1. Wayville Apartments – Claim Upon Savills

Angas suffered significant losses as a consequence of advancing loan funds for the completion of a 41 unit apartment development at Rose Terrace, Wayville, SA in reliance upon a series of valuation reports provided to Angas by Savills (SA) Pty Ltd (“Savills”). Angas asserts that, but for the negligence of Savills in determining the on-completion value of the apartments, then Angas would not have financed the project.

Angas has commenced legal proceedings against Savills in the Federal Court alleging that Savills, in breach of its retainer and duty owed to Angas, acted in a misleading and deceptive manner resulting in loss and damage; namely the difference between the principal advanced by Angas together with enforcement costs and the values ascribed by Savills. An expert witness report was released on 28 March 2017 following review of the Savills report, its working file and its modelling and projections. The expert witness supports the claim brought by Angas. Savills is contesting the action.

3.2. Claims Against Guarantors

It is a requirement of Angas lending across all of its funds that personal guarantees are taken in support of each loan. The primary purpose is to ensure that individuals do their utmost to repay mortgage loans rather than simply walking away from deals that did not perform. Enforcement of guarantees involves the expenditure of resources. But if a guarantor is declared bankrupt by other creditors then that is the end of the matter. Even if a guarantor is not legally bankrupt, the money spent enforcing a guarantee can exceed the amount recovered.

Sometimes Angas is able to obtain a collateral mortgage from a guarantor but generally not a first mortgage. Legal proceedings to evict a guarantor from a residential property will almost always be defended. Accordingly, Angas is selective in expending precious financial resources to enforce personal guarantees. Despite all of these obstacles, Angas has sought to recover funds for you from the guarantors of six non-performing loans during the course of the Run-Off as follows:-

- 3.2.1. A loan of \$1,413,750.00 was advanced in 2011 over two adjoining investment properties situated on the Gold Coast, which the borrower proposed to upgrade and sell. A second mortgage was taken over the guarantor’s residence at Doncaster in suburban Melbourne. The Gold Coast market performed poorly and the Melbourne market performed well. The borrower and the guarantors were given time to achieve the best sales outcomes subject to making monthly principal repayments. On 29 July 2016 Angas received \$535,433.88 from the sale of the guarantor’s residence leaving a very small residual amount that was written off.
- 3.2.2. A longstanding WA borrower has two commercial loans with Angas in separate commercial trusts. One is a Perth inner city development site (the borrower’s core business) and the other being a partially incomplete tourist

facility on a major route south of Perth. In the case of the first loan, Angas negotiated with the guarantor to provide additional security last year. Collateral of \$250,000.00 was taken over a development at Secret Harbour WA, which was sold, and the funds remitted. The other was an interest in a medical centre in suburban Perth developed by a consortium, which included the guarantor. The collateral pledged to Angas is capped at \$1.1M. The medical centre is substantially complete and will be taken to the market for sale by the guarantor in the next few months.

The other loan has progressively reduced during the course of the Run-Off. The borrower wants to re-finance the Angas loan, complete the tourist facility and retain the asset to generate income. The loan advance of \$2.1M was made in November 2013. A significant principal reduction was made in February 2016 on the basis that forbearance was granted to clear the remainder. The balance was \$1.46M when a further reduction of \$400,000.00 was paid to Angas in November 2016. As the loan had still not been cleared, additional collateral was provided to Angas together with a personal guarantee of \$250,000.00 from the existing guarantor's wife. Angas has been told that the balance of the debt will be re-financed next month. Angas will receive about \$1.1M to fully discharge the loan.

- 3.2.3. Angas advanced a loan supported by first mortgage taken respectively over commercial land and a residential house. A sole director company owned the commercial land and the director's wife owned the house. The director lived in the house with his wife and family. The loan fell into arrears and was called up by Angas which demanded possession of the house so that it could be sold to recover loan funds advanced. The wife refused so Angas issued a Summons for Possession in the Supreme Court of South Australia on 18 May 2016. The proceedings were defended by the wife. She claimed that she was an unsophisticated person who had been misled into providing a guarantee. A negotiated settlement was concluded on 6 March 2017. The guarantor has provided a consent judgement for possession that Angas will hold in escrow until 11 May 2017 to enable the wife to pay \$1.3M to Angas. Should she fail to do so, Angas will lodge the judgement (and enforce it if the house is not vacated thereafter) and proceed to sell the house on the open market.
- 3.2.4. Angas took personal guarantees from the three directors of the company which developed the EcoVillage referred to at item 2.2 above. The promoter of the project was killed in a tragic accident. The guarantees of the other two directors were called up. One case was settled on confidential terms quite quickly. This guarantor borrowed money to pay a cash settlement to Angas. The other claim required the issue of legal proceedings in the Supreme Court of Queensland. It settled at mediation last year. This guarantor paid a cash sum to Angas upfront with the balance to be paid by monthly instalments. This guarantor has been meticulous in honouring his arrangement with Angas.

- 3.2.5. The loan referred to in item 2.1 above was guaranteed by the two directors of the borrower. One director declared herself bankrupt owing \$1,352,946.00. Angas received a dividend from her Bankrupt Estate of \$32,912.49 on 25 May 2016. Angas brought legal proceedings in the Supreme Court of Western Australia after failed attempts to negotiate a settlement. This director is defending the proceedings alleging that she is not familiar with guarantees and that she relied on statements made by the other director who is her sister-in-law. Preparation for trial is nearly complete. There will be a Status Conference held in the Supreme Court on 11 April 2017 at which Angas will request a trial listing.
- 3.2.6. There is one other outstanding guarantor claim which Angas is pursuing in the Supreme Court of Western Australia. The borrowing company has been seeking to refinance the principal loan. The guarantor and his solicitor flew from Perth to meet with me and with the Angas Head of Lending last year to try to resolve the guarantor claim. There was initial progress but the guarantor failed to comply with requests for details of his realisable assets. He then offered personal guarantees from his joint venture colleagues who will develop the site once the promised refinance settles. Instruments of guarantee were prepared but these have not been executed. Refinance of the loan has still not occurred and the proceedings are back in Court on 4 April 2017.

3.3. **Fernhill Precinct Bio-Credits**

Bio Credits are issued in accordance with the NSW Biodiversity Banking and Offset Scheme administered by the Office of Environment and Heritage ("OEH"). Landowners commit to protecting and enhancing biodiversity pursuant to a formal BioBanking Agreement. The landowner can sell the Bio Credits to third parties (developers or government agencies who require these biodiversity offsets in order to undertake developments elsewhere). Angas has sold Bio Credits for \$13,085,215.00 plus GST since the commencement of the Run-Off. Based on recent comparable sales, Bio Credits worth approx \$11,663,000.00 (net) are still available for sale by Angas. No executed Bio Credit contracts are held by Angas at present. There are three parties who have identified a need to acquire Bio Credits. Angas holds Bio Credits that can meet their requirements.

- 3.3.1. A major private company which acquired \$7,780,000.00 worth of Bio Credits from Angas in 2015 at market price has completed the projects for which they were required. It is now moving on to new projects for which it will need to acquire new Bio Credits
- 3.3.2. An ASX Top 50 listed company is in discussions with Angas to purchase \$2,750,000.00 of Bio Credits prior to 30 June 2017 at market price set by the OEH parameters.
- 3.3.3. The NSW Department of Roads and Maritime Services requires eight (8) categories of Bio Credits for road widening projects. The department prefers

to use its own criteria to assess prices that it is willing to pay for Bio Credits. The department has posted a requirement for 2,721 Bio Credits of which Angas can provide 560 with a current market value of \$4,354,000.00. The department has sent its assessment team to Fernhill to formulate a proposal. The preferred course of Angas is to deal with purchasers who pay market price as set under the OEH parameters. Angas will await the outcome of the department's assessment and will then consider any offer.

4. OPERATING EXPENSES, REALISATION COSTS, LEGAL AND RECOVERY COSTS

The core costs of running Angas Securities have been pared back significantly and are broadly in line with projections. The chart below sets out actual v budget for the eight month trading period from 1 July 2016 to 28 February 2017.

Operating Costs	Actual (\$)	Budget (\$)	Variance (\$)
Salaries	1,626,638	1,618,018	8,621
Premises	339,120	387,514	-48,394
Investment Property Costs	513	4,125	-3,612
Office & Admin	527,960	429,825	98,135
Business Development	126,919	240,000	-113,081
Insurance	109,007	118,408	-9,401
Total	2,730,158	2,797,889	-67,732

Legal and compliance costs have exceeded projections, although the outlays in aggregate are much less than in the previous four years when Trustco was utilising the services of major law firms and insolvency accountants in Sydney and Melbourne for bringing legal proceedings against Angas and undertaking reports, analyses and requesting valuations. Some of the over run relates to legal work billed last July and August which related to earlier periods. There was some legal skirmishing with Trustco over the Hindmarsh & Winnellie assets which were eventually settled. There have been additional legal fees incurred in relation to some of the legal proceedings set out in Section 3 of this Investor Update. Also, the claim against Vero did not settle at mediation last November and the legal proceedings are being pursued by Angas to recover funds for the Run-Off.

The other area of expenditure which has exceeded projections are costs incurred in marketing properties for sale, holding costs including rates and taxes and consulting fees. Many of these relate to timing. Fernhill Estate is a case in point. Most of the Estate, apart from the Western Precinct, is exempt from Land Tax. However, there were substantial arrears that Angas had to pay to NSW Office of State Revenue in order to obtain clearance to make title lodgements for settlement. Instead of the Land Tax being paid at settlement, it has been paid up front. This is a timing issue, not an additional cost to the Run-Off. Angas has had to use external consultants to steward the assets to be realised. These consultants are not lawyers and accountants working from offices in Sydney and Melbourne, but on the ground planning, designers and bushfire risk assessors such as those dealing with the issues set out in Section 3 of this Investor Update.

5. TRUST DEED PROVISIONS FOR TRUSTCO'S ADDITIONAL REMUNERATION

You should be aware of a significant legal development concerning the ability of Trustco to be paid from realised debenture funds in priority to you and the other debenture holders. At the meeting of debenture holders held last year, I drew attention to a trustee remuneration provision in the Debenture Trust Deed between Angas and Trustco. Should there be an enforcement event, meaning that if Trustco put Angas into receivership, then Trustco had an entitlement to additional remuneration on a fixed basis of 5.5% on debentures on issue as calculated under the NSW Trustee Act. I referred at the meeting to Banksia Securities Limited ("Banksia") which is a Victorian debenture issuer that Trustco had put into receivership. I said that Trustco had submitted a claim to the Receivers for \$4M as additional remuneration. In fact, Trustco's precise claim was \$3,839,167.00 plus GST for the period from 25 October 2012 to 28 April 2014.

The clause in the Banksia Trust Deed is broadly equivalent to clause 18.02, in the Angas Trust Deed. Trustco's right to additional remuneration arises only when triggered by an enforcement event (which had happened with Banksia Securities). Who is to be paid first – Trustee or Banksia debenture holders? Trustco litigated its claim in the Supreme Court of Victoria and lost. Justice Croft held that clause 18.02 was fully enforceable and Trustco was entitled to be paid its 5.5% additional remuneration – but only after the debenture holders were paid all of their principal and interest in full.

In discussing the proceedings at last year's meeting of debenture holders, I then referred to Gippsland Securities Limited ("Gippsland"). This is another Victorian debenture issuer that Trustco had put into receivership about a year after the Banksia receivership. I said that Trustco sent a letter to the Receivers on 3 September 2013, being the same day as their appointment, claiming the 5.5% additional remuneration. A subsequent letter dated 16 January 2014 claimed \$426,048.00 for additional remuneration. I understand that this sum was then paid to Trustco in priority to Gippsland debenture holders. Mr Chris Green, who represented Trustco at both meetings of Angas debenture holders and who is Trustco's representative on the LRC responded:-

Mr Green: As I have said today and have said on a couple of occasions previously, we don't anticipate getting anymore fees from this point forward than what we have been getting to this point. The 5.5% Andrew has raised, I have never heard of! We would never take 5.5% of the quantum of money available to debenture holders. I will say it again: around \$100k pa, as we have done, until this thing is done. There is a little mischief there pulling out a 5.5 number that we have no intention of going near.

Mr Luckhurst-Smith: Since we are posting something on the website, if you want to see the letter from (Trustco) to Gippsland Securities dated 3 September 2013, that will be posted on the Angas website within the next 24 hours.

As I informed Angas debenture holders present at the meeting, Trustco did not accept the ruling in Banksia and brought an appeal. This was determined in Trustco's favour by the Full Court of the Supreme Court of Victoria in a judgment delivered on 16 December 2016. Accordingly, the present situation for you is as follows:-

- 5.1. No “enforcement event” has arisen under the Angas Trust Deed because the debenture fund is in Run-Off and debenture holders have twice voted by Extraordinary Resolution that realisation of their investments be left with the Angas board and management in conjunction with the LRC.
- 5.2. Should an “enforcement event” arise under the Trust Deed then Trustco would be entitled to be paid 5.5% of the debentures then on issue. Such a payment would take priority over debenture holders based on the legal ruling in Banksia.
- 5.3. Mr Green, on behalf of Trustco, informed the debenture holders’ meeting held last year that Trustco did not intend to seek additional remuneration under clause 18.02 if the vote of debenture holders had supported the position contended for by Trustco at that meeting.

Meanwhile, the Federal Court has appointed the liquidators of Banksia to be “Special Purpose Receivers & Managers” of Banksia for pursuing a claim for damages in the Supreme Court of Victoria on behalf of Banksia debenture holders against Trustco and the McGrath Nicol partners (appointed as Receivers & Managers) of Banksia under the Trust Deed. As I understand it, any additional remuneration paid to Trustco pursuant to clause 18.02 will form part of the loss and damage incurred by Banksia debenture holders. The proceedings are being vigorously defended by Trustco and by McGrath Nicol. The matter is next before Justice Croft for directions on 9 June 2017.

6. RESTRUCTURE OF THE MANAGED INVESTMENT SCHEMES

Restructure of the two Managed Investment Schemes, being Angas Contributory Mortgage Fund (“ACMF”) and Angas Prime Income Fund (“APIF”) is progressing. Angas established a subsidiary company, Angas Mortgage Management Limited (“AMM”), with the intention that AMM becomes the Responsible Entity of both ACMF and APIF. AMM has applied to the regulator, ASIC, for an Australian Financial Services Licence (“AFSL”) to facilitate the restructure. The AFSL application focuses on the strengths of the existing Angas team and infrastructure which will be utilised by AMM as the new Responsible Entity once approved by ASIC. Investors and Borrowers will be able to continue to rely upon Angas staff, including Investor Relations Managers, Lending Department and Finance Department, resulting in minimal impact to ACMF and APIF Investors. Both Funds will continue to operate as ‘business as usual’ with Angas Securities as the Investment Manager.

As Responsible Entity, AMM will be required to meet obligations under the *Corporations Act* including issuing Product Disclosure Statements and having in place a Compliance Committee which will meet quarterly. The current independent members of the ACMF and APIF Compliance Committees have expressed their desire to continue to act in such a capacity with AMM as Responsible Entity. AMM has already successfully obtained membership with the External Dispute Resolution scheme provider, Credit & Investments Ombudsman. The Company maintains regular constructive dialogue with Trustco in order to achieve a satisfactory outcome but certain essential requirements of the Restructure remain unresolved with Trustco.

Yours faithfully

Angas Securities Limited



Andrew Luckhurst-Smith
Executive Chairman