



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

Debenture Holder Quarterly Run-Off Update

OCTOBER 2018

Whilst I hope you are glad that Angas Securities management has been able to realise assets broadly in line with book value, I can fully understand your frustration at the slow progress of the Run-Off of the first ranking debenture fund. In this Update, I will address the successes achieved and some of the obstacles encountered by Angas Securities management. The Run-Off commenced in 2015 following three years of an inconclusive review of operations and associated litigation by The Trust Company Limited ("Trustco"). Drained of capital, Angas Securities agreed to accept Trustco's original Run-Off terms subject to investor approval. Since then, the mortgage trusts, Angas Prime and Angas Direct, have continued to operate but the debenture fund ceased to trade as a going concern. Once in Run-Off, all debenture loans were called which put Angas Securities at odds with its borrowers. Those who could repay their facilities did so. The remaining loans have been subject to sustained recovery action. In many instances, this has required Angas Securities to step into the shoes of the borrowers to finish partially completed projects or to enhance secured assets. Regular Updates to you have provided multiple examples of loans discharged following such enhancement and there is more progress reported in this edition. Please be assured that the board and management of Angas Securities remain dedicated to achieving the best possible return for investors as efficiently and cost effectively as possible. The best possible return cannot be achieved without your ongoing support. I acknowledge that your patience is being tested.

I try to be as candid as possible in providing useful information to investors without disclosing sensitive information that could harm your interests. Whilst not every property in the portfolio has been valued by valuers retained by Trustco, of those properties sold to date which have been valued, Angas Securities has achieved a price greater than Trustco's valuation. Post settlement, I report to you as to the sale price achieved and Trustco's valuation. It would work against your interests for me to disclose Trustco's valuation to you any earlier. There are properties valued by Trustco which still remain to be sold. The Loans Realisation Committee ("LRC") has this valuation information. If a potential purchaser accessed these Quarterly Updates and learnt of Trustco's valuation ahead of sale, it would impede the ability of Angas Securities to achieve a materially higher price than the Trustco valuation. Providing timely and transparent reporting means that some sensitive commercial information shared with LRC must remain confidential. I am staggered that there are parties with interests which are antipathetic to yours who access these Updates and make brazen use of the restricted and confidential material in an open forum despite the clearly worded restrictions on use.

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A particularly serious example has come to my attention. Using information set out in a Quarterly Update, a Sydney company sent an employee to Western Australia to meet with real estate agents to inspect properties listed by Angas Securities. It emerged that the purpose was to extract as much information as possible only to reveal that its interest was limited solely to achieving a fire sale price. That exercise didn't matter much. He did the same thing when he stopped off in South Australia on his return to Sydney. However, following a meeting with an agent, this party later returned to the property without notice to the agent. The tenants of the property have reported that this individual had approached each of them seeking financial information in respect of their outgoings and rental. He then misrepresented that a purchase of the property was imminent on the premise that the owner (being Angas Securities) was in financial distress. The tenants found this episode to be very upsetting. The tenants enjoy a good relationship with Angas Securities and its agent. They refused to provide any of their sensitive financial information. As I have previously stated, the audience of each Update is for Angas Securities investors. It is not authorised to be read or to be used by any other person.

As the Run-Off continues, asset sale contracts continue to be negotiated by Angas Securities following consultation with LRC. The usual requirements of LRC for considering a sale proposal are:-

- › Most recent valuation of the property
- › Current debt secured against the property
- › Detailed review of the sales campaign with provision of recent reports from the agent
- › Copy of the offer received
- › If below book value, an explanation as to why the offer should be accepted
- › Statement from directors that it is their opinion that the offer is the best reasonably available

Unconditional contracts for the sale of commercial property are very rare in any market and due diligence is almost always required. Some sales contracts proceed smoothly and settle on time as has occurred on a few occasions this year. Some sales contracts settle after preconditions are met as happened when the New South Wales Government bought Fernhill Central midyear. Other transactions don't proceed, usually because the purchaser cannot fund the purchase or else because local government or statutory authorities do not provide required consents. The latter has been the case with several deals reported to you over the course of the Run-Off. The response of Angas Securities has been to persist until full value is obtained. Angas Securities does not give up and accept a fire sale price. Without a borrower to handle these setbacks, Angas Securities addresses the obstacle whether by seeking to rezone, negotiating a new bushfire management plan, remediating statutory breaches caused by borrowers, liaising with adjoining owners, seeking to amend strata bylaws, subdividing titles, pursuing insurance claims or liaising with agents to address buyer requirements. Not every problem has a solution. But Angas Securities knows its debenture mortgage loan portfolio very well. Most attempts to extract a superior return have been successful. There are outsiders who oppose such steps. This has generally seen processes delayed but not stopped. And there have been instances of third party encumbrance holders withholding consent when it has been required. There are settlements being held up now because of this situation. Generally, Angas Securities has been able to resolve these matters but can be delayed from distributing funds to you and other investors in the meantime.

SOME PORTFOLIO INFORMATION

Fernhill Eastern Precinct, Western Precinct and some associated bio credits remain for sale. These assets are projected to produce significant returns to debenture investors over the balance of the Run-Off. Angas Securities is in negotiation to sell Eastern Precinct and steps are being taken to split Western Precinct into two land parcels. Meanwhile, the NSW Office of Environment and Heritage ("OEH") has recently provided Angas Securities with two new Bio Banking Agreements BA 411 and BA 412 for execution over Western Precinct. It could take several weeks for these agreements to be registered.

The Fernhill loan assets have already been a major contributor to funds distributed during the Run-Off. The 2013 Prospectus projected bio credit sales of \$28.868M. In fact, excluding BA 411 and BA 412 bio credits worth \$29.14M have been created in line with that projection. Of bio credits already created over \$22.0M has been realized to date. BA 411 and BA 412 are imminent. The latest estimate from the bio banking consultants is that BA 411 and BA 412 should generate an additional \$13.63M. This assumes no change in bio credit pricing but there is uplift in specie credits in BA 411 and BA 412. These specie credits are new inventory for Angas Securities which had not traded on market and had a low estimate in the previous LRC projection. The latest figure reprices the specie credits conservatively in line with market.

A theme of this Update is the timeliness of asset realizations. The New South Wales Biodiversity Reform Act (2016) took effect late last year which provides a new offsetting regime. Terminology changes include bio credits becoming Biodiversity Stewardship Agreements. A new calculator is used which generates different outcomes. There are transitional arrangements in place which have impacted on Angas Securities. First, there was a heavy volume of bio credit transactions settled last year with buyers scooping up available existing bio credits. Customers were familiar with the old regime. This created an overhang in demand which is working its way through the market. Secondly, applications were lodged prior to the transitional commencement date for BA 411 and BA 412. These additional bio credits will be issued under the old regime with which the market is familiar. Thirdly, BA 411 and BA 412 predominantly comprise the Cumberland Plains forestry categories which developers in and around the new Badgery's Creek Airport site will be required to offset. Consequently, there is a likely pickup in sales expected after a lull over the last twelve months. Nevertheless, Angas Securities is not confident that the full bio credit inventory of \$19.84M will be sold and settled before 30 June 2019.

Western Precinct, which comprises 110 hectares of virgin bushland near the Nepean River, is to be subdivided. Environmental consultants advised Angas Securities that two building sites could be created near each entrance at opposite ends of Western Precinct without any reduction in bio banking. Angas Securities concluded that splitting Western Precinct into two parcels of equal size would maintain the value of the bio credits whilst creating two very valuable rural living blocks which have been listed for sale. Angas Securities can now proceed with the two lot subdivision of Western Precinct following granting of the DA in proceedings brought by Angas Securities against Penrith City Council which I have reported on in previous Updates. One pre-condition is that BA 411 and BA 412 are first registered by OEH. Another is that certain civil works are to be undertaken. A full survey is required. In the course of this survey, the opportunity will be taken for the nominated building lot to be pegged on each site. This pegging is not a legal requirement but has been requested by the sales agent to assist with visual presentation for prospective purchasers.

Angas Securities is mortgagee in possession of a 15.256 hectare residential development site at Wellard WA which has a notional lot yield of 210 residential titles, subject to an "Urban Deferred" restriction being lifted. This is due to a dual zoning of approximately 40% (6.10 ha) being "Development" and approximately 60% being "Urban Deferred" (9.15 ha). Angas Securities obtained legal and town planning advice about lifting the 1,000 metre odour buffer for the Wellard Rural Exports livestock holding facility at Baldvis. Extensive onsite work over a range of months was undertaken for Angas Securities comprising Field Based Ambient Odour Intensity Assessments downwind of the livestock facility. A report was prepared for Angas Securities which ranked the observed odours based on Standard VDI 3882. This extrinsic evidence has enabled Angas Securities to lodge an application with Western Australian Planning Commission ("WAPC") to amend the zoning. As Stockland Group has bought the Baldvis property to develop for housing, the livestock usage will cease at some future time. WAPC requested a Bushfire Management Plan which Angas Securities has now provided. If the WAPC application is successful, then the sale price will likely exceed that projected in the latest report for LRC. There is uncertainty about if and when the WAPC will lift the odour buffer. Angas Securities cannot be sure of achieving a sale and

settlement of this Wellard property prior to 30 June 2019 without severely compromising the enhanced sale price.

A sale contract with an agreed price of \$6.0M for a property in Dayton, WA has been executed. The purchaser's conditions have been met and the sale has been due to settle for some time. The site was developed by the borrower with DA approval for a supermarket. The purchaser has secured one of Perth's major IGA chains to operate a supermarket to be constructed on the site. The purchaser has so far refused to settle because of a caveat lodged by the City of Swan protecting a right to acquire portion of the property for road widening. This was a matter which the purchaser should have picked up in due diligence. After two months, the purchaser and the City of Swan report that terms have been reached. This breakthrough should permit this sale to settle. Elsewhere in the Perth property market, Angas Securities has executed a conditional contract for sale of a high rise beachfront development site at Safety Bay WA. The purchaser has since withdrawn. This is the second contract to fall through on this property, each time for the same reason, namely that during due diligence, neither prospective purchaser has been able to obtain development approval from the City of Rockingham.

Garden Estate Christies comprises 50 residential units together with a manager's residence. Angas Securities funded the purchase as an en globo property following which the borrower created fifty one individual strata titles which significantly enhanced the value of the secured holding. Angas Securities has sold many units but has had difficulties in closing sales which are not cash sales. By-Laws prevent cooking in the units. On site management can provide meals in a dining room forming part of the manager's residence. Banks have generally declined to fund unit purchases of this kind. Angas Securities proposed at the recent AGM of the Strata Corporation to remove the restriction on cooking. Apart from making the remaining units easier to sell, the proposed amendment to the By-Laws should have seen higher sale prices and enhanced returns for Debenture Holders. The amendment was supported by most owners but failed to pass with an extraordinary majority. The units are back on the market and sale contracts are being achieved but none has yet proceeded to settlement.

THE CURRENT STATUS OF LEGAL RECOVERY PROCEEDINGS

Two legal claims remain on foot. One is a major claim on an insurance policy brought against Vero Insurance. The other is a smaller claim brought against the manager of the two Garden Estate properties, SCV Manager. I have addressed each action in considerable detail in earlier Updates this year. The progress and the present attitude of Angas Securities to each claim are remarkably similar. Both claims have met with a blanket denial. In the case of Vero, it even refused to admit or refuse indemnity until legal proceedings were instituted. Thereafter, each claim has proceeded through multiple amendments of the statement of claim and defence with more work being done by Angas Securities and its representatives to support the matters relied on and more evidence being adduced and presented to advance the case relied on. As each case is being defended, it is not appropriate to state anything more about the merits whilst they remain before the Courts. I can tell you the status of each case.

The insurance claim brought by Angas Securities in the name of the borrower against Vero has been delayed again. The expert evidence was filed by both parties in accordance with the timetable. There were amendments to the pleadings but the plaintiff needed an extension of time to file its Reply to Vero's Amended Defence. The plaintiff's lay evidence was filed late. No lay evidence has yet been filed by Vero, which had the trial venue shifted to Brisbane because it claimed that most of the witnesses were located there. Vero has now obtained leave to file another expert report. Vero foreshadowed a summary judgment or strike out application which it was required to issue by 15 October 2018 to be heard on 23 October 2018. Following service of the plaintiff's evidence, no such application has been issued by Vero. Angas Securities remains resolved to see this insurance claim resolved satisfactorily and I consider that the proceedings are at last on track to be finalised.

I make a similar observation about the proceedings brought against SCV Manager. Earlier this year, Angas Securities presented the defendant with a formulated claim along with two lever arch folders of documents. After carefully considering the material at a pre trial hearing on 8 May 2018, Master Rice upheld the defendant's complaint that there was insufficient identification of each component of the Angas Securities claim nor adequate correlation with the supporting documents. More work has now been done by Angas Securities in the presentation of its claim. The Court has approved the form of the Further Amended Statement of Claim which was served last month. SCV Manager must file its Amended Defence by 9 November 2018 and there is to be a Directions Hearing on 3 December 2018 when Angas Securities will press to have the claim listed for trial.

Otherwise, most of the legal actions brought by Angas Securities against guarantors during the Run Off have been resolved satisfactorily. Only one remains on foot which is a Creditors Petition listed for hearing in Perth on 12 November 2018 which I shall attend. Every other guarantor claim to date has led to a monetary recovery distributed to you by Angas Securities. Two claims settled by mediated settlements have involved large upfront payments followed by installments. Each guarantor is on track with regular payments being made to Angas Securities.

ANGAS SECURITIES CONDUCTS THE RUN-OFF AS COST EFFECTIVELY AS POSSIBLE

You will be aware from previous updates that substantial external consultancy fees were incurred by Angas Securities or imposed by Trustco in the lead up to the Run-Off. Since then, Angas Securities has utilised in house staff wherever possible to minimise such expenses. Staff costs have been reduced by about 50% and staff roles have adapted to the new requirements of the Run-Off process. Occupancy costs have been reduced substantially and management continues to minimise all administration expenses. I set out below some relevant examples of work that Angas Securities staff undertake in the Run-Off process and in the day to day operations of the Company.

The Chief Financial Officer "(CFO)" has the primary responsibility for the management of the financial activities of the Angas Securities group businesses, including the two Managed Investment Schemes, Angas Direct and Angas Prime. Angas Securities has significant reporting and financial compliance obligations in accordance with the Run-Off as well as its Australian Financial Services Licence (No. 232479), the Corporations Act, the Australian Taxation Office and other Regulatory bodies. The CFO oversees the preparation, as required, of these finance related reports in-house. Further, the CFO prepares the Annual and Half-yearly Financial Statements for Angas Securities, Angas Direct and Angas Prime and co-ordinates the 6-monthly audit or review process with external Auditors. Importantly for investors, the CFO oversees the calculation and payment of all investor distributions. This requires rigorous checks to ensure that all the calculations, investor details and bank account details agree to the investor database. At all times, the appropriate levels regarding segregation of duties, reconciliations, authorisations and independent checks are stringently adhered to.

The Investor Relations team comprises three staff members based in Adelaide, Perth and Sydney offices. They are generally an investor's first point of contact with Angas Securities. They provide a friendly and prompt service to investors and recognise that each investor's needs are different. The team endeavour to assist investors in understanding the Run-Off process and steps taken by Angas Securities to maximise investor returns. In addition, Investor Relations staff handle most investor communication such as requests for transfer of investments, change of bank account details and postal address updates. A recent example of a transfer resulted from closure of a Self Managed Super Fund and transfer to the individual's name only. The transfer saved significant ongoing costs of the investor managing the Fund. The Investor Relations team manages daily administrative tasks such as preparing and issuing statements and Quarterly Updates to investors. In respect of the Quarterly Updates, the Investor Relations team provides management with investor feedback in relation to the Run-Off process.

The Investor Relations team is available to discuss any queries investors may have in respect of the progress of the Run-Off.

The Head of Funds Management has a role overseeing and managing some aspects of the Run-Off process whilst being primarily engaged with Angas Prime and Angas Direct. With the latter, he has primary responsibility to ensure that all loan conditions are fulfilled pre-settlement in strict accordance with Lending Policy and Lending Parameters. In relation to the Run-Off process, he manages all facets of the Bio Banking scheme. When all are finally sold, these bio credits will equate to approximately 20 cents in the dollar, for debenture holders. The Head of Funds Management negotiates and oversees the settlement of Bio Credit sales, ongoing management of Bio Banked land and provision of the annual Bio Banking reports as required by OEH. He also manages realization of the remaining unsold Fernhill Precincts, including the recent successful development application to sub-divide Western Precinct.

By contrast to the manner in which Angas Securities remunerates its staff, Justice Rares of the Federal Court recently handed down his decision in respect of Provident Capital Limited ("Provident") on its Receivers claim for remuneration. On appointment, the Receivers had sought to retain a number of Provident staff to assist them in the operations and knowledge of Provident's business and reduce the costs to investors, however most of the Provident staff chose to leave. The Receivers then engaged a person named Coulter as an external consultant through their firm, PPB. Mr Coulter was responsible for the day to day management of realising Provident's security properties and loan portfolio. The Receivers told the Court that Mr Coulter was employed as a consultant to PPB because it was cost effective to use his services as and when required. In respect of Mr Coulter's services for the period under review, PPB claimed \$936,581 or nearly 10% of the total remuneration claimed by them of \$12M for that 30 month period. PPB on-charged Mr Coulter's consultancy services in the Receiver's claim for remuneration by adding \$105 to \$115 per hour above the costs that PPB incurred in retaining him. The additional amount PPB's charged Provident was claimed to be in respect of PPB's overheads incidental to providing Mr Coulter's services such as office space, information technology, telecommunications and insurance as well as to generate a profit to the Receivers. In addition, the Receivers sought payroll tax and workers' compensation premiums that they had incurred in respect of Mr Coulter's engagement.

Justice Rares considered that portion of the Receiver's remuneration claimed in respect of Mr Coulter's engagement was not reasonable. His Honour held that as the receivership progressed, the Receivers ought to have engaged a full time employee rather than a consultant whose services were used on an 'as needs basis'. In addition, the Receivers ought to have advertised the position or engaged someone with the requisite experience as a consultant to Provident and not PPB. This would have been at a lesser cost to Provident because it would not have paid the overheads such as office space, insurance and information technology. In considering the remuneration claimed by the Receivers, His Honour disallowed \$220,000 in respect of overhead costs associated with PPB engaging Mr Coulter.

GENERAL MATTERS

I have previously reported that Angas Securities applied on 28 February 2018 to ASIC for relief under section 340 of the *Corporations Act 2001* to dispense with the requirements relating to the review of half year financial report for the period to 31 December 2017 (Half Year Report). Angas Securities sought relief from the requirement for its directors to have the Half Year Report externally reviewed by its auditor in order to avoid the significant costs to debenture holders as well as the significant distraction to Angas Securities management associated with the auditor review process. ASIC refused the application on the basis that it has not been persuaded that compliance would impose an unreasonable financial burden on Angas Securities. The directors considered that Angas Securities should seek a review of this administrative decision made by ASIC. On 10 May 2018, Angas Securities filed its notice of an application for review of a decision under section 29 of the *Administrative Appeals Tribunal Act 1975*. The

first Administrative Appeal Tribunal has directed that a conciliation conference be held on 13 December 2018 and that a hearing date be set for 21 January 2019.

The Run-Off expires on 30 June 2019. The LRC receives and considers monthly reports from Angas Securities on the progress of the Run-Off. Earlier this year, the LRC requested Angas Securities to provide a high level report to its September 2018 meeting addressing the intentions of Angas Securities in the event that there may be insufficient time to liquidate the residual assets by 30 June 2019. By reference to some of the matters set out in this Update, that eventuality appears likely to be the case. The Angas Securities directors have engaged in extensive stakeholder engagement and have given careful consideration to applicable legal, regulatory, accounting and taxation issues. I briefed LRC on 28 September 2018 as to the alternatives that were under consideration. As a result of that briefing, the LRC requested further information to be set out in a formal written proposal outlining the various options being considered. I provided that material on 10 October 2018. I have briefed the Auditor on these developments. The alternative options under consideration will have a material impact on the preparation of the Angas Securities Financial Statements for year ending 30 June 2018. Accordingly, Angas Securities is unable to lodge its audited Financial Statements until the matters arising from this process have been resolved.

Meanwhile, the application lodged by Angas Mortgage Management Limited to become the new Responsible Entity of the two Managed Investment Schemes remains unresolved. Angas Securities has consistently stated that it will be easier to market Angas Prime and Angas Direct for sale to a third party operator if they can be structurally removed from the Angas Securities Balance Sheet. ASIC advises that it is still unwilling to accept the proposed form of guarantee approved by Debenture Holders by Extraordinary Resolution and approved by the Federal Court. ASIC has suggested a possible alternative approach to the Net Tangible Asset issue. It seems increasingly likely that the suggested alternative will not address the issue satisfactorily, so AMML's application will need to be resolved one way or another. Meanwhile, combined revenue from Angas Prime and Angas Direct was \$3.3M in the 2017 financial year. Whilst the final numbers are subject to audit, management accounts suggest that combined revenue will be a similar figure for 2018. This is a very solid contribution to the operating costs of the Run-Off. The highly qualified Compliance Committee for these two going concern businesses is chaired by Angas Securities veteran Kimley Lyons and has three out of four independent members. Many Debenture Holders have taken the opportunity to invest in Angas Prime and Angas Direct to generate good returns.

Yours faithfully

Angas Securities Limited



Andrew Luckhurst-Smith
Executive Chairman

October 2018