



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

Debenture Holder Quarterly Run-Off Update

JANUARY 2018

1. INTRODUCTION

Angas Securities wish to keep informed all investors in the first ranking debenture fund which continues in Run-Off. The fund comprises loan assets (principal and accrued interest & fees), collateral security, direct property investments, an outstanding court actions, ongoing enforcement of the terms of several guarantor claims which have all been settled, sundry receivables and, if required, the potential sale of the Managed Funds businesses. Returns to investors will be driven by borrower behaviour, market forces and regulatory considerations. The loan portfolio is now concentrated on a book of fifteen loans, several comprising multiple prime or collateral security assets. Most borrowers who have capacity to repay loans to Angas Securities have already done so, leaving Angas to seek recovery of the balance from the first mortgage security supporting the loans. Some borrowers are more helpful to Angas than others as this realisation process continues in the Run-Off.

Market forces drive the pace and size of asset realisations. Sale prices achieved by Angas to date have been broadly in line with book value. Each settled sale has exceeded the valuation obtained by The Trust Company Limited ("Trustco") where applicable. Details of loans and other assets set out in this update is as explicit as Angas can be without compromising the interests of all investors by disclosing commercially sensitive information. It is certainly not in your interests for outsiders with whom Angas may be dealing to know the loan exposure on an asset under negotiation.

Angas sometimes finds itself engaging with persons who have no direct, commercial interest in Angas assets but choose to intrude themselves into the affairs of Angas. The audience of this Update is Angas shareholders and debenture investors. It is for their exclusive use. It is not authorised to be read or used by any other person. If you are reading this Update and you are not an Angas shareholder or debenture holder (or a professional adviser to same) then please respect their interests. Angas investors have a legitimate interest in the affairs of this company and have requested regular updates. Unauthorised third parties must not copy or reproduce this Update in whole or in part nor quote from its content.

Investor Updates will be provided as soon as possible after the end of each Quarter. As the number of assets contract, it has become impractical for Angas to make monthly payments. Changes to the terms of the Run Off approved in August 2017 mean that payments are to be made on the last day of March, June, September and December. Angas will make additional payments whenever possible but no such payment will be made this month. This Quarterly Update does not address each and every loan asset but provides the latest information where there have been recent developments. I know that investors wish to see a full portfolio review from time to time and I shall endeavour to provide such a review in the next Quarterly Update.

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2. PORTFOLIO OF LOAN ASSETS

2.1 Fernhill Central

Rookwood General Cemetery Reserve Trust ("Rookwood") is no longer the prospective purchaser of the Fernhill Central precinct under the binding Heads of Agreement which it entered into with the Angas Contributory Mortgage Fund ("ACMF") syndicated loan early last year. Rookwood's agent advised on 6 November 2017 that Rookwood would not be proceeding despite identifying all areas of investigation to its client's satisfaction. The sale contract had been prepared for the unconditional purchase of Fernhill Central with all terms agreed. Ministerial consent was not provided. Rookwood's agent stated that this was the sole reason why execution of the agreed contract did not take place. This was confirmed to me personally by the Rookwood Executive with whom I dealt at length last year.

Fernhill Central has not been re-listed for sale as yet. There has been considerable off market interest from a range of well credentialed local buyers. Terms in principle have been agreed with one Australian buyer which wants to settle with ACMF as soon as possible. I expect to be meeting with this party and the respective solicitors next week to finalise negotiations surrounding a small number of contractual issues. An announcement will be made as soon as an unconditional contract is executed.

2.2 Sale of Bio Credits

Biocredits are issued by the NSW Office for Environment and Heritage in accordance with the NSW Biodiversity Banking and Offset Scheme. Pursuant to the Biodiversity Conservation Act 2016, these are now administered by the Biodiversity Conservation Trust. Landowners such as Angas Securities as Mortgagee in Possession of the Fernhill Estate at Mulgoa can commit to protecting and enhancing biodiversity pursuant to a formal BioBanking Agreement. Angas Securities has been able to sell the Bio Credits to third parties such as developers or NSW government agencies which require these biodiversity offsets in order to undertake developments elsewhere. Once registered over land, the Bio Credits are perpetual but Angas Securities is then free to sell the underlying land on the open market with the BioBanking Agreements remaining in place. Angas Securities sold six such parcels of land at Fernhill Estate in 2016 at prices at least double the Trustee's valuation whilst selling the Bio Credits as well.

As previously reported, Angas Securities witnessed strong interest in sale of its Bio Credits at Fernhill Estate last year. In November 2017, the NSW Department of Roads and Marine Services ("RMS") purchased a second tranche of bio credits for \$2.284 million. This sale formed a part of the November distribution to investors. Total bio credit sales to RMS now exceed \$5.64 million. Total gross aggregated bio-credit sales to date by Angas equate to \$22,936,100. The estimated value of remaining bio credits currently on the market is \$6,179,600. In addition and as previously reported, Angas Securities now intends to bio bank the Western precinct of Fernhill given the additional time afforded by the recent further extension to the run-off proposal. Early estimates from bio banking consultants estimate that another \$10 million in bio credits may be available from this site. These are expected to be created and available for sale by the middle of next year.

2.3 Western Australian Property Market

The loan assets in New South Wales are considered to be strong whilst those on South Australia and Queensland are solid. Western Australian loan assets will be the key to return of your funds in full. Commercial property in Perth has been adversely impacted by record low occupancy rates following a downturn in the mining boom over the last four or five years. This has also seen low demand for residential housing sites. Stockland is Australia's major residential developer that

has been active in WA for the last 16 years. It has accumulated a \$1.0 billion property portfolio in WA comprising four shopping centres, six residential communities with 8,250 lots remaining, one completed retirement village with another under construction and two logistics assets. In a positive sign for the Perth property market, Stockland recently paid \$91 million to purchase three sites for 4,600 new housing lots spread across Perth at Sinagra, Baldivis and Brabham. Its public announcement expressed Stockland's view that the property market will pick up significantly in the second half of 2018 given the improvement in the WA economy and employment which has been reflected in results from the last three quarters of land sales. Other market data such as figures released by CoreLogic before Christmas shows a positive trend including Dayton where Angas is mortgagee in possession of an approved shopping centre site. Dayton house prices have increased 43 per cent over the last five years

2.4 Flame Zone Rating of Timber Brook Estate WA

Timber Brook Estate is a development which comprises 19 lots in an over 55s community. The site overlooks natural bushland with a creek running through the middle. This area is now a reserve. It was transferred to the Mundaring Shire and was designated as a corridor for indigenous fauna subject to a Bushfire Management Plan. At the time when Mundaring Shire approved the DA, the Bushfire Rating for the Estate 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 for 8 of the 19 lots. Each of these sales proceeded to settlement and each house constructed by the purchaser on each lot is now occupied.

Repayment of the balance of the Angas loan was to come from sale by the borrower of the remaining 11 lots. The borrower achieved only one more sale before Angas went into possession and sold three lots in 2015 and two lots in 2016 at prices in line with valuation (the Trustee has not obtained its own valuation in this instance). Five lots remain to be sold. Angas expected the last five lots to be sold in 2017. 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 being 40+. The main factor for the re-assessment was increased fire risk from the growth of tree canopies and undergrowth within the Shire's nature reserve. The cost of building a Flame Zone compliant house is prohibitive so sales have stalled.

Angas engaged an environmental consultant to review the site and submit a proposal which would mitigate the fire issues identified. Angas has failed to persuade the Mundaring Shire to undertake or permit the thinning of vegetation to reduce bushfire risk. 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.

Each title issued in Timber Brook Estate is endorsed to be subject to the Bushfire Management Plan binding the developer, the owner and the Mundaring Shire. As owner of 5 unsold blocks, Angas is entitled to enforce the obligations of the Shire to clear the undergrowth in the nature reserve. I wrote to the Chief Executive Officer of Mundaring Shire late last year calling for compliance. In addition, I am corresponding with the Minister for Planning, Transport & Lands through her Chief of Staff and have drafted a Notice pursuant to sec 211 of the Planning & Development Act 2005 to be served should the Mundaring Shire continue to neglect to fulfil its obligations under the Bushfire Management Plan.

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 rendered virtually worthless three quarters of the way through a realisation process. Prospective purchasers want the property to build houses like those already on site but they are blocked. Meanwhile the Mundaring Shire continues to levy rates upon Angas for the vacant blocks.

2.5 Permitted Use Development Approval for Currumbin Valley Eco Village QLD

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 was 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 failed following the tragic death of its principal. Angas is now Mortgagee in Possession.

All of the remaining residential blocks have been sold along with the home studio lots and most of the commercial sites. Since 2016, there has been a permissible use Development Application under way to create 12 residential sites on the remaining commercial land. This application was opposed by several existing residents of the EcoVillage, some of whom have circulated unauthorised extracts from these regular investor updates in order to campaign against the Permissible Change. I am delighted to advise that the Gold Coast City Council has now approved a modified proposal which will permit 11 sites to be created. There are a number of parties interested in acquiring the land which is now worth double the Trustee's valuation with this approval obtained by Angas.

3. THE CURRENT STATUS OF LEGAL RECOVERY PROCEEDINGS

3.1 Duncan & Powell v Verco Insurance Federal Court of Australia No SAD 439 of 2015

This Claim was commenced on 20 December 2015 by Stephen Duncan and Christopher Powell as Receivers and Managers of Quinnco Pty Ltd and seeks indemnity under an insurance policy for property damage the claim is for a sum in excess of \$6.0 million. An independent loss adjuster was appointed under the policy to adjudicate the merits of the claim and recommended that Vero settle for a sum of approximately \$2.8 million. It did not do so. The property was sold by Angas in its damaged state for \$12.5 million leaving the insurance claim to be resolved. Following the issue of proceedings, Vero denied indemnity under the policy. Mediation did not lead to settlement. Justice Derrington has been appointed as Trial Judge. The trial date has been vacated to enable additional expert evidence as to loss to be obtained.

3.2 Angas Securities Limited v Savills (SA) Pty Ltd Federal Court of Australia No SAD 343 of 2016

This Claim was commenced by Angas on 23 December 2016 following sale of the units at The Terraces at Wayville SA. The borrower failed to achieve residential sales at prices in line with the Savills valuation. The borrower is now in liquidation so Angas stepped in to complete the sale of all remaining apartments during the Run Off. Angas sought damages from Savills based on a valuation which Angas asserted to have been negligently prepared. Angas obtained an expert report which identified objective errors in the Savills valuation. Angas claimed that it would not have invested debenture holder funds in the Wayville deal if the Savills valuation had been properly prepared. No loan would have been made. Savills denied liability. Justice White was appointed as Trial Judge. The trial was due to commence on 23 October 2017 but was postponed to enable the parties to mediate. Resolution was achieved on confidential terms. The settlement sum has been paid in full and the proceedings have been discontinued.

3.3 Angas Securities Limited Supreme Court of Queensland No 7391 of 2015

Angas commenced proceedings against this Guarantor by claim issued on 29 July 2015. The claim was defended. Pleadings were filed. Disclosure of documents was made. A Mediation was held on the 21 July 2016 which led to a confidential settlement being negotiated. Subject to performance of the confidential settlement terms, Angas will discontinue the Supreme Court of Queensland proceedings. The settlements terms are fully on track at present. Most of the agreed amount has been paid by the Guarantor. Angas is continuing to monitor monthly payments until the settlement sum has been paid in full.

3.4 Angas Securities Limited Supreme Court of Western Australia No CIV2009 of 2016.

Angas commenced proceedings against this Guarantor on 16 June 2016. The proceedings were defended. Detail of the Guarantor's financial position was provided to Angas together with supporting documentation. Mediation was held before a Registrar of the Supreme Court of Western Australia on 10 August 2017. Settlement was concluded and a cash sum has been paid to Angas pursuant to the terms of settlement.

3.5 Angas Securities Limited Supreme Court of Western Australia No CIV2365 of 2015

Angas commenced proceedings against this Guarantor 28 August 2015 following the failure of attempts to negotiate a compromise with her solicitor. The Guarantor denied having sufficient business knowledge to comprehend the consequences of providing a guarantee despite her company's land division being well advanced and the defendant having previously executed

finance agreements with the Bank of Western Australia (including a guarantee) and with a private funder in respect of the same project. The proceedings were listed for trial to commence on 12 December 2017 but a structured settlement was negotiated at a mediation held before a Registrar of the Supreme Court of Western Australia in the week prior to Trial. The terms comprise a cash component payable by instalments and a non-cash component. Significant funds have been paid and the settlement terms are on track.

3.6 Angas Securities Limited Supreme Court South Australia No 598 of 2016

Angas commenced proceedings against this Guarantor by Summons for Possession issued on 6 June 2016. The Guarantor was sole owner of an executive dwelling in metropolitan Adelaide. She resided in the dwelling with her husband and children. She offered this property as security to Angas in respect of a loan advanced to a land development company owned and operated by her husband. Legal proceedings were commenced by Angas to enforce the first mortgage over the residence when the Angas loan expired and was not repaid. The Guarantor offered Angas \$1.3 million in full discharge of her liability to Angas as guarantor. Angas accepted the offer. The settlement sum of \$1.3 million was paid to fully discharge the first mortgage held over the Guarantor's residence.

3.7 Angas Securities Limited v SCV Manager District Court of South Australia No 681 of 2017

Angas took control as mortgagee of two residential estates at Hackham & Christies Beach SA in October 2012. 90 units were leased to tenants and have been progressively sold down over the last five (5) years with 26 units remaining on the market for sale. The defendant was appointed to manage the units for Angas. The defendant is a subsidiary of ASX listed Eureka Group Holdings Limited which describes its business as having its focus on the provision of quality independent living communities. The holding company claims to own a rapidly expanding portfolio of accommodation villages and is a property asset manager of 25 villages nationally comprising over 1,400 units understood to include the two estates which are the subject of the Angas proceedings.

Angas contends that the defendant has overcharged for fees to which it is not entitled and has failed to actively manage the two Estates to the detriment of Angas and its investors. The units have been sold to investors who seek yield but the defendant has failed to negotiate annual rent increases with individual tenants. Furthermore, the defendant has failed to enforce the letting terms exposing Angas to refurbishment claims ranging from repairing walls where pictures and ornaments have been hung through to total refurbishment including painting and new carpets in units in which the defendant has permitted tenants to smoke contrary to the bylaws. Most recently, the defendant's relieving manager simply moved into the Angas display unit thereby locking out the sales agent from using that unit for showing to prospective purchasers. These claims, large and small, aggregate to a substantial loss. Angas is actively pursuing recovery of that loss from the manager.

4. TRUSTEE UPDATE

4.1 Legal Costs Claimed by Trustco from Angas

On 16 December 2014, TrustCo commenced confidential proceedings seeking orders freezing the debenture fund together with judicial advice and directions. On 24 December 2014, the Federal Court refused TrustCo's request to freeze the debenture fund but made orders, amongst other things, that the costs of the 2014 proceeding be reserved. On 29 April 2015, TrustCo commenced a separate proceeding seeking further directions and judicial advice. Settlement was reached on 9 June 2015. The Federal Court ordered by consent that subject to the approval of the Court of the Run Off following a meeting of debenture holders, that Angas pay TrustCo within 7 days of that approval the sum of \$1,506,841.49, for TrustCo's legal costs and \$454,883.18 for PPB Advisory's unpaid costs. PPB Advisory is an adviser to TrustCo. (PPB had already been paid \$100,000 plus GST by Angas for a report requested by TrustCo).

Angas subsequently asked the court to rule that the 2015 Costs Order be varied such that the TrustCo's costs be itemised and substantiated and that costs of the 2014 proceeding be excluded from payment under the 2015 Costs Order. On 19 October 2016, the Federal Court made an order that the 2015 Costs Order be reduced by the amount of TrustCo's legal costs and expenses incurred by the 2014 proceeding. Justice Beach ruled that he had the power to modify the 2015 Costs Order by reason of his supervisory control of TrustCo and its activities as a debenture trustee under the Corporations Act. His Honour ruled that he could exercise this power to ensure that the best interests of debenture holders are pursued by both Angas and TrustCo.

TrustCo brought an appeal against this ruling. Its application was set down to be heard on 20 November 2017. I wrote to Trustco on 16 October 2016 expressing my concern that no unnecessary costs be incurred by the appeal at the expense of debenture holders. Trustco rejected my request to be provided with the amount of costs which it claimed being the difference between indemnity costs under the Trust Deed and party / party costs as awarded by Justice Beach. Trustco considered it important for all stakeholders (including Angas, Trustco and debenture holders) that the extent of Trustco's rights of indemnity be made clear. The Full Court of the Federal Court delivered that clarity in a unanimous ruling delivered on 27 November 2017 that the primary judge indeed possessed the supervisory power contended and that he had not erred in his exercise of the power. Trustco was ordered to pay the costs of its unsuccessful appeal.

4.2 Resolution of Banksia Proceedings Subject to Court Approval

In a previous Investor Update, I referred to legal proceedings brought by Trustco to enforce its claim for additional remuneration against another major debenture company. Trustco claimed additional remuneration under its Debenture Trust Deed with Banksia Securities Limited ("Banksia"). Trustco put Banksia into receivership on 25 October 2012. You might recall that Justice Croft ruled that Trustco's right to additional remuneration arose only after Banksia debenture holders were paid in full. Being dissatisfied with this ruling, Trustco successfully appealed to the Full Court of the Supreme Court of Victoria which found that Trustco was entitled to be paid its additional remuneration in priority to Banksia debenture holders.

In addition to Trustco's claim to be paid additional remuneration, three other sets of legal proceedings arose from the Banksia administration. Each was brought to recover funds for Banksia debenture investors. First, Trustco was sued by the liquidator. Secondly, there was a Class Action brought in the name of investor Bolitho utilising litigation funding and a thirdly, a proceeding was brought by the Liquidator against the Banksia directors, officers, auditors and solicitors. Judgment was delivered by Justice Robson in the Supreme Court of Victoria last year approving a partial settlement of the second and third sets of Banksia proceedings. The Bolitho

proceedings settled for \$5.2 million. The proceeding against Auditors and Officers was settled for \$8.05 million.

Trustco was not a party to either settlement. The liquidator's claim against Trustco has reportedly settled. See: www.banksiaaction.com.au. To settle the two outstanding actions against it Trustco has agreed to release Banksia from paying \$3.96 million for additional remuneration per Trustco's action to date together with any other such remuneration as yet unquantified and to pay a settlement sum of \$64 million. A hearing to approve the settlement is scheduled for 30 January 2018 before Justice Croft.

5. PROPOSED RESTRUCTURE OF MANAGED INVESTMENT SCHEMES

It is the intention of Angas to restructure its funds management business by transferring its responsible entity and management roles in respect of the Angas Contributory Mortgage Fund ('ACMF') and the Angas Prime Income Fund ('APIF') to a wholly owned subsidiary, Angas Mortgage Management Limited ('AMML'). If implemented, the restructure would result in the two businesses being operated out of a wholly owned special purpose subsidiary of Angas, such that if the circumstances required, that subsidiary could then be sold as an intact going concern to provide a financial return to Angas for the benefit of debenture holders. Angas incorporated AMML in October 2016 and lodged with ASIC a formal application for relief from certain regulatory requirements as is customary for internal re-structures of this kind as well as seeking that ASIC issue an Australian Financial Services Licence to AMML. Angas has received and responded to a series of requisitions from ASIC.

Meanwhile, both funds are trading well. Profits made by these funds are underwriting the operational costs of Angas as the Run Off of the debenture business continues. Both funds are paying good returns. There are good reasons for you to consider investing in these funds if you have not already done so. Last year, Angas registered with BPAY. Many APIF investors use the convenience of this facility to top up their investments by utilising BPAY. Another development has been to sharpen presentation of the funds in the marketplace. APIF is relatively meaningless as a name and Angas Prime Income Fund is a mouthful so this fund is being promoted as Angas Prime which is merely a contraction of its full name. Next, Angas proposes to change the name of ACMF to Angas Direct Mortgage Fund and then promote the fund as Angas Direct. This will require ASIC approval. I hope that investors seeking yield from registered first mortgage investments will become comfortable with offerings being made by Angas Prime (a pooled fund) and Angas Direct (a select mortgage fund) subject to regulatory approval.

Yours faithfully

Angas Securities Limited



Andrew Luckhurst-Smith
Executive Chairman

18th January 2018