



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

22 January 2018

MARKET UPDATE AS TO PROGRESS OF DEBENTURE RUN-OFF

The Angas Securities first ranking debenture fund continues in Run-Off until 30 June 2019. The fund comprises loan assets (principal and accrued interest & fees), collateral security, direct property investments, 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. Redemptions distributed to debenture investors to date total 49 cents in the dollar. 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 each year. Angas will make additional payments whenever possible but no such payment will be made this month.

1. PORTFOLIO OF LOAN ASSETS – SOME RECENT DEVELOPMENTS

1.1 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. 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 an Australian buyer which wants to settle with ACMF as soon as possible

1.2 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 2017 at prices at least double the valuation for the underlying land obtained by the Trustee (“Trustco”) whilst selling the Bio Credits as well.

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Angas Securities witnessed strong demand for its Bio Credits at Fernhill Estate last year. Total gross bio-credit sales to date are \$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 predict that another \$10 million in Bio Credits may be available for sale from this site. These additional Bio Credits are expected to be created and available for sale by the middle of this year.

1.3 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 which was transferred to the Mundaring Shire. It has been 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. 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 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 with the Bushfire Management Plan binding the developer, the owner and the Mundaring Shire. As owner of 5 unsold blocks, Angas believes it is entitled to enforce the obligations of the Shire to clear the undergrowth in the nature reserve and has written to the Chief Executive Officer of Mundaring Shire late last year calling for compliance. In addition, Angas is corresponding with the Minister for Planning, Transport & Lands and have drafted a Notice pursuant to section 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.

1.4 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. All of the residential blocks have been sold along with the home studio lots and most of the commercial sites. Since 2016, there has been on foot a permissible use Development Application by Angas to create 10 residential sites on the remaining commercial land. This application was opposed by several existing residents of the

EcoVillage. The Gold Coast City Council has now approved a modified proposal which will permit 9 sites to be created. This is in addition to a large site at the entrance to the Eco-Village still to be sold. There are a number of parties interested in acquiring the land which is now worth double Trustco's valuation due to the approval recently obtained by Angas.

2. THE CURRENT STATUS OF LEGAL RECOVERY PROCEEDINGS

Angas has brought several legal actions to recover funds for investors in the course of the Run-Off. Most have now been resolved. Some are still underway and a further action is being contemplated.

2.1 Duncan & Powell v Vero Insurance Federal Court of Australia No SAD 439 of 2015

This Claim was commenced on 20 December 2015 by Receivers and Managers of Quinnco Pty Ltd and seeks indemnity under an insurance policy for property damage caused by vandalism to the security held by Angas. 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 leaving the insurance claim to be resolved. Following the issue of proceedings, Vero denied indemnity under the policy. Mediation did not lead to settlement. The trial date set for next month has been vacated to enable additional expert evidence to be obtained.

2.2 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 claimed 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. Savills denied liability. The proceedings were resolved at mediation on confidential terms.

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

Angas commenced proceedings against this Guarantor 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.

2.4 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.

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

Angas commenced proceedings against this Guarantor 28 August 2015. 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. Funds have been paid and the settlement terms are on track.

2.6 Angas Securities Limited Supreme Court of 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 in which she resided with her husband and children. She offered this property to Angas as security for 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. An agreed settlement sum of \$1.3 million was paid to Angas to fully discharge the first mortgage held over the Guarantor's residence.

2.7 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 and 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. It is contended that the defendant has overcharged for fees to which it is not entitled and has failed to actively manage the two estates by not incrementally increasing rent each year and by failing to enforce the letting terms exposing Angas to refurbishment costs. 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.

3. TRUSTCO'S CLAIM FOR LEGAL COSTS

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 the sum of \$1,506,841.49 for TrustCo's legal costs and a further \$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. 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. Angas wrote to Trustco on 16 October 2016 expressing concern that no unnecessary costs be incurred by the appeal at the expense of debenture holders. Trustco rejected the request by Angas 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 was 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 to Angas the costs of its unsuccessful appeal.

4. 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 by a wholly owned 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 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.



Natalie Gatis
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