

Angas Securities Listed Debenture Stock Rating – Recommended

Report Date: Issued on 20 November 2009 based on information as at 30 June 2009 unless other stated.

PRODUCT FEATURES

Name	
Debenture Company	Angas Securities Limited
Offer Document	Listed Debenture Stock Prospectus Number 9 issued 9 October 2008
Structure	Listed stock
Duration	1 or 3 years
Profitability	Sound
Debenture Interest Rate	Fixed rate of 7.5% p.a. 1 year and 8.5% 3 year
Lending Rate	14% for low rate and 22% for high rate
LVR	Maximum of 70%
Minimum Application	\$10,000
Management Fees and Costs	Nil. However, Angas earns interest margins being, difference between the debenture and lending rates and charges its borrowers various fees and charges in respect of their loans
Payment of interest to investors	Interest is paid in arrears to debenture holders on the last day (or next business day) of the month. Investors may elect to reinvest monthly interest to maturity of the debenture term at the reinvestment rate
Maturity	Angas will notify investors approximately one month prior to maturity. Investors may choose to redeem their investments or reinvest
Type	Listed Debentures Rated B+ by Standard & Poor's as at 5 May 2009
Investments	Debenture funds invested in loans secured by a first mortgage over real estate and other approved investments (cash and direct property)
Liquidity	High in that debentures are listed. Low in that none have traded.
Assets	\$149.8 million
Debenture Fund	\$127.6 million
Capital Loss Protection	Nil

SUMMARY

Angas Securities Limited (Angas) is a debenture issuing and a mortgage lending company. It was established in 2000 and is predominantly owned by its executive directors. Angas has a strong presence in South Australia and Western Australia and plans to grow its business in the eastern states.

Investment Portfolio

Angas raises money from investors by issuing debentures. These monies are then loaned to multiple borrowers who are required to offer a first registered mortgage over real estate as security. The borrowers pay interest. This provides Angas with most of its revenue stream. The other main component is fees and charges borrowers pay to establish their loans. These revenues fund the interest payments to the debenture investors as well as Angas' other operating expenses, including provisions for loan defaults. Any surplus is profit accruing to Angas' owners. Angas can loan money for a very wide range of purposes provided the borrower offers a first mortgage over real estate as security. Certain real estate is unacceptable security and there are limits on the use of development property. Angas must maintain a liquidity reserve of 5% of all debenture funds.

Angas can invest up to 10% of capital in direct property. Angas has the broad "prudent person" investment powers from the South Australia Trustee Act.

Summary Assessment

Angas is a niche debenture business based in South Australia and Western Australia. It has never defaulted on interest or principal payments on its debentures and has been profitable since 2002. It has performed well through the Global Financial Crisis. Angas has sound lending processes and business systems. The risks of its loans are relatively high as they can be for a wide range of purposes. But loan terms are typically 12 months or less and there are limits on development land and other riskier real estate as loan security. Loan terms shorter than debenture terms are also an important risk mitigant. Key staffs have extensive experience in mortgage lending and lending more broadly as well as in banking and finance.

Not Investment Grade	Investment Grade	Recommended	Highly Recommended
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Rating Considerations

Strengths

- *Debentures return greater than cash on deposit*
- *Loan security is registered first mortgage over real estate*
- *Experienced staff, mostly executive owners with proven track records*
- *Never defaulted on payments to debenture holders*
- *Profitable business; weathering the Global Financial Crisis relatively well*

Weaknesses

- *Modest return for investors having regard to the riskiness of the debentures*
- *No capital loss insurance*

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Angas Securities Listed Debenture Stock

TABLE OF CONTENTS

RATING DEFINITIONS	2
OVERVIEW	3
ORGANISATION	3
STAFF	4
INVESTMENT PORTFOLIO & MANAGEMENT.....	5
LIQUIDITY RESERVE AND CAPITAL	10
RISK MANAGEMENT AND COMPLIANCE.....	10
LIQUIDITY	13
FEES	13
PROSPECTIVE PERFORMANCE	14
ASIC COMPLIANCE	15
FLOW CHART - BUSINESS MODEL.....	17
SOURCES OF INFORMATION.....	18
REPORT DATE	18
STATEMENT OF ANALYST INTEREST AND CERTIFICATION, WARNING AND DISCLOSURE	18
ATCHISON CONSULTANTS	19

RATING DEFINITIONS

Atchison Consultants' ratings are multi factor, encompassing: ownership and organisation, staff, investment objective and process, governance and compliance, customer service, liquidity, fees and other costs and performance.

Highly Recommended – The manager and its product have excelled across all of our assessment criteria. We expect the manager's product to perform well ahead of a reasonably appropriate risk and return objective for the product over a full investment cycle.

Recommended – The manager's product has consistently outperformed the median manager across our assessment criteria. We expect the

manager to perform ahead of a reasonably appropriate risk and return objective for the product over a full investment cycle.

Investment Grade – The manager satisfies most, if not all, of our rating criteria. We are satisfied in its ability to perform at a reasonably appropriate risk and return objective over a full investment cycle. This rating can apply to new or recently established managers who demonstrate they have in place the experience, resources and systems which we expect will result in performance at or above the reasonably appropriate investment objective for the product over a full investment cycle. Similarly it can apply to a new product from a new or established manager.

Not Investment Grade – The manager rates poorly in all or most of our ratings criteria.

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Angas Securities Listed Debenture Stock

OVERVIEW

Angas Securities Limited (Angas) raises money from investors by issuing debentures in accordance with a Prospectus (the Prospectus). Angas then invests this money in approved investments before lending it to borrowers.

The debenture holders are paid interest at monthly intervals at a rate fixed by Angas at the time they purchase their debenture. The debentures are for a fixed term, typically 12 months to 3 years. At the end of their term, an investor can elect to be repaid the principal or re-invest in accordance with the then current Prospectus.

The debenture holders' security is first ranking floating charge over the whole of the assets and undertaking of Angas. This ranks them ahead of Angas' equity owners.

Angas uses the debenture monies to make loans to multiple borrowers. Loans are ordinarily limited to \$5 million per borrower. Almost without exception, loans are secured by a first mortgage over real estate. Angas can, but rarely does, take security over chattels, e.g. motor vehicle.

The borrowers typically obtain loans from Angas for short term bridging finance and/or because they prefer such lenders over banks. There are no particular restrictions on what borrowers do with the loan funds. Angas' principal concern is to have a first mortgage security over real estate and for the loan principal to be under 70% of the independently assessed value of the real estate.

Angas' Credit Committee decides which loans are suitable for investment. Loan approval and management procedures are documented in the Angas Securities Operations Manual for Lending & Loans Management. Permanent Trustee's role is to ensure each of the loans Angas recommends accord with the Debenture Trust Deed and to monitor the loans' performance.

The loan portfolio is largely Western Australia and South Australia. Angas' intention is to increase exposure in the Eastern states. Exposure to loans secured against property which is being built on (construction loans) is limited to a maximum of 5% of the loan portfolio.

Borrowers pay interest to Angas. This is Angas' main source of revenue and the major source of funds for the interest payments Angas pays its debenture investors. Angas' other revenues are the

fees Angas charges borrowers to set-up and administer loans, interest on monies invested and income from investments in real estate.

If a borrower defaults on interest payments or principal repayments, Angas can sell the property used as security. The proceeds are used to repay the loan principal, outstanding interest and other costs.

Angas is required as a condition of its Trust Deed to hold an amount equal to least 5% of the value of debentures on issue as a capital adequacy reserve in liquid assets. Angas' practice has been to hold additional reserves – historically around another 6%. However in recent months Angas has reduced its reserve closer to the 5% minimum. In addition to its capital adequacy reserve, owners' equity is \$6.3 million which is 6% of debenture funds.

Angas also seeks to minimise liquidity pressure by lending to borrowers for shorter terms than it issues debentures. Angas's debenture reinvestment rate is relatively higher than the market average.

ORGANISATION

Angas is privately owned. Angas was incorporated in 2000 and is headquartered in Adelaide, with an office in Perth.

Angas' shareholders are with one exception (*) executive owners:

▪ Matthew Hower	53%
▪ Andrew Luckhurst-Smith	22%
▪ Kimley Lyons	12%
▪ Richard Sandover*	9%
▪ Paul McCarthy	4%

Angas holds Australian Financial Service License No. 232479.

Business Philosophy

Angas is a specialist lender targeting a niche sector. It provides borrowers short term finance (maximum 12 months) secured by a first mortgage over real estate assets on a loan to value ratio under 70%. Emphasis is on the first mortgage security, more so than the borrower's income and ability to service interest payments.

Angas' main source of funds is capital raised from issuing debentures with investment terms of 1 or 3 years. Funding is mostly from retail investors subscribing Angas' debenture stocks.

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Angas' philosophy is to "borrow long" (debenture monies 1 to 3 years) and "lend short" (target loan terms 12 months or less).

STAFF

Angus has four directors:

Matthew Hower, Managing Director, founded Angas in 2000. Matthew has extensive experience in investment management. He worked with Day Cutten Stockbrokers specialising in the management of funds for private investors prior to establishing his own business which provided finance and funds management services. He is a member of the Finance Brokers Association of Australia and Mortgage Industry Association of Australia.

Andrew Luckhurst-Smith and Kimley John Lyons both have qualifications in law and both partner positions in law firms, principally in banking and finance. Andrew was a founding director of Angas in 2000 and Executive Chairman since 2003. Kimley is an Executive Director and Chairman of the Audit, Risk Management and Compliance Committee. Andrew is based in Adelaide and Kimley in Perth.

Paul McCarthy, Executive Director, has held roles as Associate Director in ANZ Bank and managed project finance as a director at Airport Group

International. Paul's background has predominantly been with institutional banking, corporate banking and structured finance.

The above executives play key roles in sourcing borrowers as well as in the general management of Angas.

Lending management is undertaken by John Smedley. John has worked with large financial institutions in Australia including Adelaide Bank, Citibank, Bank of New Zealand and National Australia Bank Limited and has held roles as Head of Business Banking and Head of Property & Construction Finance. John is a Fellow of Finsia and is a Divisional Councillor/Treasurer for Property Council of Australia (SA Division).

Chris Venus manages Angas' Retail Division. Prior to Angas, he worked in ANZ's Corporate Banking Group. Chris is an Associate of Finsia.

All employees, including key executives, are remunerated by way of salary. There is no performance based remuneration as Angas' philosophy is not to pay bonuses or commissions to its employees. Angas believes performance based pay does not ensure better performance from individual staff or retention. Its owners cite examples from their past work and management experiences supporting Angas' philosophy.

Table 1 - Key Executives & Staff

Name	Position	Years with Angas	Total Years Experience
Andrew Luckhurst-Smith	Executive Chairman	9	30
Matthew Hower	Managing Director	9	19
Kimley Lyons	Executive Director	7	20
Paul McCarthy	Executive Director	2	14
John Smedley	Head of Lending	1	24
Jeff Roberts	Lending Manager	6	43
Chris Venus	General Manager, Retail	1.5	6

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Track Record

The three main factors in analysing Angas' track record are: interest payments, repayment of debentures to investors and company's profitability.

Angas has a very good record in paying interest on its debentures and in principal repayments in its 10 year history. Our enquiries reveal on no occasion has Angas not paid monies due its debenture investors.

Angas offered debenture rates of 9% in 2008 and since the beginning of 2009 has reduced the rate gradually to the current rate of 7.5%. Historically, the rates offered by Angas to debenture investors have been variable depending on the volume of investment and a debenture's term (i.e. 1 or 3 years). Some debenture investors negotiate a marginally higher rate than the retail offer.

The Interest Margin is the difference between the Borrowing Rate (interest on debentures) and the Lending Rate (interest on loans made by Angas). This margin is Angas' key profit driver. Angas' target is to keep this spread at a minimum of 5 percentage points.

Angas has been profitable since 2002 (Table 2). It has continued to source debenture funds, issue loans and make payments when due on its debentures throughout the Global Financial Crisis period to date. Profits have reduced from their high point just before the GFC.

Table 2 – Angas Securities Limited Profit for the year – since inception to 2009

Year	Profit for the Year (\$)
2000	-4,750
2001	-42,257
2002	71,120
2003	29,944
2004	646,321
2005	1,246,882
2006	3,453,721
2007	3,845,717
2008	2,524,183
2009	1,510,326

Source: Angas Securities Limited Income Statement

INVESTMENT PORTFOLIO & MANAGEMENT

Funds from debentures are invested in fully secured first mortgage loans and other approved investments.

Angas applies each month to list the debentures issued in that month for trading on the National Stock Exchange (NSX). If debentures are not listed for any reason then the debentures would be subject to disclosure requirements of ASIC pertaining to unlisted debentures.

Investment Strategy

Angas invests in loans secured by a first mortgage over real estates.

Angas provides bridging finance to borrowers seeking short/medium term investment and capital finance to meet a variety of business and investment needs. The borrowers are typically those who do not deal with traditional lenders such as banks or who may not meet the lending criteria of such lenders. They are business proprietors, self-employed or investors in property which is not generating income.

Mortgages are sourced both directly via established market relationships and via an approved panel of some 80+ finance and mortgage brokers, Australia-wide.

Investment Type

Angas predominantly invests in first mortgage securities.

The purpose of the loan, whilst assessed as part of the credit assessment, does not necessarily attach to the primary security of the loan. Primary security can be commercial, industrial, residential properties and development.

Angas must invest funds raised by the debenture issue only in those investments permitted by the Trust Deed.

Permitted investments are:

1. First mortgage loans that meet the lending criteria disclosed in the Listed Debenture Stock Prospectus
2. Investment in real property (up to a maximum of 10% of debenture funds)
3. Monies on deposit with, or invested in, one or more of the following:

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- An Australian Bank
 - A Public Authority
 - Securities, promissory notes and bills of exchange which have a ready market
 - A cash management trust
 - A cash common fund within the meaning of the Trustee Companies Act (SA) 1988 or equivalent legislation
4. Securities which have a credit rating issued by Standard & Poor's and its affiliates of "AA" or higher for long term securities or "A1+" or higher for short term securities, or an equivalent rating issued by another ratings agency.
 5. Bonds, stocks or other securities issued by or guaranteed by the Government of the Commonwealth or of a State Territory or a local government authority.
 6. Equipment finance transactions (up to a maximum of 10% of debenture funds).

Investment Process

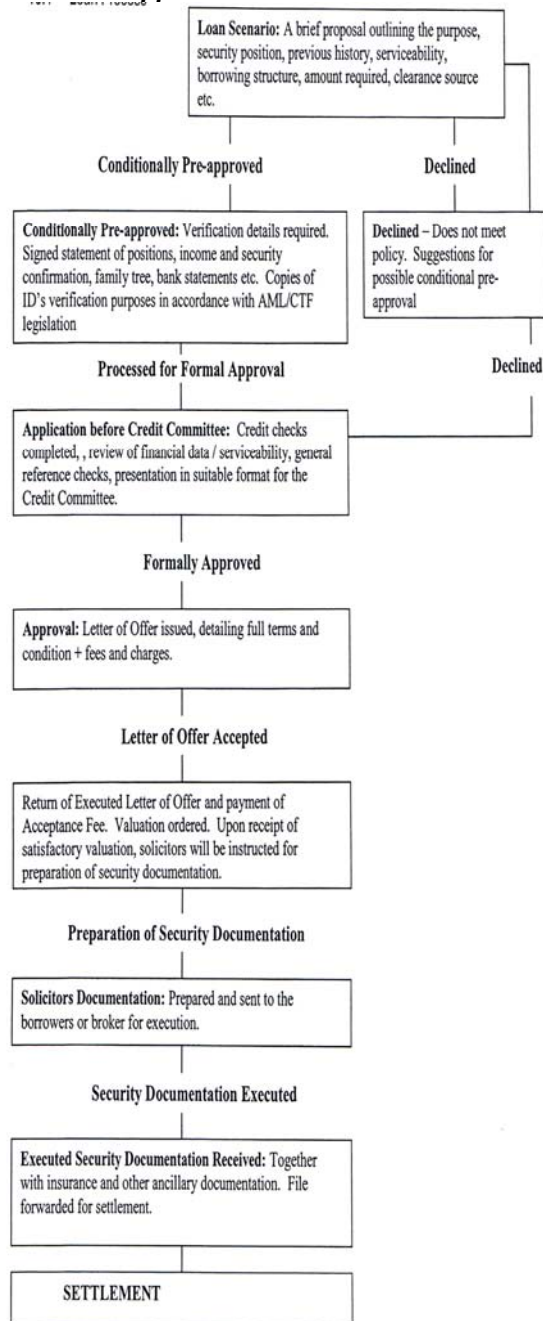
The investment process to evaluate, accept or reject mortgage investments is thoroughly documented in Angas' Lending Policy Manual. The Policy Manual has been reviewed by Atchison Consultants. The loan approval process is illustrated in Chart 1.

In making the approval decision, the following are assessed by Angas:

- Purpose
- Amount
- Security - the mortgage and the supporting asset(s)
- Asset position of the borrower
- Servicing – borrower's ability to service the loan
- Personal factors concerning the borrower

Angas manages the risk of individual loans through setting appropriate Loan to Value Ratios (LVR), and by limiting balance sheet exposure, e.g. construction finance cannot exceed 5% of debentures.

Chart 1 – Loan Approval Process



Atchison Consultants has sighted valuation reports obtained by Angas as part of security documentation and has reviewed the Angas Lending & Loans Management Manual.

Our assessment is the investment process is comprehensive and Angas' staff are experienced and trained to apply it rigorously and consistently.

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Angas Securities Listed Debenture Stock

Loan Approvals and Credit Committee

Angas has a two tiered approach in its lending approval decision making.

The first tier is the Angas' Credit Committee's approval or rejection of loan applications. The Committee comprises:

- Paul McCarthy (Executive Director and Chairman of the Credit Committee)
- Matthew Hower (Managing Director)
- John Smedley (Head of Lending)
- Jeff Roberts (Lending Manager)

Loan approvals require the support of at least three members of the Committee, including the Chairman.

The second tier is a review of loan approvals by the Chairman of Angas (or in his absence another senior executive director, ordinarily Kimley Lyons), who must endorse the approval.

Investment Parameters

1. Sector Spread

The sector spread of Angas' mortgage portfolio is:

Sector	Target (%)
Commercial	30
Industrial	5
Residential	50
Construction	5
Rural	10

Construction loans are limited to no more than 5% on Angas' loan book. Angas may lend up to 10% of debenture funds on equipment financing transactions. Chattel mortgages are permissible security, but to a maximum of 1% of the total portfolio. Angas advises there have only been three chattel mortgages in its history.

Up to 10% of the proceeds of a debenture issue can be invested by Angas in real property, either directly or by units in property trusts.

2. Geographic Spread

The Fund's target geographic spread is:

Region	Target (%)
South Australia	10
Western Australia	55
Queensland	10
New South Wales/ACT	10
Victoria	10
Tasmania	2
Northern Territory	1
New Zealand	2

Current Investments and Allocations

As at 30 June 2009, the total mortgage book amounts to \$105 million.

The number of active loans as at 30 June 2009 is 69 loans. Loan sizes vary:

Loan Size (\$)	No of Loans	% of Total
Greater than 5,000,000	4	6%
4,000,000 to 5,000,000	1	1%
3,000,000 to 3,999,999	2	3%
2,000,000 to 2,999,999	15	22%
1,000,000 to 1,999,999	18	26%
Less than 1,000,000	29	42%
Total	69	100%

Table 3 shows 10 largest loans as at 30 June 2009

Table 3 – 10 Largest Loans Characteristic

Primary Borrower	Loan Amount	Security Value	LVR	Location	Zoning	Prepaid Interest
Wayville No.283 Pty Ltd	\$6,612,500.00	\$13,200,000.00	50.1	SA	Residential	Yes
83 East Pty Ltd	\$6,000,000.00	\$11,324,812.50	53	VIC	Residential	No
Owston Nominees No.2 Pty Ltd	\$5,525,000.00	\$9,500,000.00	58.2	WA	Residential	No
Fernleigh Gardens Estate Pty Ltd	\$5,050,000.00	\$11,800,000.00	42.8	SA	Commercial	No
Mila Properties Pty Ltd	\$4,200,000.00	\$7,000,000.00	60	WA	Commercial	Yes
Owston Nominees No.2 Pty Ltd	\$3,746,507.99	\$6,500,000.00	57.6	WA	Residential	No
Conical Hill Nominees Pty Ltd	\$3,209,500.00	\$5,190,000.00	61.8	WA	Residential	No
Estate Land Holdings Pty Ltd	\$3,061,752.00	\$4,600,000.00	66.6	SA	Residential	Yes
Kirriemuir Nominees Pty Ltd	\$2,978,500.00	\$5,080,000.00	58.6	WA	Residential	No
Total	\$40,383,759.99	\$74,194,812.50				

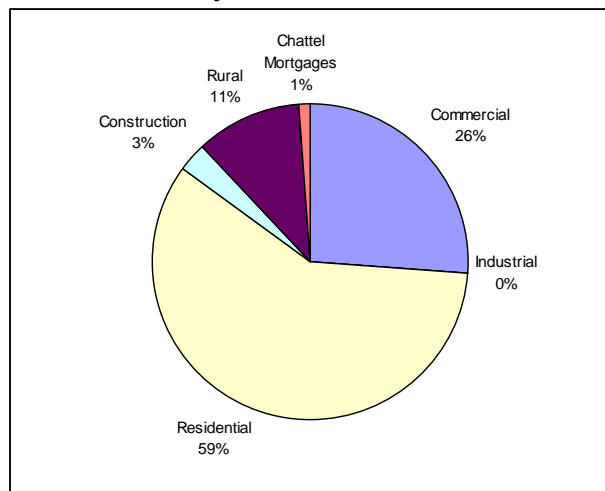
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Sector and Geographical Diversification

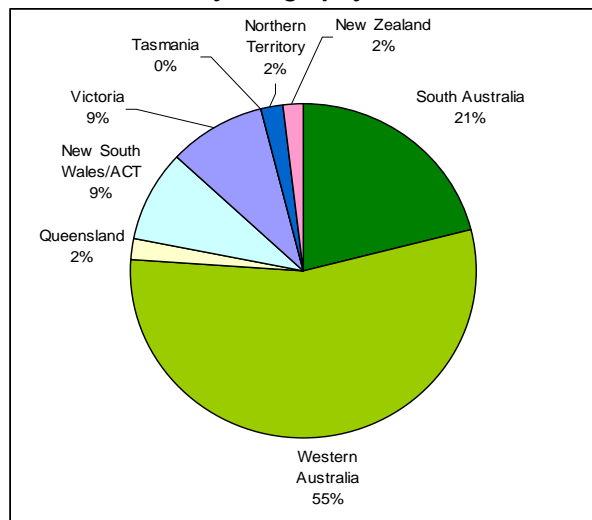
At 30 June 2009 the Portfolio's sector spread was dominated by residential loans - over 59%:

Chart 2 – Loans by Sector



The portfolio is currently heavily weighted in Western Australia and South Australia:

Chart 3 – Loans by Geography



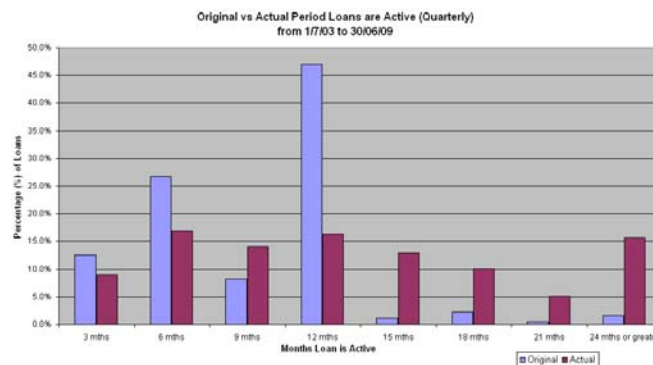
Mortgage Investment Maturity Profile

Loans are offered for a maximum 12 month term. Angas targets a shorter maturity profile for its loans than for its debentures. This is regarded as a key risk management strategy.

Chart 4 illustrates the original versus actual period loans were active from 1 July 2003 to 30 June 2009. The highest percentages of original terms are

6 months and 12 months - 25% and 49% respectively. Over 90% of Angas' loans are for terms of 12 months or less. However, actual loan periods are longer.

Chart 4 - Original vs. Actual Loans Periods



The riskiness of portfolio and the importance of the debenture maturity profile exceeding that of the loans are revealed in the relative flatness of the actual loan bars compared to bunching of the blue bars. Loans greater than 12 months represent only 5.5% of original loans, but 43.8% of actual loan terms.

Table 4 illustrates the value of loans maturing in the short term.

Table 4 – Loan Portfolio Maturity Dates

Maturity Dates	Dollar Value of Loans	% of Loans
1 Sept 09 - 30 Sep 09	4,096,000	14.7%
1 Oct 09 - 31 Dec 09	11,344,500	40.6%
1 Jan 10 - 31 Mar 10	1,751,765	6.3%
1 Apr 10 - 30 Jun 10	10,766,752	38.5%
Total	27,959,017	100%

Angas has only suffered two loan principal losses - \$391,713 (written off 6/2009) and \$32,500 (written off 6/2006).

During the 6 months to June 2009, there has been a significant increase in the number of overdue loans. At 30 June 2009, past due loans were \$27,224,992 or 25.7% of the total loan book compared with only 3.9% as at 31 December 2008. This suggests the quality of Angas' loan book is being impacted by the deteriorating conditions associated with the Global Financial Crisis.

Direct Property Investments

Direct property is an authorised investment. Angas can invest up to 10% of its debenture capital in direct property. Angas derives income from

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Angas Securities Listed Debenture Stock

investing in the Angas Commercial Property Trust (ACPT).

At 30 June 2009, Angas was invested \$21.3 million in the ACPT. However, only approximately \$9.2 million is funded from debenture monies - equivalent to 7.3% of debentures. This is below the maximum of 10%. The remaining \$12 million is funded through bank bills borrowed from Bank of Adelaide (now part of Bendigo Bank) against the security of its direct property investment.

The properties are 56.5% leveraged, which is relatively high. The two main debt covenants are maximum LVR of 65% and Interest Cover Ratio at 1.15 or more. Angas has confirmed ACPT was not in breach of its loan covenants on 30 June and 30 October 2009.

Since 30 June 2009, Angas invested a further \$1.3 million in direct property.

Service Providers

External and independent valuers provide valuations against which Angas assesses its 70% LVR requirement on its loan book.

Mortgages are sourced directly and from finance and mortgage brokers. Angas does not pay brokerage on externally sourced loans.

Deloitte is the financial and AFSL auditor.

Legal firms associated with two of the executive owners provide legal services. These arrangements

are disclosed in Angas' annual report and in the Debenture Prospectus.

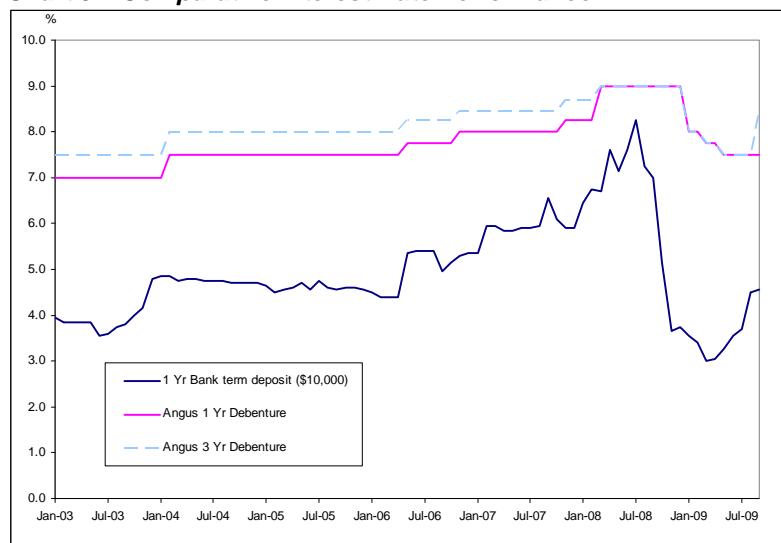
Interest Rate Performance

Chart 5 summarises the interest rate paid to investors on Angas' one and three year debentures and compares these with the interest paid by banks on \$10,000 invested for one year. The Chart shows:

- Angas' debenture rates have been less volatile than one year bank rates.
- Angas' spread over one year bank rates has ranged between 0.75 and 5.35 percentage points (July 2008 and November 2009 respectively).
- Between early 2006 and June 2008 the spread narrowed as official rates rose
- Since the onset of the GFC in late 2007 the spread quickly widened when the RBA commenced cutting interest rates in 2008. During much of 2009 it has been at an historic high

Our assessment is that Angas' interest rate performance is meritorious. Our concern, notwithstanding the spread has recently been tracking at an all time high, is that debenture investors may lose a good proportion of the risk premium above bank deposits as interest rate rise (as is widely anticipated). More over debentures are inherently more risky than bank term deposits and investors seek an appropriate risk premium.

Chart 5 – Comparative Interest Rate Performance



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LIQUIDITY RESERVE AND CAPITAL

Angas must maintain a liquidity reserve of at least 5% of the debentures. Angas' practice has been to maintain a higher liquidity reserve. Table 5 summarises the position at 30 June and 30 September.

Table 5 – Liquidity

Month	Trust Deed 5% requirement	Voluntarily Additional Liquidity	Total Liquidity	Actual Liquidity held	Debenture Fund	Liquidity % of Debenture Fund
June 2009	\$ 6,370,190	\$ 10,000,000	\$ 16,370,190	\$ 12,075,015	\$ 127,403,797	9.48%
September 2009	\$ 6,878,042	\$ 7,500,000	\$ 14,378,042	\$ 31,017,453	\$ 137,560,849	22.55%

In early 2009/10, the Board reduced the voluntary liquidity from \$10m to \$7.5 million. On 1 October the limit was dropped further to \$5 million. This was due to substantial inflows of debenture investments and a record high reinvestment rate.

Total assets were \$149.8 million at 30 June 2009, comprising \$143.5 million total liabilities and \$6.3 million equity capital.

Angas' dividend policy is to retain 30% of profits.

RISK MANAGEMENT AND COMPLIANCE

Risks

These are set out in the Prospectus and include all the major risks investors typically experience in debenture investments:

- inability of Angas to invest in suitable mortgages within a reasonable time after it issues debentures
- fall in the value of secured properties
- the inability of mortgagors to meet their contractual obligations
- redemption of first mortgages prior to the expiry of the full term
- other factors beyond the control of Angas including economic and political conditions, e.g. movement in market interest rates after debentures have been issued

Angas' debentures are listed and were rated B+ by Standard & Poor's on 5 May 2009. This means Angas is not obliged to comply with the "if not/why not" Regulatory Guide 69 issued by ASIC for debentures.

Risk Management

The Audit, Risk, Management and Compliance Committee (ARMCO) has responsibility and authority for the implementation of the risk management policy.

The risk management method followed by Angas is:

- Hands-on management by a board of executive directors with complementary skills - each director is proficient in designated responsibilities and portfolios
- A management structure of experienced personnel with appropriate skills
- Support from external consultants to enable management to focus on core business
- Minimisation of financial risk through a sound balance sheet and operating controls;
- Understanding the legal and compliance environment in which Angas operates.

Unlike some of its competitors Angas does not hold mortgage indemnity insurance. Angas' view is it is not necessary as its loan book has an average LVR of 60%, under the implied 68% average based on its target sector allocation and associated LVR limits. In addition, Angas' loans are issued for relatively short terms, typically less than 12 months.

Lending Policy

The main lending policies are:

- Maximum loan term: 12 months, but up to 20% of the loan book may be for loans of longer duration but for terms not exceeding three years
- Maximum LVR percentage:
 - 70% for residential land, commercial land, industrial land, development and rural land < 40 acres
 - 50% for rural land > 40 acres
- Maximum loan amount: \$5m
- Maximum of 10% of portfolio allowed to any one loan

Disclaimer: Atchison Consultants recommend that investors read the detailed information contained in the Product Disclosure Document. Investors should read the Analyst Interest and Certification, Warning (General Advice Only) and Disclosure (Commissioned Research) at the end of this report.

Angas Securities Listed Debenture Stock

Security

Angas is an asset based lender. Angas places primary reliance on the first mortgage over prime free hold or leasehold real estate security to obtain recovery of loan advances. Angas acts as mortgagee exercising power of sale.

Security types are as follows:

- Residential property and land
- Commercial property and land
- Industrial property and land
- Rural property and land
- Development land

Below acceptable security can be considered:

- Income producing rural properties
- Studio apartments/ bed sitters
- Conversions from another purpose
- Specialised security – restrictive usage
- Owner builders
- Dwellings un-fit for human habitation

Other credit support may sometimes be held by Angas in the form of collateral mortgages, guarantees and company charges.

Angas manages the risk of the individual asset being held as security by setting an appropriate LVR lower or closer to the applicable limit in the Lending Policy and by limiting its balance sheet exposure to certain types of security, e.g. construction finance is limited to a maximum of 5% of debentures.

Angas' primary concerns as a short term lender is the quality of the borrower's security as the value of interest on loans over their term is typically much less than loan's principal. The maximum LVR is 70%, but historically Angas has targeted a 60% LVR.

Atchison Consultants considers Angas' lending policy is sound for the type of loans Angas targets.

Borrower's contribution

Where a loan is used to part fund an activity by a borrower, Angas establishes the source of funds for the borrower's contribution in the funding facility. Generally, one or more of:

- Personal savings
- Sale of previous property
- Sale of other assets
- Family gift or inheritance
- Insurance claim or payout

Valuation

Angas relies on external independent valuations. Valuations must be signed off by an AAPI/FAPI certified practising valuer with greater than 5 years experience. For loans greater than \$250,000, an Angas director inspects the property offered as security.

Properties for new loans are revalued annually and/or as required by the Credit Committee.

Angas obtains valuations of property on an 'as is' basis. It does not accept valuations of property 'as complete'. This reduces lending risk.

In our view Angas' valuation process is sound.

Other risk management strategy

Angas' loan periods are generally less than debenture repayment periods. This assists in maintaining liquidity. In general loans are not issued for periods exceeding 1 year. If a borrower defaults, Angas has been - with few exceptions - able to recover the loan principal within a period that conforms to the 1 and 3 year investment periods of its debentures.

Angas also minimises lending risk by:

- Not making loans to related parties
- Requiring building insurance (at replacement cost) and evidenced by a certificate of currency from an approved insurer which notes Angas' interest as lender.

Management of loan defaults

There is a risk of a loan default resulting in a loss to Angas of part or all monies due. Angas bears this risk ahead of the debenture holders.

Angas' staffs have demonstrable skill and experience in recovery and insolvency.

Loan recovery times reflect the nature and location of the security and the level of any obstruction or co-operation from the borrower.

If the borrower is unwilling or unable to co-operate with Angas in recovering the loan, then it takes time for Angas to go through the formal procedures to recover the amount due. The process of obtaining a court order for the possession of a property and then selling that property as the mortgagee exercising its power of sale may take many months.

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During this period Angas incurs costs but does not receive income in respect of the loan. There is no certainty all money will be recovered.

A higher interest rate can be charged for late payments. Angas has discretion to allow a 7 day grace period.

Angas employs a Loans Administrator who is responsible is to follow up borrowers in the event of late payment of interest, expiry of a loan term or any other event of default.

If these matters are not addressed by the borrower, legal action is taken by Angas to recover the loan funds, which may include selling the property against which the loan is secured.

The Loan Administrator reports monthly to the Board on the status of all accounts that were delinquent during the month. This report monitors all loans being charged interest at the Higher Rate.

Atchison Consultants has reviewed Angas Securities Operations Manual – Arrears and Enforcement section and considers Angas' loan default processes to be sound.

Compliance

The Audit Risk Management and Compliance Committee reviews and reports to the Board on the following matters:

- Financial integrity
- Regulatory reporting
- Legal compliance (including AFSL requirements)
- Risk management
- Audit effectiveness.

The Committee comprises:

- Kimley Lyons (Chairman of Committee),
- Matthew Hower (Managing Director)
- Andrew Luckhurst-Smith (Executive Chairman and Director of Angas Securities)
- Nicholas Corbett

The Compliance Committee's specific responsibilities include:

- Review the internal controls, policies, procedures and compliance systems
- Review the financial information provided periodically and annually by the Company
- Oversee financial and regulatory reporting to the Trustee, shareholders and ASIC
- Oversee compliance with ASIC Regulatory Guidance 156 Debenture Advertising

- In the event that the Company chooses to list on an Exchange, oversee compliance with the listing conditions and ongoing disclosure requirements required by the Exchange
- Review compliance with the Company's anti-money laundering/ counter-terrorism financing program
- Establish regulatory, reporting and compliance protocols for new business acquisitions
- Monitor the effectiveness of internal financial controls and of the external auditors
- Review the fundraising operations (both retail and wholesale) in conjunction with associated issues such as advertising methodology, prospectus preparation and compliance with wholesale borrowing covenants
- Review adherence to the terms of Angas' AFSL
- Review whether Angas has effective risk management systems to manage business, financial and operational risk
- Report to the Board on its work; express opinion on its performance in the areas covered by its charter and make recommendations to the Board as appropriate

The Compliance Committee has only one independent member - Nicholas Corbett, a professional accountant.

Atchison Consultants has sighted the Compliance Plan and associated documents. The Compliance Breach Register records one breach regarding a systematic error which was notified to ASIC. Atchison Consultants has been advised the error has been rectified.

Atchison Consultants considers Angas' compliance arrangement are sound and in keeping with industry practice. Best practice would see the Committees comprised of a majority of independent members, one of whom was appointed as chair of the Committee.

Conflicts of Interest/ Related Party Transactions

Angas' Conflict Management Policy does not rule out all conflicts or related party transactions, but requires them to be within normal acceptable boundaries and for them to be disclosed to Angas' shareholders and debenture investors.

In Prospectus Number 9, Angas says it will not make loans to related parties.

Other disclosures include:

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Angas Securities Listed Debenture Stock

Each director holds or has an interest in shares or options in Angas.

No director of Angas and no firm in which a director is a partner has or had an interest in the promotion of Angas or the debentures or any property proposed to be acquired by Angas. No amount has been paid or agreed to be paid to any such director or to any firm of which he is a partner, to induce him to become or to qualify him as director or otherwise for services rendered by him or by the firm in connection with the promotion of Angas or the issue of debentures. Save as follows:

- All directors are entitled to remuneration for their services
- Andrew Luckhurst-Smith acts as a lawyer to Angas from time to time. He is paid legal fees for doing so at ordinary commercial rates. These include legal fees paid by mortgagors for the preparation of security documents in relation to loans made by Angas.
- Matthew Hower is a director of KWS Capital Pty Ltd and KWS Capital (No.2) Pty Ltd which may be entitled to receive remuneration from Angas and borrowers who obtain loans from Angas. All loan applications introduced by KWS Capital Pty Ltd are considered on their merits and any loans approved as a consequence are advanced by Angas on its usual terms, conditions, fees and rates of interest.
- The shareholders of Angas have established Barker Mortgages Pty Ltd which as trustee of Barker Performance Trusts No 1 and No 2 may provide second mortgage loan funding to borrowers with first mortgage loan funding by Angas. In all instances, any security taken by Barker Mortgages Pty Ltd will rank behind security taken by Angas.
- No director has requested approval of the Board to pledge any shares in Angas as security for a loan and no approval has been given.

LIQUIDITY

Angas' Liquidity Policy aims at ensuring cash flow is managed in accordance with the requirements of the Trust Deed and Angas' AFSL. The main requirements are liquid funds must equal at least 5% of debenture funds and Angas must have sufficient funds on hand to pay all its expenses when due and budgets to show it can do so on a three month rolling forward basis.

The Head of Lending prepares the Liquidity Report, which is distributed to all directors. The Report is prepared monthly and more regularly in periods

when high level monitoring is required. The Head of Lending consults with the finance and investor relations groups in gathering information for the Report.

The Report addresses:

- Available cash at bank
- The prevailing debenture re-investment rate
- Redemption requests
- Reliable new investment indications
- Loans due to expire and not to be extended
- Other flow backs such as notification of loans to be repaid early or other expectation realisations or recoveries
- Property investments – receipts expected from sales and requirement for any new purchases
- Accepted Letter of Offers (LOOs) and projected new lending settlements
- New loans applications where no LOOs issued or accepted.

The Chairman of the Credit Committee uses the Liquidity Report to regulate the number of LOOs and value of loans issued by Angas.

Angas' liquidity requirements and performance against these requirements is dealt with under Liquidity Reserve and Capital section of the report.

The rate of reinvestment of debentures is an important factor in Angas' liquidity. Historically, the majority of investors have rolled their debenture investment over. Over the 2008/09, the average percentage of dollar value re-invested was 74%. In the first four months of 2009/10, this percentage has increased.

Atchison Consultants considers Angas' Liquidity Policy as more than adequate for Angas to satisfy its legal obligations. This view has regard to Angas' objective to maintain a surplus liquidity reserve.

FEES

Paid by Debenture Investors

Debenture investors pay no fees.

Angas derives most of its income from the spread between what the interest rates paid on debentures' and the interest rates paid by borrowers.

Paid by Borrowers

Angas charges the following fees to borrowers:

- Loan Application Fees
- Document Preparation

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Angas Securities Listed Debenture Stock

- Property valuation fee
- Property Inspection fee
- Administration fee
- Early Discharge fee

Brokerage fee

Angas pays no brokerage fee on the establishment of loan. Such brokerage is paid directly by the borrower.

Angas may pay brokers a trailing commission. This is typically around 0.25% of the value of a loan.

Interest Margin

Angas' standard lending rate for loan terms up to 1 year has been 14.5% since September 2008. Over this period, the debenture interest rate reduced from 9% to 7.5%.

Angas seeks to maintain a minimum spread of 5 percentage points. The other key factor influencing interest rate settings is the one year interest rate on term deposits with a margin sufficient to attract debenture investors.

PROSPECTIVE PERFORMANCE

Our assessment of Angas' future performance, in particular its ability to pay interest on its debentures and pay debenture redemptions is based on:

- Angas' past performance. Angas has to date reliably and fully met its payment obligations to its debenture holders with only two loan write offs;
- During the Global Financial Crisis Angas has maintained its track record. However, over 2009, the number of loans taking longer to repay than their original loan period has increased. This is impacting Angas' profitability, which is under budget and more volatile than budget for the first four months of 2009/10. Angas has reduced its voluntary additional liquidity but still holds more liquidity than its minimum requirement; and
- Angas' positioning in a niche market based on South Australia and Western Australia and its emphasis on 'borrowing long and lending short'.

We expect Angas to continue to meet its obligations to its debenture investors. Its ownership, management, and systems and processes are in well position to do so.

Attachments

Table 5: Disclosure benchmarks for debenture issues
Flowchart – Business model

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Angas Securities Listed Debenture Stock

ASIC COMPLIANCE

Table 5: Disclosure benchmarks for debenture issuers

Benchmark	Description of benchmark	Angas compliance
<i>Applies to all issuers</i>		
1. Equity capital	<p>Issuers to have a minimum amount of equity capital:</p> <p>i. Where more than a minor part (10%) of the issuer's activities is property development or lending funds directly or indirectly for property development – the issuer should maintain a minimum of 20% equity;</p> <p>ii. In all other cases – the issuer should maintain a minimum of 8% equity; and</p> <p>iii. The debenture issuer's equity ratio to be calculated as:</p> $\frac{\text{Equity capital}}{\text{Total debt + equity capital}}$	<p>(i) N/A, constructions loans is max 5%.</p> <p>(ii) & (iii) Equity capital ratio as at 30 June 2009 is 5.81% which is less than ASIC minimum requirement of 8%.</p>
2. Liquidity	Issuers to estimate their cash needs for the next three months and ensure that at all times they have on hand cash or cash equivalents sufficient to meet their projected cash needs over the next three months.	Yes, item 6.2 Cash flow projections as at June 2009 (forecast July to October 09)
3. Rollovers	Issuers to disclose their approach to rollovers, including whether the “default” is that their investments are automatically rolled over.	The company does not utilize automatic rollovers. The company notifies investors approximately 1 month before maturity and seeks their instructions.
4. Credit ratings	Issuers to get a credit risk rating for their debentures by a recognised credit rating agency. The rating to be disclosed in the prospectus, along with an explanation of what the rating means.	Angas is rated by Standard & Poor's
<i>Applies to lenders only</i>		
5. Loan portfolio	Issuers to disclose the number, type and value of loans they have or expect to have in the coming 12 months.	Disclosed in 2009/10 budgets
6. Related party transactions	Issuers must disclose their policy on related party transactions such as how many loans they have made or expect to make in the coming 12 months to related parties, as well as the assessment and approval processes for related party loans.	Angas made no loans to related party
<i>Applies to property-related debentures issuers only</i>		

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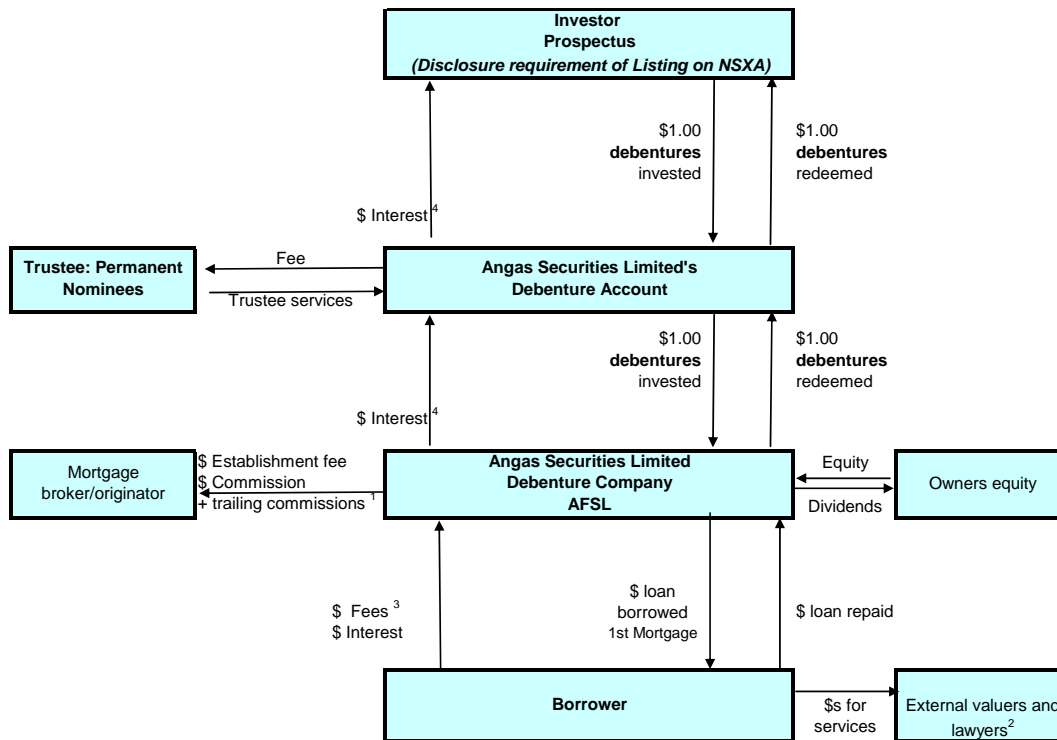
7. Valuations	Issuers to value property and assets in certain ways that are objective and independent and to disclose the valuations in the prospectus.	Angas obtains independent valuation reports
8. Lending principles – loan-to-valuation ratios	Issuers to maintain set maximum loan-to-valuation ratios: i. Where the loan relates to property development – 70% on the basis of the latest “as if complete” valuation; and ii. In all other cases – 80% on the basis of the latest market valuation.	(i) Construction loan has max LVR of 50% of total complete development. (ii) all others: LVR < 70%

Source: ASIC Regulatory Guide 69 Debentures—improving disclosure for retail investors, October 2007

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Angas Securities Listed Debenture Stock

FLOW CHART - BUSINESS MODEL



1. Trailing commission linked to profitability which depends upon loan interest and lending income
2. In the debenture trusts a lot of the legal fees are paid to a related law firm.
3. Fees paid by borrower include loan application fee, security document preparation fee, property valuation fee, property inspection fee, admin fee and early discharge fee
4. Usually targeted at a rate higher than cash rate set by RBA

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Angas Securities Listed Debenture Stock

SOURCES OF INFORMATION

The following information about Angas Securities Limited and Angas Listed Debenture Stock has been relied on in preparing this report:

- Listed Debenture Stock Prospectus Number 9
- Charts of Mortgage Discharges to 30 June 2009
- CVs of Directors and key staffs
- Compliance Charter
- Bi-Weekly Liquidity Reporting
- Lending Liquidity Reporting
- Capital Forecasts
- Dividend Policy
- Financial Reports
- Budget 2009/10
- Risk Management Quarterly Review
- Audit Risk Management and Compliance Committee Charter
- Investor News May, June and July 2009
- Liquidity Policy
- Angas Securities Operations Manual - Volume 2 - Lending & Loans Management
- Accredited Broker Report as at 23 March 2009
- Panel Valuer Listing July 2009
- External Service Providers Policy Statement

REPORT DATE

Date Report Prepared: 30 November 2009.

Report Expiry Date: The Atchison Consultants report is a point in time assessment and expires after 6 months or if there are any material changes in relation to the information contained in this report or any disclosure or offer document issued in relation to this offer. Atchison Consultants reserves the right to change its opinion, rating and/or withdraw the report at any time on reasonable grounds.

Report Prepared By: Arthur Apted and Yacintha Setiadi.

Report Authorised By: Ken Atchison.

STATEMENT OF ANALYST INTEREST AND CERTIFICATION, WARNING AND DISCLOSURE

Atchison Consultants' Financial Services Guide has been provided to Angas Securities Ltd. Retail investors may obtain this directly from Atchison Consultants using the contact details below. The Financial Services Guide is designed to assist retail investors in their use of any financial product advice in this Report.

Analyst Interest and Certification:

The Analyst(s) may hold an investment in this product and this holding may change over the duration of this rating. Atchison Consultants does not consider such holdings to be sufficiently material to comprise the rating. The Analyst(s) certifies that with respect to content covered in this report: (1) all of the views expressed accurately reflect his or her personal views about product; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Warning (General Advice Only):

This report is prepared for Angas Securities Ltd. The report contains recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Investors should assess either personally or with the assistance of a licensed financial adviser whether the Atchison Consultants recommendation or advice is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Atchison Consultants does not accept any

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Disclosure (Commissioned Research):

Atchison Consultants has received a fixed fee, established prior to commencement of work from Angas Securities Ltd for the preparation of this report. Atchison Consultants applies a strict and rigorous process for the production of research reports and has no direct or indirect interest in the success or otherwise of this investment.

ATCHISON CONSULTANTS

Atchison Consultants was established in 2001 by Ken Atchison and consists of a team of investment professionals with extensive experience in all aspects of financial markets.

The principal focus of the business is the provision of advice and analysis across all components of managing investment portfolios by financial institutions, superannuation and insurance funds and investment managers. Primarily this involves property, or real estate, investments and related mortgage investments.

Atchison Consultants' services and capabilities cover two distinct areas being asset consulting and investment management consulting, with a focus on the property asset class.

Licence

TAG Asset Consulting Group Pty Ltd (ABN 58 097 703 047), trading as Atchison Consultants, is the holder of Australian Financial Services Licence Number 230846.

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