

9 May 2017

Legal Matter Update

Force Commodities Ltd (**Force** or the **Company**) (ASX Code: 4CE) hereby advises that the New South Wales Local Court has made a determination against Force (formerly Sovereign Gold Company Limited) in the matter Hudson Corporate Limited ACN 075 068 923 (**Plaintiff**) v Sovereign Gold Company Limited (**Defendant**).

The Defendant has been ordered to pay the Plaintiff the amount of \$100,000 plus interest of \$5,119.52 and legal costs, as agreed or assessed.

Force is reviewing the determination and the merits of an appeal; and has until 2 June 2017 to file an appeal should it deem it appropriate.

Relevant Background and Facts

1. The Company was incorporated on 10 August 2010.
2. On 16 September 2010, the Company entered into an agreement with Hudson Corporate Limited (HCL), a wholly owned subsidiary of Hudson Investment Group, the major shareholder of the Company at that time, under which HCL was to provide CEO/Executive Services, Geological Services, Financial/Accounting Services, Company Secretarial Services, Office Services and Facilities, and Miscellaneous Services (together referred to as the **Services**) as defined in that agreement (**September 2010 Services Agreement**).
3. The Company was admitted to the Official List of ASX Limited on 29 November 2010.
4. On 1 January 2014, HCL granted the Company a \$1,500,000 loan facility on terms set out in a letter dated 1 January 2014 (**Original Loan Facility**).
5. From 1 January 2014, fees relating to the Services under the September 2010 Services Agreement were charged direct to the loan account between the Company and HCL;
6. Per the 2011 Annual Report, HCL invoiced fees for Services against the Company for \$339,000 during the year ended 31 December 2011.
7. Per the 2012 Annual Report, HCL invoiced fees for Services against the Company for \$411,000 during the year ended 31 December 2012.
8. Per the 2013 Annual Report, HCL invoiced fees for Services against the Company for \$1,405,625 during the year ended 31 December 2013.
9. Per the 2014 Annual Report, HCL invoiced fees for Services against the Company for \$883,800 during the year ended 31 December 2014.
10. The Services Fees invoiced by HCL against the Company during the year ended 31 December 2015 were not disclosed in the 2015 Annual Report.
11. By June 2015, after fees for Services, other charges, repayments and interest accruals, the Company owed HCL \$1,050,000.
12. On 29 June 2015 two written documents were signed – the first a written Deed signed by both the Company and HCL described as the Loan Facility Agreement (**LFA Agreement**) and the second a Deed Poll (**Deed Poll**) executed by the Company.

13. Clause 2 of the LFA Agreement provided:

2.1 Subject to Completion, the Lender warrants and acknowledges that:

- (b) Notwithstanding that a greater sum is due and payable as at the 24 June 2015, the Lender agrees the total amount owing under the Loan Agreement for the Capped Period is \$850,000 including all fees, charges and interest payable; and*
- (c) The Lender warrants and acknowledges that \$850,000 represents the full and final amount owed by the Borrower to the Lender for the Capped Period under the Loan Agreement and the Lender has no further claim prior to or post to the 24 June 2015 against the Borrower in relation to the Loan Agreement.*

2.2 Subject to Completion, the Parties agree to terminate the Loan Agreement effective on 24 June 2015.

14. Clause 3 of the Deed Poll provided (relevantly):

- 3.1 SOC undertakes that following items are pending financial payables due to third parties up to and including the date of this Deed Poll.*
- 3.2 SOC confirms its understanding between the relevant parties to pay the sums below on receipt of Research and Development funds, having been previously lodged when funding former subsidiary, Precious Metal Resources Limited.*
 - (e) AUD\$100,000 payable to HCL (to reduce the AUD\$850,000 capped loan funding loan period up to and including 30 May 2015).*

15. The \$850,000 capped Loan was subsequently repaid in full (via cash and securities) and on 30 September 2015 the parties executed a one letter document entitled *Variation – Loan facility Adjustment Agreement* which provided (relevantly):

We refer to discussions relating to the Loan Facility Adjustment Agreement (Agreement), dated 29 June 2015 and confirm the following variations to the Agreement:

Defined terms in the Agreement have the corresponding meaning in this letter.

- 1. The Agreed Outstanding Amount is Nil.*

16. The relevant R&D claim moneys referred to in the Deed Poll were received by the Company on 29 March 2016.

17. On 9 September 2016, HCL filed a claim against the Company for \$100,000; being an amount in contended that it was owed by the Company pursuant to the Deed Poll and an oral agreement.

18. The Company filed its defence on 4 October 2016 wherein it contended amongst other things that the loan had been fully repaid and further that it no longer was required to make the payment of \$100,000 out of its R&D refund moneys to reduce the loan as the loan was at nil.

END