Pelorus Private Equity Limited

& Controlled Entities

ABN 45 091 209 639

PELORUS PRIVATE EQUITY

Consolidated Annual Financial Statements

Year Ended 30 June 2012

CONTENTS

Financial Statements

Directors’ Report	Page 3
Auditor’s Independence Declaration	Page 8
Group Details	Page 9
Consolidated Statement of Comprehensive Income	Page 10
Consolidated Statement of Financial Position	Page 11
Consolidated Statement of Changes in Equity	Page 12
Consolidated Statement of Cash Flows	Page 14
Notes to the Consolidated Financial Statements	Page 15
Directors’ Declaration	Page 44
Independent Auditor’s Report	Page 45

Directors' Report

The Directors of Pelorus Private Equity Limited ("Pelorus" or "the Company") and its controlled entities ("the Group") present their report for the year ended 30 June 2012.

Principal Activities

On 22 December 2010 Shareholders approved a Demerger of the Group and its operations. Effectively the Demerger split Pelorus's operations and holdings into distinct and separate entities. These are:

- BlackWall Property Funds Limited ("BlackWall") (ASX Code: BWF) – which is engaged in the funds, development and property management activities formerly undertaken by the Group;

- Bakehouse Quarter Fund ("BQF") – a managed investment scheme holding an interest in the Bakehouse Quarter, a large commercial, retail and entertainment development in Sydney.

As a result of the Demerger, the Group is a holder of assets rather than an operating business. Current market conditions have severely impacted the carrying value of these assets but the Directors are confident that the underlying assets themselves are not at risk and the values will recover over time.

Review of Operations

The net result for the Group for the financial year ended 30 June 2012 was a loss after tax of $7,393,000 (2011: loss $932,000). This loss is primarily due to the write down in the carrying value of assets retained by the Group.

In June 2009 the Group took control of the Reed Property Trust ("the Trust"). At that time the Trust was frozen and was in default with its lenders with gearing in excess of 85%. Having taken control of the Trust Pelorus executed a number of initiatives to reduce debt and expand the balance sheet. Gearing is now below 50%, it has been renamed P-REIT and it has been listed on the Australian Securities Exchange (ASX code: PXT). P-REIT is now managed by BlackWall Property Funds.

P-REIT is currently the defendant in a Supreme Court action initiated by the MacarthurCook Property Securities Fund ("MPS"). The proceedings relate to a number of contracts entered into with MPS some time prior to Pelorus becoming involved. The claim has been vigorously defended but on 10 August 2012 judgment was entered against TFML Limited (as P-REIT's responsible entity) for approximately $17.8 million. An appeal has been lodged on behalf of P-REIT and this is expected to be heard early in 2013. The Directors continue to believe that P-REIT is not liable under the contracts and are hopeful that the case will ultimately be resolved in its favour.

Since listing P-REIT has consistently traded at less than one third of its NTA (assuming success in the MPS court action) or less than half NTA assuming all court actions with MPS are decided against P-REIT. At balance date Pelorus held 11.6m P-REIT units resulting in an impairment loss of $1.4m. Pelorus continues to acquire P-REIT units as the Directors see value at current prices regardless of the outcome of the court action.

Pelorus is the majority unitholder in, and mezzanine lender to, the WRV Unit Trust, which owns The Woods property at Villawood. The Woods was a failed bulky goods retail Centre that has been reformatted by Pelorus as an action centre with new activities including AMF Bowling, indoor Go-karts and indoor Rock Climbing. The property is currently being independently valued for bank debt purposes. Despite the asset's operating success, the valuer has had difficulty with its unique nature and tenancy mix. As a consequence the value has been marked down to $13.5 million resulting in a revaluation downward of $3.26m.

Directors' Report (continued)

Pelorus has an interest in 24.1 million BlackWall Pub Fund units. Sales in the underlying pubs have improved significantly over the past 12 months but property values continue to deteriorate. This has resulted in a loss of $1.2m. While this has been recorded as a realised loss Pelorus retains effective ownership of the units and will benefit from any recovery in the value of these properties.

Pelorus holds 1.7 million BlackWall Property Funds Limited shares. These shares have consistently traded at less than half NTA with no value ascribed to the underlying business. This has resulted in an impairment loss of $0.26m.

Significant Changes in Affairs

During the financial year the Group completed its transformation from operating business to a holder of assets.

Dividends

There were no dividends paid or declared for the year ended 30 June 2012 (2011: $nil).

Events Subsequent to Reporting Date and Likely Developments

During the year, an impairment loss of $1,418,000 for the P-REIT units was recognised based on the ASX closing price of $0.10 as at the reporting date (refer to Note 8). As at the date of signing these financial statements, the closing price is $0.09.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

Going Concern

The Group has a net current asset deficiency of $763,000, due to the borrowings of $8,000,000 secured against The Woods property, being classified as a current liability that is due within the next 12 months. The Directors are confident that the borrowings will be renewed when due. As a result, it is appropriate the financial statements be prepared on a going concern basis.

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Information on Directors

The names of the Directors in office at any time during or since the end of the year are set out below. Unless otherwise stated, Directors have been in office since the beginning of the financial year to the date of these financial statements.

Directors' Report (continued)

Information on Directors (continued)

Name	Special Experience	Position
Joseph (Seph) Glew	Seph has worked in the commercial property industry in New Zealand, the USA and Australia. Seph has driven large scale property development and financial structuring for real estate for over 30 years. In addition, since the early 1990's Seph has run many "turn-around" processes in relation to distressed properties and property structures for both private and institutional property owners. While working for the Housing Corporation of New Zealand and then AMP, Seph qualified as a registered valuer and holds a Bachelor of Commerce. In the 1980's he served as an Executive Director with New Zealand based property group Chase Corporation and as a Non-Executive director with a number of other listed companies in New Zealand and Australia. Seph was Chairman of formerly ASX listed Pelorus Property Group and a Director of ASX listed company, BlackWall Property Funds Limited.	Executive Chairman
Robin Tedder	Robin has over 35 years experience in investment and financial markets. He has been an investor in BlackWall's projects since 1997. Robin manages private equity interests and is the Chairman of Vintage Capital Pty Ltd. He is a former member of the ASX and has served on the boards of several merchant banks in Australia and overseas, including Rand Merchant Bank Ltd, Kleinwort Benson Australia Ltd and Australian Gilt Securities Ltd (as CEO from 1988 to 1995). He is a Director of Italtile Australia Pty Ltd (a national retailer under the CTM brand, and developer of bulky goods stores), Chairman of Apollo Health Management and Australian Ambassador for Singularity University (sponsored by NASA and Google) of Mountain View California. Robin is also a Fellow of the Financial Services Institute of Australasia. Previously, Robin was a Director of formerly ASX listed Pelorus Property Group and a Non-Executive director of ASX listed company, BlackWall Property Funds Limited.	Non-Executive Director

Directors' Report (continued)

Information on Directors (continued)

Stuart Brown	Stuart has been involved in property investment for over 15 years across funds management, property services and finance. In 2006 he was appointed Chief Operating Officer and Chief Financial Officer of the then ASX listed Pelorus Property Group and later Managing Director. Stuart has run debt and equity raising in relation to listed and unlisted real estate structures with assets valued at over a half a billion dollars. In his earlier career, Stuart practised as a solicitor in the areas of real estate, mergers and acquisitions and corporate advisory with Mallesons and Gilbert + Tobin. Stuart is also a Director of ASX listed company, BlackWall Property Funds Limited.	Non- Executive Director

Don Bayly is the Company Secretary and he has over 20 years compliance management experience.

Meeting Attendances

Attendance at the Company's Board meetings held during the financial year are detailed below:

Director	Board Meetings
Meetings Held	5
Seph Glew	5
Robin Tedder	5
Stuart Brown	5

Environmental Regulation and Performance

The Group's operations are not regulated by any environmental regulation under a law of the Commonwealth or of a State or a Territory other than those that pertain to the ownership and development of real estate.

Indemnities of Officers

During the financial period the Group has paid premiums to insure each of the Directors named in this report along with officers of that Group against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Group, other than conduct involving a willful breach of duty.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor to the Group.

Non-audit Services

Amounts paid to the auditor for non-audit services during the year are detailed at Note 20 of the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements.

Directors' Report (continued)

Rounding of Amounts

The Group is a group of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor

ESV Chartered Accountants continues in office in accordance with section 327 of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of Directors.

Seph Glew
Chairman
Sydney, 28 September 2012

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Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

As auditor for the audit of Pelorus Private Equity Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Dated at Sydney the 28th day of September 2012

ESV

ESV Chartered Accountants

Tim Valtwies
Partner

Group Details

The Group's details are as follows:

Registered Office	Level 1, 50 Yeo Street Neutral Bay NSW 2089
Principal Place of Business	Level 1, 50 Yeo Street Neutral Bay NSW 2089
Telephone	02 9033 8611
Fax	02 9033 8600
Website	www.pelorus.com.au

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2012

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Fund and asset management income		-	-	428	192
Property rental income		3,502	3,447	-	-
Investment income		109	255	25	91
Total Revenue	3	**3,611**	**3,702**	**453**	**283**
Business operating expenses	4	(835)	(1,008)	(434)	(606)
Depreciation expenses	4	(607)	(326)	-	-
Property outgoings		(680)	(536)	-	-
Finance costs	4	(1,812)	(2,067)	(1)	(1)
Gain / (loss) on disposal of assets	4	(217)	352	(769)	352
Share of associate loss	4	-	(671)	-	(671)
Other expenses		(81)	(91)	-	(88)
Unrealised gain / (loss) on revaluation of assets	4	(3,811)	1,273	(2,229)	2,011
Impairment	4	(2,638)	(156)	(1,813)	(196)
Foreign exchange gain / (loss)		(20)	-	5	-
Profit / (Loss) Before Income Tax		**(7,090)**	**472**	**(4,788)**	**1,084**
Income tax expense	5	(303)	(1,404)	(230)	(110)
Profit / (Loss) From Continuing Operations After Tax		**(7,393)**	**(932)**	**(5,018)**	**974**
Discontinued Operations					
Profit / (loss) from discontinued operations		-	(4,850)	-	149
Profit / (Loss) After Tax		**(7,393)**	**(5,782)**	**(5,018)**	**1,123**
Other Comprehensive Income / (Loss)		-	-	-	-
Total Comprehensive Income /(Loss) For the Year		**(7,393)**	**(5,782)**	**(5,018)**	**1,123**
Profit / (Loss) Attributable To:					
Owners of the Group		(6,410)	(5,705)	(5,018)	1,123
Non-controlling interest		(983)	(77)	-	-
		(7,393)	(5,782)	(5,018)	1,123
Total Comprehensive Income /(Loss) Attributable To:					
Owners of the Group		(6,410)	(5,705)	(5,018)	1,123
Non-controlling interest		(983)	(77)	-	-
		(7,393)	(5,782)	(5,018)	1,123

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	6	729	77	340	(74)
Trade and other receivables	7	77	168	22	97
Other financial assets	8	7,283	16,579	3,291	11,931
Current tax receivable	9	-	319	7	381
Total Current Assets		8,089	17,143	3,660	12,335
Non-Current Assets					
Equity accounted investments	10	-	2,656	-	2,656
Other financial assets	8	104	104	11,680	13,730
Investment properties	11	30,000	33,527	-	-
Deferred tax assets	12	-	12	-	9
Intangible assets	13	10	15	-	-
Total Non-Current Assets		30,114	36,314	11,680	16,395
TOTAL ASSETS		**38,203**	**53,457**	**15,340**	**28,730**
LIABILITIES					
Current Liabilities					
Trade and other payables	14	688	1,371	233	875
Current tax payable	9	49	-	-	-
Other financial liabilities	15	115	254	-	7
Borrowings	16	8,000	-	-	-
Total Current Liabilities		8,852	1,625	233	882
Non-Current Liabilities					
Borrowings	16	10,725	18,500	-	-
Other financial liabilities	17	6,169	5,715	-	-
Total Non-Current Liabilities		16,894	24,215	-	-
TOTAL LIABILITIES		**25,746**	**25,840**	**233**	**882**
NET ASSETS		**12,457**	**27,617**	**15,107**	**27,848**
EQUITY					
Share capital	18	15,401	23,124	15,401	23,124
Retained earnings / (accumulated losses)		(2,648)	3,757	(294)	4,724
Parent Interest		12,753	26,881	15,107	27,848
Non-controlling interest		(296)	736	-	-
TOTAL EQUITY		**12,457**	**27,617**	**15,107**	**27,848**

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2012

Consolidated	Ordinary Shares $'000	Retained Earnings/ (Accumulated Losses) $'000	Foreign Currency Translation Reserve $'000	Attributable to owners of the parent $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2011	**23,124**	**3,757**	**-**	**26,881**	**736**	**27,617**
Loss for the year		(6,410)	-	(6,410)	(983)	(7,393)
Cancellation of shares	(7,723)	-	-	(7,723)	-	(7,723)
Transactions with non-controlling interest	-	5	-	5	(49)	(44)
Balance at 30 June 2012	**15,401**	**(2,648)**	**-**	**12,753**	**(296)**	**12,457**
Balance at 1 July 2010	**87,551**	**21,369**	**(38)**	**108,882**	**883**	**109,765**
Loss for the year	-	(5,705)	-	(5,705)	(77)	(5,782)
Post acquisition accumulated losses of subsidiaries distributed to shareholders	-	(1,958)	-	(1,958)	-	(1,958)
Pelorus Demerger distribution of Bakehouse Quarter Fund units	(51,429)	(9,949)	-	(61,378)	-	(61,378)
Pelorus Demerger distribution of BlackWall shares	(8,330)	-	-	(8,330)	-	(8,330)
Cancellation of Pelorus shares	(4,853)	-	-	(4,853)	-	(4,853)
Reversal of foreign currency translation reserve on disposal of BlackWall Management Services (NZ) Limited	-	-	38	38	-	38
Decrease in non-controlling interest on disposal of Capital Self Storage Pty Ltd	-	-	-	-	(70)	(70)
Issue of options under employee share based payments	120	-	-	120	-	120
Issue of shares for options	70	-	-	70	-	70
Share buy backs	(5)	-	-	(5)	-	(5)
Balance at 30 June 2011	**23,124**	**3,757**	**-**	**26,881**	**736**	**27,617**

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity (continued)

For the Year Ended 30 June 2012

Parent	Ordinary Shares $'000	Retained Earnings/ (Accumulated Losses) $'000	Total $'000
Balance at 1 July 2011	**23,124**	**4,724**	**27,848**
Loss for the year	-	(5,018)	(5,018)
Cancellation of shares	(7,723)	-	(7,723)
Balance at 30 June 2012	**15,401**	**(294)**	**15,107**
Balance at 1 July 2010	**87,551**	**(277)**	**87,274**
Profit for the year	-	1,123	1,123
Net gain on disposal/ Demerger of subsidiaries	-	13,827	13,827
Pelorus Demerger distribution of Bakehouse Quarter Fund units	(51,429)	(9,949)	(61,378)
Pelorus Demerger distribution of BlackWall shares	(8,330)	-	(8,330)
Cancellation of Pelorus shares	(4,853)	-	(4,853)
Issue of options under employee share based payments	120	-	120
Issue of options	70	-	70
Share buy backs	(5)	-	(5)
Balance at 1 July 2011	**23,124**	**4,724**	**27,848**

The accompanying notes form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2012

	Notes	Consolidated		Parent	
		2012	2011	2012	2011
		$'000	$'000	$'000	$'000
Cash Flows From Operating Activities					
Receipts from customers		3,292	14,714	93	907
Payments to suppliers and employees		(1,459)	(7,934)	(157)	(1,445)
Dividends and distributions received		19	56	-	-
Interest paid		(1,807)	(4,817)	(1)	(1)
Interest received		43	30	25	57
Income tax refunded / (paid)		104	(129)	104	(214)
Net Cash Flows From / (Used in) Operating Activities	22	**192**	**1,920**	**64**	**(696)**
Cash Flows From Investing Activities					
Purchase of land		-	(1,853)	-	-
Proceeds from sale of investments		683	424	400	424
Acquisition of property, plant and equipment		-	(246)	-	-
Acquisition of other investments		(888)	(695)	(853)	(668)
Payment for development of investment properties		(79)	(1,740)	-	-
Disposal of subsidiary, net cash disposed of		(3)	-	-	-
Loans to related parties		(516)	(1,615)	(259)	(2,999)
Loan repayments received from related parties		1,038	807	1,062	2,513
Net Cash Flows From / (Used in) Investing Activities		**235**	**(4,918)**	**350**	**(730)**
Cash Flows From Financing Activities					
Cash reduction through Demerger of entities		-	(443)	-	-
Proceeds from borrowings		225	1,499	-	-
Repayment of borrowings		-	(50)	-	-
Share buy backs		-	(5)	-	(5)
Net Cash Flows From / (Used in) Financing Activities		**225**	**1,001**	**-**	**(5)**
Net Increase / (Decrease) in Cash Held		**652**	**(1,997)**	**414**	**(1,431)**
Cash and cash equivalents at the beginning of the year		77	2,074	(74)	1,357
Cash and Cash Equivalents at End of the Year	6	**729**	**77**	**340**	**(74)**

The accompanying notes form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies

The financial statements cover the economic entity of Pelorus Private Equity Ltd and Controlled Entities. Pelorus Private Equity Ltd is a public company, incorporated and domiciled in Australia.

The financial statements for the Group for the year ended 30 June 2012 were authorised for issue in accordance with the resolution of the directors on 28 September 2012.

Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The Group is a group of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

New and amended standards adopted by the Company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, the adoption of the revised AASB 124 Related Party Disclosures resulted in the disclosure of additional related party in Note 26, and the adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project enabled the removal of certain disclosures in relation to commitments and the franking of dividends.

Going concern

The Group has a net current asset deficiency of $763,000. This is due to the borrowings of $8,000,000 being classified as a current liability that is due within the next 12 months (refer Note 16). The Directors are confident that the borrowings will be renewed when due.

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlements of liabilities in the ordinary course of business.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Presentation of financial statements

Presentation currency

Both the functional and presentation currency of Pelorus Private Equity Ltd and its Australian subsidiaries is Australian dollars. The New Zealand subsidiary's functional currency is New Zealand Dollars, which is translated to presentation currency (refer to Foreign Currency Translation note below).

Principles of Consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of Pelorus Private Equity Ltd and its subsidiaries as at 30 June 2012. A list of controlled entities is contained in Note 25 to the financial statements. All controlled entities have a June financial year end and use consistent accounting policies. Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where controlled entities have entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased.

A controlled entity is an entity Pelorus Private Equity Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

Intercompany balances

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Non-controlling interests

Non-controlling interests not held by the Group are allocated their share of net profit and comprehensive income after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Comprehensive income after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Foreign Currency Translation

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

- assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed of.

Translation of foreign operations outside the group are transferred directly to the Group's outside equity interests on the balance sheet.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the statement of comprehensive income in the year in which they arise. Included in the value measurement are adjustments for straight-line basis in accordance with AASB 117.

Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, either the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the income of the asset is capitalised at its relevant capitalisation rate.

An impairment loss is recognised if the carrying value of an asset exceeds its recoverable amount. Impairment losses are expensed to the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Financial Instruments

Borrowing Costs

Borrowing costs directly attributable to the acquisition and construction of a qualifying asset are capitalised as part of the cost of the asset.

Derivative Instruments

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income for the year.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Recognition

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flow from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Loans and receivables

Loans and receivables including loans to related entities and to key management personnel are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Financial Instruments (continued)

Held For Trading Financial Assets

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance date. For investments in related party unlisted unit trusts, fair values are determined by reference to published unit prices of these investments which are based on the net tangible assets of each of the investments.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial instrument is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

An impairment loss in respect of a financial instrument measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

Individually significant financial instruments are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial instruments measured at amortised cost, the reversal is recognised in profit and loss.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment or more frequently if circumstances indicate it might be impaired and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. Each unit to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash generating unit and that unit is disposed of, the goodwill associated with the unit disposed of is included in the carrying amount of the unit when determining the gain or loss on disposal of the unit. Impairment losses recognised for goodwill are not subsequently reversed.

Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting where significant influence is exercised over an investee. Significant influence exists where the investor has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies. The Group generally deems they have significant influence if they have between 20% to 50% of the voting rights.

Under the equity method of accounting, investments in associates are carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associates. The Group's share of its associates' post acquisition profit or loss is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

1. Statement of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectible.

Trade and Other Payables

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

Interest Bearing Borrowings

Interest bearing borrowings are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost.

Revenue

Income from management fees in relation to managed investment schemes is recognised when it becomes legally due and payable to the Group.

Revenue from property services contracts is recognised monthly in arrears.

Investment income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate.

Dividend revenue is recognised when the right to receive a dividend has been established, which in the case of quoted securities is the ex dividend date.

Trust distributions are recognised when they are declared by the Trustee or responsible entity.

Foreign currency gains or losses are reported on a net basis.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Income Tax

Current income tax expense

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Accounting for deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax calculation

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Benefit brought to account

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax consolidation

Pelorus Private Equity Limited has elected to form a tax consolidated group with its wholly owned entities for income tax purposes under the tax consolidation regime with effect from 1 July 2005. As a consequence, all members of the tax consolidated group are taxed as a single entity from that date. The head entity within the tax consolidated group is Pelorus Private Equity Limited.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

Income Tax (continued)

In addition to its own current and deferred tax amounts, Pelorus Private Equity Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group in conjunction with any tax funding arrangement amounts.

The Group recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as operating cash flows.

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009 - 11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group did not recognise any gains/losses in other comprehensive income. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

New Accounting Standards and Interpretations (continued)

The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The Group's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the Group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in these financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

1. Statement of Significant Accounting Policies (continued)

New Accounting Standards and Interpretations (continued)

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates – impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. The Directors believed it appropriate to raise no impairment provisions for the year ended 30 June 2012 except for the provisions for impairment recognised under Note 8.

Key estimates – financial assets

Investments in unlisted securities and debt instruments have been classified as financial assets at fair value through profit or loss and movements in fair value are recognised directly in the Statement of Comprehensive Income. The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. The fair value of the listed securities is based on the closing price from the Australian Securities Exchange as at the reporting date.

2. Critical Accounting Estimates and Judgments (continued)

Key estimates - fair values of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. At the end of each reporting period, the Directors review and update their assessment of the fair value of each property, taking into account the most recent independent valuations.

3. Revenue

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Revenue from continuing operation:				
Fund and asset management income	-	-	428	192
Property rental income	3,502	3,447	-	-
Investment income:				
- Dividends and distributions	90	57	-	31
- Finance income	19	198	25	60
Total revenue	**3,611**	**3,702**	**453**	**283**

4. Expenses

		Consolidated		Parent	
		2012	**2011**	**2012**	**2011**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
Business operating expenses:					
Employee & consultants costs		400	431	205	416
Administration expenses		435	577	229	190
		835	1,008	434	606
Depreciation expenses - buildings	11	607	326	-	-
Finance costs		1,812	2,067	1	1
(Gain) / loss on disposal of assets		217	(352)	769	(352)
Share of associate loss		-	671	-	671
Unrealised (gain) / loss on revaluation of assets:					
- Financial assets and liabilities	8,15,17	811	(633)	429	(211)
- Investment in controlled entities	8	-	-	1,800	(1,800)
- Investment properties	11	3,000	(640)	-	-
		3,811	(1,273)	2,229	(2,011)
Impairment:					
- Financial assets	8	1,418	-	1,418	-
- Loans and receivables	8	1,220	156	395	196
		2,638	156	1,813	196

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

5. Income Tax Expense

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Current tax	3	370	1	6
Deferred tax	-	1,163	-	88
Under / (overprovision) of prior year tax	300	(129)	229	16
Total income tax expense	**303**	**1,404**	**230**	**110**

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Prima facie tax payable on profit / (loss) from ordinary activities before income tax at 30% (2011: 30%)	(2,127)	142	(1,436)	325
Add / (less) tax effect of:				
- Entertainment	-	2	-	-
- Distributions	-	39	-	2
- Merger and acquisition expenses	-	32	-	32
- Costs of issuing equity	-	(26)	-	(26)
- Revaluation and impairments	2,003	(311)	1,213	(545)
- Recoupment of prior years tax losses previously not brought into accounts	-	(237)	-	-
- Current year tax losses not brought into account	127	364	224	100
- Adjustment to prior year deferred tax assets	-	1,528	-	206
- (Over) / under provision of prior year tax	300	(129)	229	16
Total income tax expense	303	1,404	230	110
Unused tax losses for which no deferred tax asset has been recognised @ 30% (includes all losses incurred by entities that are not part of the tax consolidated group)	1,068	926	-	-

6. Current Assets - Cash and Cash Equivalents

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Cash at bank	729	77	340	(74)
Total cash and cash equivalents	**729**	**77**	**340**	**(74)**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

7. Current Assets - Trade and Other Receivables

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables:				
- Related parties	20	21	20	97
- Other parties	45	22	2	-
Total trade receivables	65	43	22	97
Other receivables	12	125	-	-
Total trade and other receivables	**77**	**168**	**22**	**97**

Further information relating to trade receivables to related parties is set out in Note 26. None of the receivables were impaired as at 30 June 2012 (2011: $nil).

8. Current and Non-current Assets - Financial Assets

		Consolidated		Parent	
		2012	**2011**	**2012**	**2011**
	Note	**$'000**	**$'000**	**$'000**	**$'000**
(a) Current Financial Assets					
Financial assets at fair value through profit or loss	8(c)	2,997	13,526	2,893	9,490
Loans and receivables	8(d)	4,286	3,053	398	2,441
Total current financial assets		**7,283**	**16,579**	**3,291**	**11,931**
(b) Non-current Financial Assets					
Other financial assets		104	104	104	104
Investment in controlled entities, net of impairment		-	-	11,576	13,626
Total non-current financial assets		**104**	**104**	**11,680**	**13,730**

(c) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are all held for trading including the following:

Listed securities – non-related parties	901	1,963	901	1,728
Listed securities - P-REIT	1,161	11,069	1,161	7,268
Listed securities - BlackWall	175	-	71	-
Unlisted - Tankstream Property Investment Fund	760	494	760	494
Total held for trading financial assets	**2,997**	**13,526**	**2,893**	**9,490**

Refer to 'Review of Operations' under the Directors' Report for details of the Group's investments in P-REIT.

(d) Loans and Receivables

Loans – related parties	5,540	3,776	793	2,538
Loans – other parties	-	-	-	503
Provision for impairment	(1,254)	(723)	(395)	(600)
Total loans and receivables	**4,286**	**3,053**	**398**	**2,441**

Further information relating to loans and receivables to related parties is set out in Note 26.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

9. Current Assets and Current Liabilities - Current Tax

(a) Current Tax Receivable

	Consolidated 2012 $'000	Consolidated 2011 $'000	Parent 2012 $'000	Parent 2011 $'000
Current tax receivable	-	319	7	381
Total current tax receivable	**-**	**319**	**7**	**381**

(b) Current Tax Payable

	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Current tax payable	49	-	-	-
Total current tax payable	**49**	**-**	**-**	**-**

10. Non-Current Assets - Equity Accounted Investments

Consolidated and Parent:

Name	Principal	Country of Incorporation	Ownership Interest 2012 %	Ownership Interest 2011 %	Carrying Amount of Investment 2012 $'000	Carrying Amount of Investment 2011 $'000
BlackWall Pub Fund *	Pub owner	Australia	-	38.76	-	2,656
Total equity accounted investments					**-**	**2,656**

* The Group sold its holdings in BlackWall Pub Fund on 30 January 2012 for consideration of $2,655,788.
On 1 July 2012, the Group purchased 24,143,530 BlackWall Pub Fund units for an amount of $1,448,612.

11. Non-Current Assets - Investment Properties

Consolidated	Bakehouse Quarter $'000	Penrith $'000	The Woods $'000	Total $'000
30 June 2012				
Balance at the beginning of year	-	16,527	17,000	33,527
Capital improvements	-	24	56	80
Revaluations	-	257	(3,257)	(3,000)
Depreciation	-	(308)	(299)	(607)
Balance at the end of year	**-**	**16,500**	**13,500**	**30,000**
30 June 2011				
Balance at the beginning of year	165,000	16,500	16,500	198,000
Capital improvements	1,540	27	186	1,753
Straight-line lease receivable	1,947	-	-	1,947
Revaluations	-	-	640	640
Depreciation	-	-	(326)	(326)
Distribution of Bakehouse Quarter	(168,487)	-	-	(168,487)
Balance at the end of year	**-**	**16,527**	**17,000**	**33,527**

Refer to Note 16 for details of borrowings secured against the properties.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

11. Non-Current Assets - Investment Properties (continued)

The Penrith property is a bulky goods retail centre known as 120 Mulgoa Road, Penrith, Sydney. The property was independently valued at 30 June 2011 at $16.5 million reflecting an initial yield of 9.1%.

Pelorus is the majority unitholder in, and mezzanine lender to, the WRV Unit Trust, which owns The Woods property at Villawood. The Woods was a failed bulky goods retail Centre that has been reformatted by Pelorus as an action centre with new activities including AMF Bowling, indoor Go-karts and indoor Rock Climbing. The property is currently being independently valued for bank debt purposes. Despite the asset's operating success, the valuer has had difficulty with its unique nature and tenancy mix. As a consequence the value has been marked down to $13.5 million reflecting a capitalisation rate (initial yield) of 10%, resulting in a revaluation downward of $3.26m.

12. Non-Current Assets - Deferred Tax Assets

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Deferred tax assets balance comprises:				
Accrued expenses	-	12	-	9
Total deferred tax assets	**-**	**12**	**-**	**9**
Movements:				
Balance at the beginning of the year	12	1,235	9	254
Derecognition from Demerger	-	(1,235)	-	(245)
Credited / (charged) to the profit and loss	(12)	12	(9)	-
Balance at the end of year	**-**	**12**	**-**	**9**

13. Non-Current Assets - Intangible Assets

	Consolidated	
	2012 $'000	**2011 $'000**
Goodwill:		
- At cost	-	1,681
- Less impairment	-	(1,681)
	-	-
Capitalised borrowing cost	10	15
Total intangible assets	**10**	**15**

	Goodwill $'000
30 June 2012	
Balance at the beginning of year	-
Balance at the end of year	-
30 June 2011	
Balance at the beginning of period	3,607
Disposal	(3,607)
Balance at the end of year	-

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

14. Current Liabilities - Trade and Other Payables

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Trade payables:				
- Related parties	252	147	28	826
- Other parties	328	1,028	175	19
	580	1,175	203	845
Sundry payables and accrued expenses	94	84	30	30
Rental income in advance	14	112	-	-
Total trade and other payables	**688**	**1,371**	**233**	**875**

Further information relating to trade payables from related parties is set out in Note 26.

15. Current Liabilities – Other Financial Liabilities

	Consolidated		Parent	
	2012 $'000	**2011 $'000**	**2012 $'000**	**2011 $'000**
Interest rate hedges	115	60	-	-
Loans - related parties	-	194	-	7
Total other financial liabilities	**115**	**254**	**-**	**7**

The interest rate hedge liabilities represent the mark to market valuations of hedges in place at 30 June 2012 with respect to property debt held over the Penrith and The Woods properties (Note 16). Details of hedges and the non-current portion are set out in Note 17.

16. Current and Non-Current Liabilities - Borrowings

	Consolidated		
	Penrith $'000	**The Woods $'000**	**Total $'000**
30 June 2012			
Current – Borrowings	-	(8,000)	(8,000)
Non-current - Borrowings	(10,725)	-	(10,725)
Balance at the end of year	**(10,725)**	**(8,000)**	**(18,725)**
30 June 2011			
Non-current - Borrowings	(10,500)	(8,000)	(18,500)
Balance at the end of year	**(10,500)**	**(8,000)**	**(18,500)**

The borrowings that are due on 30 September 2012 on The Woods property have now been classified as current liabilities. Discussions have been had with the lender and the Directors are confident that the borrowings will be extended after its expiry date.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

17. Non-Current Liabilities – Other Financial Liabilities

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Interest rate hedges	169	-	-	-
BlackWall Penrith Fund No 2	6,000	5,715	-	-
Total other financial liabilities	**6,169**	**5,715**	**-**	**-**

The interest rate hedge liabilities represent the mark to market valuations of hedges in place at 30 June 2012 with respect to property debt held over the Penrith and The Woods properties (refer to Note 15 for current portion of interest rate hedges). The terms of the hedges are:

- $8 million swapped at 4.11% to November 2013.
- $5.725 million swapped at 4.53% to August 2014.

The BlackWall Penrith Fund No 2 ("BPF2") liabilities refer to the interests in the property of the BPF2. BPF2 has a hybrid property investment vehicle with a $6,000,000 interest in the Penrith property secured by a registered second mortgage.

18. Share Capital

(a) Summary Table

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
222,385,025 (2011:339,330,395) Ordinary	15,401	23,124	15,401	23,124
Total issued capital	**15,401**	**23,124**	**15,401**	**23,124**

(b) Movement in shares on issue

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	No.	**No.**	**No.**	**No.**
At the beginning of the year	339,330,395	379,564,893	339,330,395	379,564,893
Employee share scheme	-	2,196,600	-	2,196,600
Unmarketable parcel buy back	-	(40,899)	-	(40,899)
Cancellation of shares (P-REIT swap offer)	(116,945,370)	(42,390,199)	(116,945,370)	(42,390,199)
At the end of the year	**222,385,025**	**339,330,395**	**222,385,025**	**339,330,395**

The P-REIT swap offer relates to the Demerger referred to in the Directors' report. Shareholders were offered seven P-REIT units in exchange for every nine shares held and ten P-REITs for every one BQF unit.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. All shares are fully paid and have no par value.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

19. Dividends

There were no dividends paid or declared for the year ended 30 June 2012 (2011: $nil).

	Parent	
	2012	**2011**
	$'000	**$'000**
Franking credits available for the subsequent reporting periods based on a tax rate at 30% (2011: 30%)	**481**	**443**

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax,

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

20. Auditor's Remuneration

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Remuneration of the auditor of the parent entity for:				
-Auditing or reviewing the financial statements of the Group	58	88	58	80
-Auditing or reviewing the financial statements of the Managed Investment Schemes for whom Pelorus acts as a responsible entity	6	57	-	-
-Taxation and compliance services	35	52	31	52
-Other services	5	-	-	-
Total auditor's remuneration	**104**	**197**	**89**	**132**

21. Commitments

No operating or capital lease commitments were in existence as at 30 June 2012 (2011: Nil).

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

22. Reconciliation of Profit After Income Tax to Operating Cash Flows

	Consolidated		Parent	
	2012	**2011**	**2012**	**2011**
	$'000	**$'000**	**$'000**	**$'000**
Profit / (loss) for the year	(7,393)	(5,782)	(5,018)	1,123
Non-cash flows included in profit / (loss):				
Loss from associates	-	671	-	671
Fund and asset management income	-	-	-	(710)
Finance income	-	(170)	-	(35)
Depreciation	607	326	-	-
Share based payments	-	190	-	190
Net (gain)/loss on disposal of investments	217	(352)	769	(352)
Unrealised (gain) / loss on investments	811	4,548	429	(142)
Revaluations, write downs and impairments of assets	5,638	(1,534)	3,613	(1,604)
Impairment of goodwill	-	1,324	-	-
Consultants fees	-	21	-	21
Directors fees	-	19	-	19
Administration fees	-	323	-	15
Foreign exchange (gain) / loss	20	-	(5)	-
Other expenses	-	153		83
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	(509)	1,108	75	281
(Increase)/decrease in other assets	5	260	-	-
Increase/(decrease) in trade payables and accruals	518	58	(182)	(260)
Increase/(decrease) in income taxes payable	266	(365)	374	(242)
Increase/(decrease) in deferred tax balances	12	1,114	9	246
Increase/(decrease) in provisions	-	8	-	-
Net cash flows from / (used in) operating activities	192	1,920	64	(696)

23. Contingent Liabilities and Contingent Assets

On 3 August 2012, Pelorus commenced proceedings in the Supreme Court of New South Wales against the responsible entity for the MacarthurCook Property Securities Fund ("MPS") in respect of alleged misleading and deceptive conduct and breaches of the MPS Constitution, Corporations Act 2001 (Cth), Australian Securities and Investments Commission Act (Cth) and the Listing Rules of the ASX.

Pelorus is seeking declaratory relief and damages in the amount of $3.6 million together with interest and costs.

There are no other contingent liabilities or contingent assets as at 30 June 2012 which require disclosure in the financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

24. Subsequent Events

The Group holds an investment in P-REIT and an impairment loss of $1.4 million of the P-REIT units was recognised based on the ASX closing price $0.10 as at 30 June 2012 (refer to Note 8(c)). As at the date of signing these financial statements, the closing price is $0.09.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

25. Controlled Entities

Name	Country of incorporation	Percentage Owned	
		2012	2011
		%	%
Parent Entity:			
Pelorus Private Equity Ltd	Australia		
Subsidiaries of parent entity:			
Planloc Pty Ltd	Australia	100	100
RASP Investments Pty Ltd	Australia	100	100
Pelorus Pipes 5 Trust	Australia	100	100
WRV Unit Trust	Australia	68	68
Zhaofeng Funds Management Ltd	Australia	-	100

26. Related Party Transactions

(a) Related Entities, Associates and Joint Venture Entities, Managed Funds

The Directors and their related entities are related parties of the Group. The Group provides a wide range of corporate services to its related entities, associates, joint venture entities and managed funds.

Associates and Joint Venture Entities

Interests held in associates and joint venture entities by the Group are set out in Note 10 to the financial statements.

Fees and Transactions

Management fees are charged to entities predominately for property and fund management services. The management fees are paid under a management agreement and the fees charged are determined with reference to arm's length commercial rates.

These services principally relate to:

- Investment management: provision of strategic investment advice, asset management and investment portfolio services.
- Asset management: provision of property management services, property portfolio advisory services, maintenance and insurances, strategic advice and management supervision services, administration, marketing and risk management services.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

26. Related Party Transactions (continued)

The Group recharges its related entities and managed funds, for administration services, and those expenses that are incurred by members of the Group on behalf of the related entities and managed funds.

All transactions with related parties were made on normal commercial terms and conditions and at market rates, and were approved by the Board where applicable.

The following represents the transactions that occurred during the financial year and the balances outstanding at year end between the Group and its related entities.

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue:				
- Asset management fees and recharges	162	745	42	876
- Interest received	25	42	-	42
- Distribution from managed funds	25	56	-	31
Expenses:				
- Fees paid	449	434	52	209
- Director's fees	360	389	180	389
- Interest paid	525	525	-	-
Outstanding balances:				
- Trade receivables - current	20	21	20	97
- Loan receivables (net of impairment) – non-current	4,286	3,053	398	2,366
- Trade and loan payables - current	(252)	(147)	(28)	(833)
- Loan payables – non-current	(6,000)	(5,909)	-	-

(b) Other related party transactions

Related party transactions that occurred during the year other than those described in Note 26(a) above are as follows:

Date of transaction	Purchaser/Seller (*)	Financial Assets	Shares /Units Purchased / (Sold) No.	Total Consideration Paid/(Received) $'000
24 October 2011	BlackWall /Pelorus	P-REIT	(200,000)	(60)
31 October 2011	BlackWall /Pelorus	P-REIT	(2,400,000)	(720)
31 October 2011	Pelorus/Trentham City Investments Ltd	BlackWall Property Funds Ltd	20,000	5
31 December 2011	Kirela Development Unit Trust/Pelorus	P-REIT	(25,668,031)	(7,700)
31 December 2011	Pelorus/ Kirela Development Unit Trust	P-REIT	199,020	60
31 December 2011	Pelorus/Hollia Pty Ltd	BlackWall Property Funds Ltd	14,490	3
31 December 2011	Pelorus/Jagar Holdings Pty Ltd	BlackWall Property Funds Ltd	14,491	3
1 January 2012	Pelorus/Ascot Cinemas (Upper Hutt) Ltd	BlackWall Property Funds Ltd	20,000	5

26. Related Party Transactions (continued)

Date of transaction	Purchaser/Seller (*)	Financial Assets	Shares /Units Purchased / (Sold) No.	Total Consideration Paid/(Received) $'000
31 March 2012	Tankstream Property Investments Fund/Pelorus	Penrith Pipes No2	(285,000)	(285)
31 August 2011	Pelorus / BlackWall	BlackWall Property Funds Ltd	8,000	2

* BlackWall includes both BlackWall Property Funds Ltd and its controlled entities.

In addition, the following related party transactions also occurred during the year:

1. Pelorus acquired a total of 337,900 shares in BlackWall Property Funds Pty Ltd from BlackWall prior to BlackWall's listing on Australian Securities Exchange for a total consideration of $84,000.
2. WRV Pty Ltd paid a return of capital to P-REIT of $6,875.
3. Pelorus disposed of its 100% shares in Zhaofeng Funds Management Ltd to Bakehouse Management Pty Ltd (a related entity with common directors) on 31 May 2012 for a total consideration of $600,000. Refer to Note 29 for further details.

27. Directors and Key Management Personnel Disclosures

(a) Directors' and key management personnel relevant interests

Key management personnel include Directors (refer Directors' Report).

The Directors and key management personnel have relevant interests in shares of the Company as set out in the following table:

	Balance at 30 June 2011 No. '000	Net change * No. '000	Balance at 30 June 2012 No. '000
Joseph (Seph) Glew	62,018	(25,305)	36,713
Robin Tedder	7,795	(7,795)	-
Stuart Brown	5,302	-	5,302
Total shareholding	**75,115**	**(33,100)**	**42,015**

* Net change refers to changes in relevant interests in shares during the financial year.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

27. Directors and Key Management Personnel Disclosures (continued)

(b) Key management personnel compensation

	2012 $'000	2011 $'000
Short term benefits	360	367
Post employment	-	22
Total key management personnel compensation	**360**	**389**

The compensation for key management personnel is borne by a related entity after the Demerger that occurred in December 2010.

28. Financial Risk Management

(a) Financial risk management

The main risks the Group are exposed to through its financial instruments are market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's principal financial instruments are financial assets and borrowings.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies, and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. They monitor the Group's risk exposure by regularly reviewing finance and property markets

The Group holds the following major financial instruments:

	Consolidated		Parent	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Financial Assets				
Held for trading financial assets	2,997	13,526	2,893	9,490
Other financial assets	4,390	3,157	12,078	16,171
Financial liabilities				
Other financial liabilities	6,284	5,969	-	7
Borrowings	18,725	18,500	-	-

28. Financial Risk Management (continued)

(b) Market risk

(i) Foreign exchange risk

The Group had dealings with a company that operates in New Zealand, however the exposure to foreign exchange risk is not material.

(ii) Interest rate risk

The Group has exposure to market risk for changes in interest rates on borrowings. This risk is managed by the Group by entering into hedging transactions with financial institutions as detailed in Notes 15 and 17.

The weighted average effective interest rate for cash and loans to related parties were 3.5% (2011: 4.75%) and 7.61% (2011: 10.04%) respectively.

The Group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on borrowings is as follows:

	30 June 2012		30 June 2011	
	Weighted average effective interest rate %	Balance $'000	Weighted average effective interest rate %	Balance $'000
Borrowings	5.77	(18,725)	7.51	(18,500)
Other financial liabilities	8.75	(6,000)	8.75	(5,715)

Sensitivity analysis

At 30 June, if interest rates on borrowings had moved (after hedging effects), as illustrated in the table below, with all other variables held constant, profit would have been affected as follows:

	Net profit Higher / (Lower)	
Consolidated	**2012 $'000**	**2011 $'000**
Movement in interest rates		
+ 1.0%	(247)	(245)
- 0.5%	124	123

(iii) Price risk

The major exposure is the Group's investments in P-REIT units. In relation to P-REIT, if the share price decreases by more than 10% this will result in an additional unrealised loss of $115,000.

28. Financial Risk Management (continued)

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognized financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The Group has credit risk exposures to related parties loan receivables and investments in related and unrelated property structures under financial instruments and contractual arrangements entered into by the Group.

The Group limits its exposure to credit risk by obtaining equitable mortgage over real property for related / unrelated party loan receivables and investment in related and unrelated property structures.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has borrowings of $8 million (refer to Note 16) that are due for renewal within 12 months. Management is confident that the borrowings will be renewed.

Consolidated	**Maturing within 1 year $'000**	**Maturing 1 – 5 years $'000**	**Total $'000**
At 30 June 2012			
Financial assets			
Cash and cash equivalents	729	-	729
Trade and other receivables	77	-	77
Financial assets	7,283	104	7,387
	8,089	**104**	**8,193**
Financial liabilities			
Trade and other payables	688	-	688
Other financial liabilities	115	6,169	6,284
Borrowings	8,000	10,725	18,725
	8,803	**16,894**	**25,697**
At 30 June 2011			
Financial assets			
Cash and cash equivalents	77	-	77
Trade and other receivables	168	-	168
Financial assets	16,579	104	16,683
	16,824	**104**	**16,928**
Financial liabilities			
Trade and other payables	1,371	-	1,371
Other financial liabilities	254	5,715	5,969
Borrowings	-	18,500	18,500
	1,625	**24,215**	**25,840**

28. Financial Risk Management (continued)

(e) Fair value measurements

AASB 7 Financial Instruments: Disclosures require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the Group's financial assets and liabilities measured at fair value as at 30 June 2012 and 30 June 2011:

Consolidated	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
At 30 June 2012				
Held for trading financial assets	2,237	760	-	2,997
Interest rate hedges	-	(284)	-	(284)
At 30 June 2011				
Held for trading financial assets	1,963	11,563	-	13,526
Interest rate hedges	-	(60)	-	(60)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

For all other financial assets and liabilities, the carrying value is an approximation of fair value.

29. Disposal of Subsidiaries

On 31 May 2012, the Group disposed of its 100% interest in Zhaofeng Funds Management Ltd for $600,000 consideration via loan.

(a) Assets and Liabilities

	$'000
Cash	3
Trade and other receivables	9
Investments in BlackWall Pub Group units	2,657
Trade and other payables	(20)
Loans payable	(2,054)
Net identifiable assets and liabilities	**595**
Goodwill derecognised	357

(b) Loss on Operations

	$'000
Consolidated	
Revenue	49
Expenses	(134)
Loss before income tax	(85)
Income tax expenses	(28)
Loss after tax	**(113)**

(c) Loss on Disposal

The following loss on disposal have been recognised in the Parent entity's Accounts, however were eliminated directly in retained earnings of the Consolidated Accounts.

	$'000
Parent	
Consideration received	600
Cost of investment	(1,150)
Loss on disposal	**(550)**

(d) Cash Flow Information

The cash flows from the operation contained in the Group cash flow statement are:

	$'000
Cash flow used in operating activities	(84)
Cash flow from investing activities	86
Cash flow from financing activities	-
Net cash inflow	**2**

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2012

30. Lease Commitments Receivable

The Group leases out its investment properties held under operating leases. The future minimum lease payments receivable are disclosed as follows:

Consolidated	2012 $'000	2011 $'000
Receivable within 1 year	2,932	3,086
Receivable within 1-5 years	9,421	10,641
Receivable more than 5 years	1,209	2,403
Total rent receivable	**13,562**	**16,130**

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 10 to 42 are in accordance with the Corporations Act 2001, including:
 (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Seph Glew
Chairman
Sydney, 28 September 2012

chartered accountants

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Independent Audit Report to the Members of Pelorus Private Equity Limited and Controlled Entities

Report on the Financial Report

We have audited the accompanying financial report of Pelorus Private Equity Limited and Controlled Entities ("the Group"), which comprises the statements of financial position as at 30 June 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration of the Group and the consolidated entity.

Directors' Responsibility for the Financial Report

The Directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In the notes to the financial statements, the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Group, would be in the same terms if given to the Directors as at the time of this auditor's report.

Independent Audit Report to the Members of Pelorus Private Equity Limited and Controlled Entities

Opinion

In our opinion the financial report of Pelorus Private Equity Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

(a) (i) giving a true and fair view of the financial position of the Company and the Group as at 30 June 2012 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in the financial statements.

Dated at Sydney the 28th day of September 2012

ESV Chartered Accountants

ESV Chartered Accountants

Tim Valtwies

Tim Valtwies
Partner

Pelorus Private Equity Limited
& Controlled Entities

Consolidated Annual Financial Statements
Year Ended 30 June 2012

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