



Consolidated Annual Financial Statements

Year Ended 30 June 2019

Pelorus Private Equity Limited

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Directors' Report

Pelorus is an unlisted public investment company. The Company has 154,866,465 shares on issue and NTA of \$0.145 per share. The company invests in various property investments either directly in real property or through property securities that are generally controlled by the BlackWall group. Pelorus also periodically takes small positions in start-up businesses. At the date of this report, the Company has \$400,000 invested in such ventures. A summary of its significant investments follows:

120 Mulgoa Road, Penrith

The Penrith property in Western Sydney is held directly by the Pelorus group and has now been under our control for over 20 years. We are currently repositioning the asset away from its traditional "big box retail use" to more of a "lifestyle centre" destination.

Following Toys R Us vacating their tenancy at the property in July 2018, after their financial collapse, their space has been broken up into smaller tenancies. Factory Plus (a factory seconds retailer of whitegoods and televisions) has leased approximately 850 sqm and Tru Ninja (an adventure park) has leased approximately 1,350 sqm. Fit-out works are currently being finalised in respect of both tenancies with leases to commence shortly. We are working on filling the final vacancy at the property of around 230 sqm. Negotiations with these tenants have taken place at lower rental levels than Toys R Us were paying and we have moved to meet the market. The directors estimate that the property is currently worth approximately \$21 million

The property also houses the existing tenancies of BBQs Galore, Boating Camping Fishing, Rashay's Restaurant and a Little Learning childcare centre.

BlackWall Property Trust (ASX Code: BWR)

Pelorus holds a substantial investment in BlackWall Property Trust, an ASX-listed real estate investment trust managed by BlackWall. BWR has \$317 million of gross assets and net tangible assets of \$219 million or \$1.48 per unit. The Trust has 149 million units on issue, of which 7% is held by Pelorus.

The BWR Trust has declared a final distribution of 3.5 cents per unit to be paid on 8 October 2019. This brings the full year distribution to 8.5 cents per unit (an interim distribution of 5 cents per unit was paid in April 2019). Please refer to the BWR full year accounts released to the market on 26 August 2019 for more information.

WRV Unit Trust

Pelorus has a 49% holding of WRV Unit Trust which owns the property known as the The Woods. The Woods is a family entertainment centre in Western Sydney, located at 850 Woodville Rd, Villawood. Tenants include Zone Bowling, Chipmunks Playcentre, Sydney Indoor Climbing Gym, Cross Fit Bawn, The Woods Pantry and Jump Swim School. A trampoline centre, Flipout, will commence trading in the next few months on a 10 year lease and leaves the property 100% leased now.

Kirela C Unit Trust

Kirela C is an investment trust that holds various positions in BlackWall controlled investments. Its major holdings include the listed BWR and BWF entities as well as investments in 55 Pymont Bridge Rd, 743 Military Rd Mosman, and 2 contiguous commercial properties at the Bakehouse Quarter that were not included in the recent sale to Yuhu located at the northern end of the site.



Consolidated Statement of Financial Position

As at 30 June 2018

Private Equity Investments

As its name suggests, Pelorus from time to time looks at opportunities to invest in private equity ventures. There was an increase of \$250,000 invested in Sportility during the current financial year. Sportility is an interesting start up. It is the first platform globally that brings sports people, teams and businesses together to get access to sponsorship and marketing opportunities at scale. From social teams, leagues, global companies to corner cafes, thousands of people around the world use Sportility to connect to sponsorship, unify their marketing message, and drive their business forward. See sportility.co for further information.

Dividends

There were no dividends paid or declared for the period ended 30 June 2019 (2018: \$nil).

Financial Statements

Consolidated Statement of Financial Position

As at 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|--------------------------------------|------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | 36 | 74 |
| Trade and other receivables | 5 | 13 | 35 |
| Financial assets | 6 | 21,943 | 21,179 |
| Loans | 7 | 1,203 | 503 |
| Total Current Assets | | <u>23,195</u> | <u>21,791</u> |
| Non-current Assets | | | |
| Investment properties | 8 | 21,000 | 44,250 |
| Other investment | | 34 | 25 |
| Total Non-current Assets | | <u>21,034</u> | <u>44,275</u> |
| TOTAL ASSETS | | <u>44,229</u> | <u>66,066</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 9 | 491 | 505 |
| Borrowings - property | 10 | 11,150 | 17,725 |
| Borrowings - other | | - | 1,070 |
| Current tax payable | 11 | 62 | 62 |
| Total Current Liabilities | | <u>11,703</u> | <u>19,362</u> |
| Non-current Liabilities | | | |
| Other financial liabilities | 12 | 6,366 | 12,933 |
| Deferred tax liabilities | 3(b) | 3,685 | 4,405 |
| Total Non-current Liabilities | | <u>10,051</u> | <u>17,338</u> |
| TOTAL LIABILITIES | | <u>21,754</u> | <u>36,700</u> |
| NET ASSETS | | <u><u>22,475</u></u> | <u><u>29,366</u></u> |
| EQUITY | | | |
| Share capital | 13 | 10,146 | 12,823 |
| Retained earnings | | 2,606 | 3,195 |
| Reserves | | 9,723 | 10,317 |
| Parent Interest | | <u>22,475</u> | <u>26,335</u> |
| Non-controlling interest | | - | 3,031 |
| TOTAL EQUITY | | <u><u>22,475</u></u> | <u><u>29,366</u></u> |

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|----------------|----------------|
| Property rental income | | 2,625 | 3,473 |
| Investment income | 1(a) | 115 | 166 |
| Gain on disposal of assets | | 152 | 3 |
| Other income | | - | - |
| Total Revenue | | 2,892 | 3,642 |
| Finance costs | | (1,414) | (1,589) |
| Business operating expenses | 2 | (599) | (617) |
| Depreciation expenses | | (333) | (617) |
| Property outgoing | | (1,115) | (824) |
| Other expenses | | (20) | (11) |
| Total Expenses | | (3,481) | (3,658) |
| Profit / (Loss) Before Tax | | (589) | (16) |
| Income tax expense | 3(a) | - | - |
| Profit / (Loss) After Tax | | (589) | (16) |
| Other Comprehensive Income | | | |
| <i>Items that will be reclassified to profit or loss</i> | | | |
| Unrealised (loss) / gain on revaluation, net of tax | 1(b) | (594) | 3,784 |
| Other Comprehensive Income For the Year | | (594) | 3,784 |
| Total Comprehensive Income For the Year | | (1,183) | 3,768 |
| Profit / (Loss) Attributable To: | | | |
| Owners of the Group | | (508) | 125 |
| Outside equity interests | | (81) | (141) |
| | | (589) | (16) |
| Total Comprehensive Income / (Loss) Attributable To: | | | |
| Owners of the Group | | (1,120) | 2,636 |
| Outside equity interests | | (63) | 1,132 |
| | | (1,183) | 3,768 |

The accompanying notes form part of these consolidated financial statements.

Financial Statements

Consolidated Statement of Cash Flows For the Year Ended 30 June 2019

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|-----------------|----------------|
| Cash Flows From Operating Activities | | | |
| Receipts from customers | | 3,022 | 3,774 |
| Payments to suppliers | | (1,793) | (1,809) |
| Dividends received | | 100 | 123 |
| Interest paid | | (1,414) | (1,589) |
| Interest received | | 14 | 43 |
| Net Cash Flows (Used in)/ From Operating Activities | 16 | <u>(71)</u> | <u>542</u> |
| Cash Flows From Investing Activities | | | |
| Returns of capital | | 1,036 | 1,027 |
| Proceeds from sale of shares and units | | 2,154 | 88 |
| Net proceeds from related party loans | | 10,005 | 501 |
| Payments for capital expenditure | | (503) | (110) |
| Deconsolidation of WRV | | (14) | - |
| Payments for purchase of financial assets | | (1,920) | (2,275) |
| Net Cash Flows From / (Used in) Investing Activities | | <u>10,758</u> | <u>(769)</u> |
| Cash Flows From Financing Activities | | | |
| Repayment of property loans | | (10,725) | - |
| Net Cash Flows Used in Financing Activities | | <u>(10,725)</u> | <u>-</u> |
| Net Decrease in Cash Held | | | |
| Cash and cash equivalents at the beginning of the year | | 74 | 301 |
| Cash and Cash Equivalents at End of the Year | 4 | <u>36</u> | <u>74</u> |

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2019

| | Ordinary Shares \$'000 | Retained Earnings/ (Accumulated Losses) \$'000 | Asset Revaluation Reserves \$'000 | Attributable to Owners of the Parent \$'000 | Non- controlling Interest \$'000 | Total \$'000 |
|--------------------------------|---------------------------|--|--|--|---|-----------------|
| Balance at 1 July 2018 | 12,823 | 3,195 | 10,317 | 26,335 | 3,031 | 29,366 |
| Profit (loss) for the year | - | (508) | - | (508) | (81) | (589) |
| Other comprehensive income | - | - | (612) | (612) | 18 | (594) |
| Buy-back of share capital | (2,677) | - | - | (2,677) | - | (2,677) |
| Deconsolidation of subsidiary | - | (81) | 18 | (63) | (2,968) | (3,031) |
| Balance at 30 June 2019 | 10,146 | 2,606 | 9,723 | 22,475 | - | 22,475 |
| Balance at 1 July 2017 | 12,823 | 3,070 | 7,807 | 23,700 | 1,898 | 25,598 |
| Profit for the year | - | 125 | - | 125 | (141) | (16) |
| Other comprehensive income | - | - | 2,510 | 2,510 | 1,274 | 3,784 |
| Balance at 30 June 2018 | 12,823 | 3,195 | 10,317 | 26,335 | 3,031 | 29,366 |

Notes to the Financial Statements

For the Year Ended 30 June 2019

1. Revenue

| | 2019 | 2018 |
|--------------------|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Revenue | | |
| Investment income: | | |
| - Dividends | 101 | 123 |
| - Finance income | 14 | 43 |
| | <u>115</u> | <u>166</u> |

(b) Unrealised gain (loss) on revaluation under other comprehensive income

| | | |
|---------------------------------|-------------------|--------------|
| Financial assets | 561 | 2,414 |
| Investment properties | (1,969) | 2,606 |
| Deconsolidation of subsidiary | 94 | - |
| Deferred tax on unrealised gain | 720 | (1,236) |
| | <u>3(a) (594)</u> | <u>3,784</u> |

2. Expenses

| | 2019 | 2018 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Business operating expenses: | | |
| Director & consultants fees | 280 | 308 |
| Administration expenses | 319 | 309 |
| | <u>599</u> | <u>617</u> |

3. Income Tax Expense and Deferred Tax Liabilities

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| (a) Income tax (benefit) / expense | | |
| Current tax | - | - |
| Deferred tax (benefit) / expense through OCI | (720) | 1,236 |
| Total Income tax (benefit) / expense | <u>(720)</u> | <u>1,236</u> |

Reconciliation of prima facie tax payable to income tax

| | | |
|---|--------------|--------------|
| Loss from ordinary activities before income tax | (589) | (16) |
| Expected tax benefit at 30% (2018: 30%) | (177) | (5) |
| Adjusted for tax effect of amounts not taxable: | | |
| Financial assets | (543) | 1,241 |
| Total Income tax (benefit) / expense | <u>(720)</u> | <u>1,236</u> |

(b) Deferred tax liabilities

| | | |
|---------------------------------------|--------------|--------------|
| Financial assets | 2,931 | 2,486 |
| Investment properties | 2,145 | 3,356 |
| Provision for performance fee | (675) | (1,275) |
| Tax losses | (716) | (162) |
| Total Deferred tax liabilities | <u>3,685</u> | <u>4,405</u> |

Notes to the Financial Statements

For the Year Ended 30 June 2019

Movements:

| | | |
|--|--------------|--------------|
| Balance at the beginning of the year | 4,405 | 3,169 |
| Charged / (credit) to the profit and loss | (720) | 1,236 |
| Total | 3,685 | 4,405 |
| Unused income tax losses @ 30% (2018: 30%) | | |
| - available to tax consolidation group excluding WRV | 716 | 586 |
| - available to WRV | - | 731 |

4. Current Assets - Cash and Cash Equivalents

| | 2019 | 2018 |
|--------------|---------------|---------------|
| | \$'000 | \$'000 |
| Cash at bank | 36 | 74 |
| Total | 36 | 74 |

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

5. Current Assets - Trade and Other Receivables

| | 2019 | 2018 |
|--------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Trade receivables: | | |
| - Related parties | 9 | 30 |
| - Other parties | 4 | 5 |
| Total | 13 | 35 |

Further information relating to trade receivables to related parties is set out in the Related Party Transactions note. None of the receivables were impaired as at 30 June 2019 (2018: \$nil).

Notes to the Financial Statements

For the Year Ended 30 June 2019

6. Current Assets – Financial Assets

The Company has investments in various listed and unlisted investments detailed as follows:

| Financial Assets | Note | 2019 \$'000 | 2018 \$'000 |
|-----------------------------------|-------|----------------|----------------|
| Listed - BlackWall Property Trust | (i) | 14,445 | 13,973 |
| Listed - BlackWall Limited | | 45 | 6 |
| Listed - Total | | 14,490 | 13,979 |
| Unlisted - WRV | (iii) | 2,903 | - |
| Unlisted – Kirela-C | (iv) | 3,808 | 3,206 |
| Unlisted - Flinders | | - | 900 |
| Unlisted – Pelorus Private Equity | (ii) | 80 | 2,677 |
| Unlisted – Tilt & Co | | 50 | 50 |
| Unlisted – Primary Market | | 50 | 50 |
| Unlisted - Sportility | | 300 | 50 |
| Unlisted - Pelathon Pub Group | | 262 | 267 |
| Unlisted - Total | | 7,453 | 7,200 |
| Total | | 21,943 | 21,179 |

(i) BlackWall Property Trust (BWR)

BlackWall Property Trust is an ASX-listed real estate investment trust managed by BlackWall. PPE holds 10.7 million BWR units (2018: 9.6 million BWR units). This represents 7% of BWR issued units (2018: 14%).

(ii) Pelorus Private Equity (PPE)

This holding was acquired from a significant investor in 2018 financial year, and PPE has proceeded to reduce its share capital by this amount in the current financial year i.e. share buy-back. The number of PPE shares cancelled were 21,586,048 shares representing 12% of the total shares on issue prior to the cancellation. The balance of \$80,000 represents additional shares bought from investors after the above cancellation.

(iii) WRV

As detailed in the investment property note PPE's interest in The Woods property is now disclosed as a financial asset and the property in full is no longer consolidated onto the balance sheet. The investment reflects a 49% holding of WRV Unit Trust which owns the property known as the The Woods. The Woods is a family entertainment centre in Western Sydney, located at 850 Woodville Rd, Villawood. Tenants include Zone Bowling, Chipmunks Playcentre, Sydney Indoor Climbing Gym, Cross Fit Bawn, The Woods Pantry and Jump Swim School. A trampoline centre, Flipout, will commence trading in the next few months on a 10 year lease.

(iv) Kirela C

Kirela C is an investment trust that holds various positions is BlackWall controlled investments. Its major investments include the listed BWR and BWF entities as well as holdings in 55 Pyrmont Bridge Rd and properties at The Bakehouse Quarter known as Buildings L and M.

Notes to the Financial Statements

For the Year Ended 30 June 2019

7. Current Assets - Loans

| | Note | 2019 \$'000 | 2018 \$'000 |
|---|------|----------------|----------------|
| Loans - related and non-related parties (unsecured) | 22 | 1,203 | 503 |
| Total | | 1,203 | 503 |

Further information relating loans to related parties is set out in the Related Party Transactions note.

8. Non-current Assets - Investment Properties

The Company has a significant property investment located in Penrith Sydney.

The Penrith property is a big box retail complex located at 120 Mulgoa Road, Penrith. The property has been valued by the Directors in June 2019 at \$21.0 million reflecting market yield of 6.5%. The property has gross income of around \$1.7 million p.a. Tenants include Boating Camping Fishing, Barbeques Galore, Little Learning Child Care, Tru Ninja, and Rashay's Pizza Pasta Grill. The amount of vacant space is minimal.

A second property known as The Woods has been deconsolidated off the balance sheet as control of the property passed to BlackWall Property Trust due to some movements in the ownership structure. The property at Woodville Rd, Villawood is still a significant investment for Pelorus and is disclosed now as a financial asset on note 6.

A reconciliation of the property values are as follows:

| | Penrith \$'000 | The Woods \$'000 | Total \$'000 |
|---|-------------------|---------------------|-----------------|
| 30 June 2019 | | | |
| Balance at the beginning of year | 25,000 | 19,250 | 44,250 |
| Capital improvements | 196 | 209 | 405 |
| Revaluations | (4,005) | 36 | (3,969) |
| Depreciation | (191) | (142) | (333) |
| Disposal of property due to deconsolidation | - | (19,353) | (19,353) |
| Balance at the end of year | 21,000 | - | 21,000 |
| 30 June 2018 | | | |
| Balance at the beginning of year | 25,000 | 16,500 | 41,500 |
| Capital improvements | 83 | 27 | 110 |
| Revaluations | 91 | 3,165 | 3,256 |
| Depreciation | (174) | (442) | (616) |
| Balance at the end of year | 25,000 | 19,250 | 44,250 |

Notes to the Financial Statements

For the Year Ended 30 June 2019

9. Current Liabilities - Trade and Other Payables

| | 2019 | 2018 |
|--------------------------|-------------------|-------------------|
| | \$'000 | \$'000 |
| Trade payables: | | |
| - Related parties | 197 | 124 |
| - Other parties | 273 | 347 |
| | <u>470</u> | <u>471</u> |
| Rental income in advance | 21 | 34 |
| Total | <u>491</u> | <u>505</u> |

Further information relating to payables from related parties is set out in the Related Party Transactions note.

10. Current Liabilities – Borrowings - property

The borrowings are secured against the property are detailed as follows:

| | Penrith | The Woods | Total |
|----------------------|----------------------|---------------------|----------------------|
| | \$'000 | \$'000 | \$'000 |
| 30 June 2019 | | | |
| Borrowings (current) | 11,150 | - | 11,150 |
| | <u>11,150</u> | <u>-</u> | <u>11,150</u> |
| 30 June 2018 | | | |
| Borrowings (current) | 10,725 | 7,000 | 17,725 |
| | <u>10,725</u> | <u>7,000</u> | <u>17,725</u> |

The Penrith property borrowings moved from CBA to BlackWall Property Trust (BWR) during the year. The BWR facility is secured against the Penrith property and is subject to interest at a margin of 2.0% over the RBA cash rate. The loan is repayable on call and as such is classified as a current liability.

11. Current Liabilities - Current Tax Payable

| | 2019 | 2018 |
|---------------------|------------------|------------------|
| | \$'000 | \$'000 |
| Current tax payable | 62 | 62 |
| Total | <u>62</u> | <u>62</u> |

Notes to the Financial Statements

For the Year Ended 30 June 2019

12. Non-current Liabilities – Other Financial Liabilities

| | 2019 \$'000 | 2018 \$'000 |
|---|---------------------|----------------------|
| BlackWall Penrith Fund No 3 | 4,116 | 4,116 |
| Provision for Performance Fee – BlackWall Penrith PIPES No3 | 900 | 1,700 |
| Provision for Performance Fee – BlackWall Fund Services | 1,350 | 2,550 |
| | <u>6,366</u> | <u>8,366</u> |
| Woods PIPES Fund | - | 4,567 |
| Total | <u>6,366</u> | <u>12,933</u> |

BlackWall Penrith Fund No. 3 (“Fund”) is a hybrid property investment vehicle with a \$4,500,000 interest in the Penrith property secured by a second mortgage. The current interest rate is 9% per annum. The fund is also entitled to 20% of any property value uplift over initial cost \$16.5 million on maturity of the fund in December 2020. The Penrith property was valued in June 2019 at \$21.0 million which is down from \$25.0 million in 2018 due to changes in tenants and market conditions. The investors’ capital is returned on maturity of the fund together with a bonus equating to 20% of capital growth (also payable at the maturity date).

The fund’s manager, BlackWall Limited is entitled to a performance fee of 30% of value uplift over \$16.5 million. This is reflected in the provision of \$1.35 million above.

13. Share Capital

(a) Summary Table

| | 2019 \$'000 | 2018 \$'000 |
|---|----------------------|----------------------|
| 154,866,465 (2018: 176,452,513) Ordinary shares | 10,146 | 12,823 |
| Total | <u>10,146</u> | <u>12,823</u> |

(b) Movement in shares on issue

| | 2019 No. | 2018 No. |
|-------------------------------|---------------------------|---------------------------|
| At the beginning of the year | 176,452,513 | 176,452,513 |
| Buy-back of shares | (21,586,048) | - |
| At the end of the year | <u>154,866,465</u> | <u>176,452,513</u> |

14. Auditor’s Remuneration

| | 2019 \$'000 | 2018 \$'000 |
|---|------------------|------------------|
| Remuneration of the auditor of the Group for: | | |
| -Audit and other audit related services | 39 | 44 |
| -Tax compliance services | 8 | 10 |
| Total | <u>47</u> | <u>54</u> |

15. Commitments and Contingencies

Notes to the Financial Statements

For the Year Ended 30 June 2019

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

| | 2019 | 2018 |
|-----------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Receivable within 1 year | 1,393 | 2,796 |
| Receivable within 2-5 years | 4,138 | 9,196 |
| Receivable over 5 years | 3,165 | 2,956 |
| Total | 8,696 | 14,948 |

There are no other commitments and contingencies as at 30 June 2019 (2018: Nil).

16. Reconciliation of Profit/ (Loss) After Income Tax to Operating Cash Flows

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Profit (loss) for the year | (589) | 125 |
| Non-cash flows included in profit: | | |
| Depreciation | 333 | 617 |
| Net gain on disposal of investments | (152) | - |
| Changes in assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | 33 | 68 |
| Increase/(decrease) in trade payables and accruals | 304 | (268) |
| Net cash flows from operating activities | (71) | 542 |

17. Non-cash investing and financing activities

| | 2019 | 2018 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Acquisition of Flinders investment (swapped for Kirela payable) | - | 900 |
| Cancellation of share capital | 2,678 | - |
| | 2,678 | 900 |

Notes to the Financial Statements

For the Year Ended 30 June 2019

18. Disposal of Subsidiaries

Villawood

On 31 May 2019 the Group lost control of WRV Unit Trust and deconsolidated the entity on that date. That entity owns the property in Villawood NSW. There were no proceeds received in relation to this transaction. WRV Unit Trust is now controlled by the BlackWall Property Trust (BWR).

Assets and liabilities over which control was lost:

| | 2019 |
|----------------------------------|---------------------|
| | \$'000 |
| Cash and cash equivalents | 14 |
| Receivables and other assets | 1 |
| Villawood property | 19,452 |
| Payables and other liabilities | (332) |
| Loan payable | (13,275) |
| Net identifiable assets disposed | <u>5,860</u> |
| Less: Non-controlling interests | <u>(2,966)</u> |
| Net assets disposed | <u>2,894</u> |

19. Subsequent Events

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.

20. Controlled Entities

| Name | Country of incorporation | Percentage Owned | |
|---------------------------------------|--------------------------|------------------|--------|
| | | 2019 % | 2018 % |
| 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 | 49 | 49 |

* Deconsolidated in current year due to loss of control through sale of Woods PIPES units.

Notes to the Financial Statements

For the Year Ended 30 June 2019

21. Parent Entity Information

The following summarises the financial information of the Group's parent entity, Pelorus Private Equity Limited, as at and for the year ended 30 June:

| | 2019 \$'000 | 2018 \$'000 |
|---|-------------------|-------------------|
| Results: | | |
| Profit after tax | 238 | 191 |
| Other Comprehensive income | 1,599 | 1,361 |
| Total comprehensive income after tax | 1,837 | 1,552 |
| | | |
| Financial position: | | |
| Current assets | 23,631 | 22,956 |
| Non-current assets | 3,511 | 3,502 |
| Total assets | 27,142 | 26,458 |
| | | |
| Current liabilities | (2,353) | (732) |
| Non-current liabilities | (2,215) | (2,325) |
| Total liabilities | (4,568) | (3,057) |
| Net assets | 22,574 | 23,401 |
| | | |
| Share capital | 10,146 | 12,807 |
| Reserves | 5,402 | 6,279 |
| Retained earnings | 7,026 | 5,430 |
| Total equity | 22,574 | 23,401 |

The parent entity had no contingencies or capital commitments at 30 June 2019 (2018: Nil).

22. Related Party Transactions

(a) Related Entities

In these financial statements, related parties are parties as defined by *AASB 124 Related Party Disclosures*.

Fees and Transactions

Management fees are charged to entities predominately for property management services and the fees charged are determined with reference to arm's length commercial rates.

These services principally relate to the 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 Financial Statements

For the Year Ended 30 June 2019

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.

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Revenue: | | |
| - Dividend and returns of capital received | 1,103 | 1,121 |
| - Interest received | 11 | 15 |
| Expenses: | | |
| - Interest paid | 633 | 621 |
| - Consulting and management fees paid | 295 | 260 |
| - Directors' fees | 240 | 240 |
| Outstanding balances: | | |
| - Trade receivables - current | 9 | 30 |
| - Loan receivables (net of impairment) – current | 1,203 | - |
| - Loan receivables (net of impairment) – non-current | - | 399 |
| - Trade and loan payables - current | (197) | (1,194) |
| - Borrowings – current | (11,150) | - |
| - Financial liabilities – non-current | (6,366) | (8,033) |

(b) Interests in Related Parties

As at year end the Group owned units in the following related entities.

| Entity | Holdings (No.'000) | | Returns of Capital / Dividend Received (\$'000) | |
|--------------------------|---------------------------|-------------|--|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| BlackWall Property Trust | 10,700 | 9,637 | 1,002 | 1,000 |
| BlackWall Limited | 50 | 6 | 1 | - |
| Kirela-C Unit Trust | 159 | 159 | - | - |
| | | | 1,003 | 1,000 |

Further details refer to Financial Assets note.

Notes to the Financial Statements

For the Year Ended 30 June 2019

(c) Key Management Personnel (KMP)

KMP include Directors only. Their relevant interests in shares of the Company are as follows:

| | Balance at 30 June | | Balance at 30 June |
|--------------------|---------------------------|-------------------|---------------------------|
| | 2018 | Net change | 2019 |
| | No. '000 | No. '000 | No. '000 |
| Joseph (Seph) Glew | 34,145 | - | 34,145 |
| Paul Tresidder | 30,999 | - | 30,999 |
| Stuart Brown | 5,369 | - | 5,369 |
| Total | 70,513 | - | 70,513 |

23. Financial Risk Management

(a) Financial risk management

The main risks the Group is 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. From the parent entity's perspective, major assets and liabilities that are exposed to financial risk were already included in the Group's balances therefore no separate disclosure is presented.

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 overseeing 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:

| | 2019 | 2018 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Financial Assets | | |
| Financial assets | 21,943 | 21,179 |
| Loans | 1,203 | 503 |
| Financial liabilities | | |
| Borrowings | 11,150 | 18,795 |
| Other financial liabilities | 6,366 | 12,933 |

Notes to the Financial Statements

For the Year Ended 30 June 2019

(b) Market risk

(i) Interest rate risk

The Group has exposure to market risk for changes in interest rates on borrowings. The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the interest rates on borrowings is as follows:

| | June 2019 | | June 2018 | |
|-------------------------------|---------------|---------|---------------|---------|
| | Interest rate | Balance | Interest rate | Balance |
| | % | \$'000 | % | \$'000 |
| Borrowings – unhedged portion | 3.25 | 11,150 | 3.96 | 10,725 |
| Other financial liabilities | 9.00 | 6,366 | 8.51 | 8,032 |

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:

| Consolidated | Net profit | |
|----------------------------|------------------|--------|
| | Higher / (Lower) | |
| | 2019 | 2018 |
| Movement in interest rates | \$'000 | \$'000 |
| + 1.0% | - | (107) |
| - 0.5% | - | 54 |

(ii) Price risk

The major exposure is the Group's investments in financial assets. In relation to the investment in BWR units, a 10% decrease in the ASX trading price (from the price at 30 June 2019, i.e. \$1.35 per unit) would result in an unrealised loss of \$1,444,501 (to reserves).

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised 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 mortgages over real property for related / unrelated party loan receivables and investments in related and unrelated property structures.

Notes to the Financial Statements

For the Year Ended 30 June 2019

(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 assets. 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.

| | Maturing within 1 year \$'000 | Maturing 2 – 5 years \$'000 | Maturing over 5 years \$'000 | Total \$'000 |
|------------------------------|--|--|---|-------------------------|
| At 30 June 2019 | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 491 | - | - | 491 |
| Other financial liabilities | 11,150 | 6,366 | - | 17,516 |
| Borrowings | - | - | - | - |
| | 11,641 | 6,366 | - | 18,007 |

| | Maturing within 1 year \$'000 | Maturing 2 – 5 years \$'000 | Maturing over 5 years \$'000 | Total \$'000 |
|------------------------------|--|--|---|-------------------------|
| At 30 June 2018 | | | | |
| Financial liabilities | | | | |
| Trade and other payables | 503 | - | - | 503 |
| Other financial liabilities | - | 12,933 | - | 12,933 |
| Borrowings | 18,795 | - | - | 18,795 |
| | 19,298 | 12,933 | - | 32,231 |

(e) Fair value measurements

(i) Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 - 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), and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of financial assets traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Group is the current bid price and the quoted market price for financial liabilities is the current asking price.

Notes to the Financial Statements

For the Year Ended 30 June 2019

The following table presents the Group's financial assets (excluding loan receivables) measured at fair value as at 30 June. Refer to the Critical Accounting Estimates and Judgments note for further details of assumptions used and how fair values are measured.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
| At 30 June 2019 | | | | |
| Financial assets | 14,490 | - | 7,453 | 21,943 |
| At 30 June 2018 | | | | |
| Financial assets | 13,979 | - | 7,200 | 21,179 |

(ii) Valuation techniques used to derive Level 3 fair values

The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities.

(iii) Reconciliation of movements (Level 3)

The following table is a reconciliation of the movements in financial assets classified as Level 3 for the year ended 30 June:

| | \$'000 |
|---|---------------|
| At 30 June 2019 | |
| Balance at the beginning of year | 7,200 |
| Investment in WRV (previously consolidated) | 2,903 |
| Purchase | 330 |
| Sale | (889) |
| PPE shares cancelled for share capital buy-back | (2,678) |
| Return of capital | (33) |
| Fair value movement | 620 |
| Balance at the end of year | <u>7,453</u> |
| At 30 June 2018 | |
| Balance at the beginning of year | 6,132 |
| Purchase | 1,078 |
| Sale | (40) |
| Return of capital | (27) |
| Fair value movement | 57 |
| Balance at the end of year | <u>7,200</u> |

Notes to the Financial Statements

For the Year Ended 30 June 2019

24. Dividend

There were no dividends paid or declared for the year ended 30 June 2019 (2018: \$nil).

| | 2019 | 2018 |
|--|--------|--------|
| | \$'000 | \$'000 |
| Franking credits available for the subsequent reporting periods based on a tax rate of 30% (2018: 30%) | 532 | 531 |

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.

25. Segment Reporting

The Group currently operates in one business segment being investment in direct and indirect properties in New South Wales.

26. Group Details

The principal place of business of the Group is:
Level 1, 50 Yeo Street
Neutral Bay, NSW, 2089

27. 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. Refer to the Financial Assets note.

Key estimates – financial assets

Investments in listed and unlisted securities have been classified as financial assets and movements in fair value is recognised directly in the reserves. 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 ASX as at the reporting date.

Notes to the Financial Statements

For the Year Ended 30 June 2019

Key estimates - fair values of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in the reserves. 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.

28. Statement of Significant Accounting Policies

Pelorus Private Equity Ltd is a public company, incorporated and domiciled in Australia. The financial statements for the Group were authorised for issue in accordance with a resolution of the Directors on the date they were issued.

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, except for the following standards:

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, except for the following:

AASB 9 Financial Instruments

AASB 101 Presentation of Financial Statements

AASB 112 Income Taxes (deferred tax movement to profit and loss)

AASB 140 Investment Properties (fair value movement to profit and loss)

The Directors considered it more appropriate not to adopt the above Standards to give more commercial and true results to the users of these financial statements. Refer to the Independent Auditor's Report relating to quantitative impact should these Standards be adopted. When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

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

Rounding of Amounts

The Group is a group of the kind referred to in ASIC Class Order 2016/191, 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.

Going Concern

Notes to the Financial Statements

For the Year Ended 30 June 2019

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.

Presentation currency

Both the functional and presentation currency of Pelorus Private Equity Ltd and its Australian subsidiaries is Australian dollars.

Principles of Consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of Pelorus Private Equity Ltd and its subsidiaries. A list of controlled entities is contained in the Controlled Entities note 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 less any impairment charges.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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 profit or loss. They are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Comprehensive income after tax in the profit or loss are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

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 reserves in the year in which they arise.

Notes to the Financial Statements

For the Year Ended 30 June 2019

Impairment of assets

At each reporting date, the Group reviews the carrying values of its 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 profit or loss.

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.

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. The interest rate swaps are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured to fair value.

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

Notes to the Financial Statements

For the Year Ended 30 June 2019

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.

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. Unrealised gains and losses arising from changes in the fair value of these assets are included in the reserves in the period in which they arise, unless they relate to reversal of previous unrealised loss, which were then recognised in profit or loss.

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 profit or loss.

Notes to the Financial Statements

For the Year Ended 30 June 2019

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.

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.

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.

Rent 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.

In-specie distributions and returns of capital are brought on to the balance sheet by an adjustment in the carrying value of the relevant investment and then reflected in the comprehensive income as an unrealised

Notes to the Financial Statements

For the Year Ended 30 June 2019

gain.

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 Financial Statements

For the Year Ended 30 June 2019

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.

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 the current reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)

The group has departed from AASB9, therefore standard has not resulted in any material changes to the Trust's financial statements.

AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018)

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The new standard has not had a material impact on the financial statement.

AASB 16 Leases

The new standard is not expected to have a material impact on the financial statement.

Directors' Report - Continued

Information on Officeholders

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

| Name and Position | Experience |
|--|---|
| Joseph (Seph) Glew Chairman and Non-Executive Director | <p>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 40 years. In addition, since the early 1990s Seph has run many turnaround processes in relation to distressed properties and property structures for both private and institutional property owners.</p> <p>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 1980s 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 is also a Director of the ASX-listed BlackWall Limited.</p> |
| Paul Tresidder Non-Executive Director | <p>Paul has considerable experience in retail management, leading, development and strategic planning. He spent eight years with Lend Lease where he held a number of roles, including National Leasing Manager, before being appointed to the position of Divisional Manager responsible for half of the General Property Trust retail portfolio. Paul and fellow Lend Lease executive Guy Wynn, formed a property management company which was subsequently acquired by Baillieu Knight Frank. In 1993, Paul joined Seph Glew in the development business that would ultimately become ASX listed BlackWall Limited.</p> |
| Jessica (Jessie) Glew Chief Operating Officer and Joint Managing Director – BlackWall (appointed 30 June 2019) | <p>Jessie is Joint Managing Director and Chief Operating Officer for the BlackWall Group and its funds. Jessie has been with BlackWall since early 2011. Prior to her appointment as Joint Managing Director, Jessie was COO at BlackWall. Jessie has a Bachelor of International Communication from Macquarie University and finalising a Bachelor of Property Economics at the University of Technology Sydney.</p> |

Timothy Brown
Chief Financial Officer and
Joint Managing Director –
BlackWall
(appointed 30 June 2019)

Timothy Brown is the Chief Financial Officer for the BlackWall Group and its funds, and is responsible for all aspects of the group’s financial reporting, debt management and accounting operations. Timothy joined the formerly listed Pelorus Property Group Limited in 2008 as Group Financial Controller and became Chief Financial Officer in 2009, continuing with BlackWall when it listed in 2011. He has a Bachelor of Commerce from the University of New South Wales, is a member of the Institute of Chartered Accountants of Australia and has a Graduate Diploma from the Financial Services Institute of Australasia. With over 20 years experience in the financial services and property industries, he started his career with Deloitte in their middle market audit division working on a wide variety of SMEs. In 2002 he joined Lend Lease Corporation and held a number of finance roles across the Lend Lease portfolio from development and retail financial management to corporate treasury, including Treasury Manager for Lend Lease’s European operations based in London.

Stuart Brown
Executive Director and
Chief Executive Officer
(resigned 30 June 2019)

Stuart has been involved in property investment for over 18 years. Stuart has run debt and equity raisings in relation to listed and unlisted real estate structures worth 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 an independent Director of Coogee Boys’ Preparatory School and Randwick District Rugby Union Football Club. Stuart is the CEO of the ASX-listed BlackWall Limited.

Sophie Gowland
Company Secretary and
Head of Funds
Management

Sophie is a lawyer with over 10 years of experience in legal practice and financial services. Prior to joining BlackWall, Sophie practiced in the areas of corporate advisory, equity capital markets and mergers and acquisitions with firms including Gilbert + Tobin. Sophie was previously an investment banker with Credit Suisse, specialising in equity capital markets. Sophie holds a Bachelor of Commerce and Bachelor of Laws (First Class Honours) from the University of Queensland.

Meeting Attendances

| Director | Board Meetings |
|----------------|----------------|
| Meetings Held | 6 |
| Seph Glew | 6 |
| Paul Tresidder | 6 |
| Stuart Brown | 6 |

Environmental Regulation

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.

Auditor and Non-audit Services

Amounts paid to the auditor for non-audit services during the year are detailed at the Auditor's Remuneration note 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.

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.

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

Rounding of Amounts

The Group is a group of the kind referred to in ASIC Class Order 2016/191, 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

Events Subsequent to Reporting Date and Likely Developments

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the period 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.

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



Seph Glew
Chairman
Sydney, 30 September 2019

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes 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 Group's financial position as at 30 June 2019 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, 30 September 2019



Auditor's independence declaration to the directors of Pelorus Private Equity Limited and Controlled Entities

In accordance with the requirements of section 307C of the Corporations Act, as auditor of Pelorus Private Equity Limited and Controlled Entities for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Dated at Sydney the 30th day of September 2019

A handwritten signature in black ink, appearing to read 'Tim Valtwies', written over a faint 'ESV' watermark.

ESV Accounting and Business Advisors

A large, stylized handwritten signature in black ink, clearly legible as 'Tim Valtwies'.

Tim Valtwies
Partner



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PELORUS PRIVATE EQUITY LIMITED AND CONTROLLED ENTITIES

Qualified Opinion

We have audited the financial report of Pelorus Private Equity Limited and Controlled Entities (“the Group”), which comprises the Consolidated statement of financial position as at 30 June 2019, consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and directors declaration on pages 4 to 29 and 33.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial report of Pelorus Private Equity Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Company’s financial position as at 30 June 2019 and of its performance for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Qualified Opinion

The Group has departed from Australian Accounting Standards in respect of its accounting policy for the following:

- recognition of changes in fair value of investments designated as held for trading financial assets
- recognition of the fair value of swap derivatives in the prior year
- recognition of changes in fair values of investment properties
- recognition of deferred tax assets and liabilities on revaluation of investments

For the year ended 30 June 2019 the financial impact of these departures is that Profit after tax is understated by:

| | 2019 | 2018 |
|--|-------------|-------------|
| | \$ | \$ |
| Held for trading financial assets | 1,488,850 | 2,414,346 |
| Investment Properties | (1,969,048) | 2,606,520 |
| Movement in fair value of interest rate swap | Nil | 74,709 |
| Net unrecognised deferred tax expense | 720,491 | (1,236,438) |
| Total | 240,293 | 3,859,137 |

Other comprehensive income is therefore overstated by \$240,293 (2018: \$3,784,428). The departure has resulted in net assets presented in the Statement of Financial Position at the reporting date being overstated by \$Nil (2018: \$106,197).

- *AASB 9 Financial Instruments*: recognition and measurement stipulates that equity investments (Held for trading financial assets) are measured at fair value through profit or loss (FCPL), unless the entity makes an irrevocable election on initial recognition to present subsequent changes in the fair value in other comprehensive income.
- *AASB140 Investment Properties* mandates that where the fair value model is selected, the gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss for the period in which it arises.
- *AASB 101 Presentation of Financial Statements* mandates the group include in its financial statements a summary of the departures from the Accounting Standards, including the financial effect of the departures for each period presented, this has not been presented.
- *AASB 112 Income Taxes* provides that comprehensive income transactions which result in movements in the deferred tax assets and liabilities shall be recognised in comprehensive income tax expense.

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PELORUS PRIVATE EQUITY LIMITED

Responsibilities of the directors for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 28 to the financial report is appropriate to meet the requirements of the Corporations Act 2001 and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Dated at Sydney on the 30th day of September 2019



ESV Accounting and Business Advisors



Tim Valtwies
Partner