



## **Consolidated Annual Financial Statements**

Year Ended 30 June 2016

**Pelorus Private Equity Limited**

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## Directors' Report

Pelorus is an unlisted public investment company. Its major investment is in two big box lifestyle properties located in Penrith and Villawood in NSW. In addition the company is a significant investor in the ASX listed BlackWall Property Trust (ASX Code: BWR). Pelorus also periodically takes small positions in start up businesses. At the date of this report, the Company has \$200,000 invested in such ventures. The Company has 176,452,513 shares on issue.

### *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. The Trust has \$139 million of gross assets and net tangible assets of \$73 million or \$1.27 per unit. The Trust has 57 million units on issue, of which 17% is held by Pelorus.

During the year, Pelorus entered into a transaction with BlackWall Property Trust through which it sold the majority of its investment in Pelathon Pub Group in exchange for just under 3 million new BWR units.

The Trust has declared a final distribution of 4 cents per unit to be paid on 9 November 2016. This brings the full year distribution to 10 cents per unit (an interim distribution of 6 cents per unit was paid in April 2016). The Trust has carried forward revenue losses of \$15 million and capital losses of approximately \$17 million. As a consequence, all distributions will be 100% tax deferred for a significant period to come. Please refer to the BWR full year accounts released to the market on 24 August 2016 for more information.

BWR is now undertaking a Rights Issue and Private Placement to raise \$12 million. This capital will be primarily used to exercise a call option to buy back BWR units at a discount to NTA, and grow the Trust's position in existing and potential property investments. Further information on the Rights Issue and Private Placement is available in the information memorandum and related announcements released to the market via the ASX website ([www.asx.com.au](http://www.asx.com.au)).

### *BlackWall Opportunities Fund*

In December 2015, Pelorus accepted an offer from BlackWall Property Trust (BWR) that was made to all investors in BlackWall Opportunities Fund (BOF) to purchase their BOF units in exchange for ASX-listed BWR units. Pelorus accepted the offer increasing its interest in BWR and extinguishing its interest in BOF.

### *Woods PIPES Fund*

During the year, Pelorus sold down a large portion of its holding in Woods PIPES Fund from \$3.8 million to just over \$1 million as new investors continued to subscribe for Woods PIPES Fund units.

The Woods PIPES Fund has an interest in the Woods Action Centre, a family entertainment centre in Western Sydney. The leasing position at the property is set out below. It is noted that BlackWall is seeking a new operator to take over the Kartatak tenancy.

<b>Tenant</b>	<b>Commencement</b>	<b>Tenancy (sqm)</b>	<b>Lease Expiry</b>
AMF	Jul 2008	3,857	Jun 2018
Climbing Gym	Mar 2010	1,235	Mar 2020
Chipmunks	Oct 2013	1,040	Dec 2018
Kartatak	Dec 2009	2,199	Dec 2016
JUMP Swim Schools	Mar 2016	314	Mar 2022
Crossfit Bawn	Jun 2016	236	Jun 2019



The Woods Café	Apr 2016	181	Apr 2021
Parramatta Glass	Aug 2016	150	Aug 2019

The investment in Woods PIPES Fund generates quarterly income distributions of 8% per annum with a share of growth in the value of the property over the seven-year term.

#### *120 Mulgoa Road, Penrith*

Pelorus holds a total, look through interest of 40% in the big box retail property at 120 Mulgoa Road, Penrith, in Western Sydney. No change has occurred to the tenant mix at the property, with Toys'R'Us and Barbeques Galore exercising their options to renew their respective leases subsequent to 30 June 2016.

#### *BlackWall Limited (ASX Code: BWF)*

Pelorus holds 0.39% of the ASX-listed Blackwall Limited. Over the year, the trading price of BWF shares nearly doubled increasing from \$0.33 to \$0.60. BlackWall Limited declared a final dividend of 1.8 cents per share to be paid on 11 November 2016. For further information on BlackWall Limited, please refer to the 2016 Annual Report released to the market on 16 August 2016.

#### *Private Equity Investments*

As its name suggests, Pelorus regularly seeks opportunities to invest in private equity ventures with excellent growth potential. During the year, Pelorus invested \$100,000 in each of Tilt&Co, a vendor of mobility solutions and Primary Markets, a matching service for buyers and sellers of unlisted stock.

#### *Pelathon Pub Group*

As noted earlier, Pelorus sold most of its investment in Pelathon Pub Group, a small unlisted fund invested in three hotels in regional New South Wales. Pelorus has accepted an offer to acquire additional Pelathon Pub Group securities pursuant to a recent rights issue.

### **Dividends**

There were no dividends paid or declared for the period ended 30 June 2016 (2015: \$nil).

### **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.

### **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 30 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>
Robin Tedder Non-Executive Director	<p>Robin has worked in finance and investment since 1976 during which time he has served as the CEO of an investment bank and as non executive director on the boards of public and private companies in banking, insurance, funds management, property, healthcare, retail and wine. He was a member of ASX for many years. He is the Chairman of investment company Vintage Capital and the BlackWall Board Audit Committee. Robin is also a Director of the ASX-listed BlackWall Limited.</p>
Stuart Brown Executive Director and Chief Executive Officer	<p>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.</p> <p>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.</p>
Tim Brown Company Secretary from 23 September 2016	<p>Tim is the Chief Financial Officer for BlackWall and its funds. Tim is responsible for all aspects of these entities' financial reporting, debt management and accounting operations. Tim joined the formerly listed Pelorus Property Group Limited in 2008 as Group Financial Controller and became Chief Financial Officer in 2009. He has a Bachelor of Commerce from the University of New South Wales, is a member of the Chartered Accountants Australia and New Zealand and has a Graduate Diploma from the Financial Services Institute of Australasia. Tim has over 15 years experience in the financial services and property industries having started his career with Deloitte and then spent 8 years with Lend Lease.</p>
Caroline Raw Company Secretary until 23 September 2016	<p>Caroline Raw joined the BlackWall team in 2013 and is responsible for executing corporate and fund transactions across the BlackWall Group. Caroline has been practising as a solicitor in NSW since 2005 and has worked predominantly on IPOs, public and private capital raisings, funds management, corporate advisory, takeovers and mergers and acquisitions. Caroline holds a Bachelor of Commerce, Bachelor of Laws and Graduate Diploma in Applied Corporate Governance. Caroline is also a Chartered Secretary and Associate Member of the Governance Institute of Australia.</p>

### Meeting Attendances

Director	Board Meetings
Meetings Held	6
Seph Glew	6
Robin Tedder	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.

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



Seph Glew  
Chairman  
Sydney, 30 September 2016



**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 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor's 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 29<sup>th</sup> day of September 2016.

A handwritten signature in black ink, appearing to read 'Tim Valtwies', with a checkmark at the end.

**ESV Accounting and Business Advisors**

A handwritten signature in black ink, appearing to read 'Tim Valtwies'.

**Tim Valtwies**  
**Partner**

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Property rental income		3,571	3,443
Investment income		279	78
Gain on disposal of assets		272	366
Other income		72	-
<b>Total Revenue</b>	1(a)	<b>4,194</b>	<b>3,887</b>
Business operating expenses	2	(612)	(530)
Depreciation expenses	2	(432)	(426)
Property outgoings		(866)	(725)
Transaction fees		(125)	-
Finance costs	2	(1,644)	(1,453)
Other expenses		-	(8)
<b>Profit Before Tax</b>		<b>515</b>	<b>745</b>
Income tax expense	3(a)	-	-
<b>Profit After Tax</b>		<b>515</b>	<b>745</b>
<b>Other Comprehensive Income</b>			
<i>Items that will be reclassified to profit or loss</i>			
Unrealised gain on revaluation, net of tax	1(b)	2,531	2,519
<b>Total Comprehensive Income For the Year</b>		<b>3,046</b>	<b>3,264</b>
<b>Profit / (Loss) Attributable To:</b>			
Owners of the Group		519	1,008
Outside equity interests		(4)	(263)
		515	745
<b>Total Comprehensive Income / (Loss) Attributable To:</b>			
Owners of the Group		1,913	3,394
Outside equity interests		1,133	(130)
		3,046	3,264

The accompanying notes form part of these consolidated financial statements.



## Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	2,697	444
Trade and other receivables	5	104	135
Financial assets	6(a)	13,225	13,044
<b>Total Current Assets</b>		<b>16,026</b>	<b>13,623</b>
<b>Non-current Assets</b>			
Investment properties	7	34,100	31,600
<b>Total Non-current Assets</b>		<b>34,100</b>	<b>31,600</b>
<b>TOTAL ASSETS</b>		<b>50,126</b>	<b>45,223</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	419	682
Current tax payable	9	62	62
Borrowings	10	-	10,725
<b>Total Current Liabilities</b>		<b>481</b>	<b>11,469</b>
<b>Non-current Liabilities</b>			
Borrowings	10	17,725	7,000
Other financial liabilities	11	8,029	6,500
Deferred tax liabilities	3(b)	1,600	-
<b>Total Non-current Liabilities</b>		<b>27,354</b>	<b>13,500</b>
<b>TOTAL LIABILITIES</b>		<b>27,835</b>	<b>24,969</b>
<b>NET ASSETS</b>		<b>22,291</b>	<b>20,254</b>
<b>EQUITY</b>			
Share capital	12	12,807	13,792
Retained earnings		951	432
Reserves		6,050	4,677
<b>Parent Interest</b>		<b>19,808</b>	<b>18,901</b>
Non-controlling interest		2,483	1,353
<b>TOTAL EQUITY</b>		<b>22,291</b>	<b>20,254</b>

**Consolidated Statement of Changes in Equity**

**For the Year Ended 30 June 2016**

	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
<b>Restated balance at 1 July 2015</b>	<b>13,792</b>	<b>432</b>	<b>4,656</b>	<b>18,880</b>	<b>1,353</b>	<b>20,233</b>
Profit for the year	-	519	-	519	(4)	515
Other comprehensive income	-	-	1,394	1,394	1,137	2,531
Cancellation of shares	(985)	-	-	(985)	-	(985)
Transactions with outside equity interests	-	-	-	-	(3)	(3)
<b>Balance at 30 June 2016</b>	<b>12,807</b>	<b>951</b>	<b>6,050</b>	<b>19,808</b>	<b>2,483</b>	<b>22,291</b>
<b>Balance at 1 July 2014</b>	<b>14,599</b>	<b>(576)</b>	<b>2,291</b>	<b>16,314</b>	<b>1,273</b>	<b>17,587</b>
Profit for the year	-	1,008	-	1,008	(263)	745
Other comprehensive income	-	-	2,386	2,386	133	2,519
Cancellation of shares	(807)	-	-	(807)	-	(807)
Issue of WRV units	-	-	-	-	500	500
Transactions with outside equity interests	-	-	-	-	(290)	(290)
<b>Balance at 30 June 2015</b>	<b>13,792</b>	<b>432</b>	<b>4,677</b>	<b>18,901</b>	<b>1,353</b>	<b>20,254</b>

**Consolidated Statement of Cash Flows**

**For the Year Ended 30 June 2016**

	Note	2016 \$'000	2015 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		4,004	3,761
Payments to suppliers		(2,146)	(1,659)
Dividends received		234	37
Interest paid		(1,644)	(1,405)
Interest received		36	10
Income tax refund received		-	6
<b>Net Cash Flows From Operating Activities</b>	15	<b>484</b>	<b>750</b>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale of Woods PIPES Fund		2,105	100
Returns of capital from BWR		946	654
Net proceeds from related parties loans		185	250
Payments for purchase of financial assets		(630)	(2,174)
Payments for capital expenditures		(536)	(7)
Proceeds from sale of investments		-	642
<b>Net Cash Flows From / (Used in) Investing Activities</b>		<b>2,070</b>	<b>(535)</b>
<b>Cash Flows From Financing Activities</b>			
Repayment of preference shares		(200)	(85)
WRV Returns of capital		(101)	(290)
Proceeds from issue of WRV units		-	500
Share buy backs		-	(77)
<b>Net Cash Flows From / (Used in) Financing Activities</b>		<b>(301)</b>	<b>48</b>
<b>Net Increase in Cash Held</b>		<b>2,253</b>	<b>263</b>
Cash and cash equivalents at the beginning of the year		444	181
<b>Cash and Cash Equivalents at End of the Year</b>	4	<b>2,697</b>	<b>444</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 1. Revenue

	2016 \$'000	2015 \$'000
<b>(a) Revenue</b>		
Property rental income	3,571	3,443
Investment income:		
- Dividends	234	37
- Finance income	45	41
Gain on disposal of assets	272	366
Other income		
- Consulting fees	55	-
- Expense recovery	17	-
<b>Total</b>	<b>4,194</b>	<b>3,887</b>
<b>(b) Unrealised gain on revaluation under comprehensive income</b>		
Financial assets	1,735	2,101
Investment properties	2,396	418
Deferred tax on unrealised gain	(1,600)	-
	<b>2,531</b>	<b>2,519</b>

### 2. Expenses

	2016 \$'000	2015 \$'000
Business operating expenses:		
Director & consultants fees	313	311
Administration expenses	299	219
	<b>612</b>	<b>530</b>
Depreciation expenses - buildings	432	426
Finance costs	1,644	1,453

### 3. Income Tax Expense and Deferred Tax Liabilities

	2016 \$'000	2015 \$'000
<b>(a) Income tax expenses</b>		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)	155	224
Add / (less) tax effect of:		
- Gain on sale of assets	(82)	(110)
- Tax losses not brought into account	(73)	(114)
<b>Total</b>	<b>-</b>	<b>-</b>
<b>(b) Deferred tax liabilities</b>		
Financial assets	505	-
Investment properties	1,095	-
<b>Total</b>	<b>1,600</b>	<b>-</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2016

Unused income tax losses @ 30%		
- available to tax consolidation group excluding WRV	907	953
- available to WRV	566	564

### 4. Current Assets - Cash and Cash Equivalents

	2016 \$'000	2015 \$'000
Cash at bank	2,697	444
<b>Total</b>	<b>2,697</b>	<b>444</b>

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

### 5. Current Assets - Trade and Other Receivables

	2016 \$'000	2015 \$'000
Trade receivables:		
- Related parties	32	-
- Other parties	71	104
	103	104
Other receivables	1	31
<b>Total</b>	<b>104</b>	<b>135</b>

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 2016 (2015: \$nil).

### 6. Current Assets - Financial Assets

	Note	2016 \$'000	2015 \$'000
<b>(a) Financial Assets</b>			
Financial assets	6(b)	12,837	12,354
Loans and receivables	6(c)	388	690
<b>Total</b>		<b>13,225</b>	<b>13,044</b>

		2016 \$'000	2015 \$'000
<b>(b) Financial Assets</b>			
Listed - BlackWall Property Trust	(i)	12,503	8,997
Listed - BlackWall Limited	(ii)	123	68
Unlisted - Tilt & Co		100	-
Unlisted - Primary Market		100	-
Unlisted - Pelathon Pub Group	(ii)	11	2,883
Unlisted - BlackWall Opportunities Fund		-	406
<b>Total</b>		<b>12,837</b>	<b>12,354</b>

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

*(i) BlackWall Property Trust (BWR)*

BlackWall Property Trust is an ASX-listed real estate investment trust managed by BlackWall. Pelorus holds 9.9 million (17%) BWR units (2015: \$7.4 million BWR units).

*(ii) Blackwall Limited (BWF)*

200,000 BWF shares are held on an option agreement with other parties at an exercise price of 40 cents per share.

*(iii) Pelathon Pub Group*

In June 2016 the Group sold most of its units in the Pelathon Pub Group (including in-specie distribution of pub units from BWR), in exchange for approximately 2.9 million additional BWR units. Furthermore it has subscribed for an additional 0.8 million Pub Group units at 6.8 cents per unit under the Pub Group's Rights Issue offer in September 2016.

**(c) Loans and Receivables**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Loans - related parties	388	690
<b>Total</b>	<b>388</b>	<b>690</b>

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

## 7. Non-current Assets - Investment Properties

	<b>Penrith</b>	<b>The Woods</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>30 June 2016</b>			
Balance at the beginning of year	17,600	14,000	31,600
Capital improvements	-	536	536
Revaluations	149	2,247	2,396
Depreciation	(149)	(283)	(432)
<b>Balance at the end of year</b>	<b>17,600</b>	<b>16,500</b>	<b>34,100</b>
<b>30 June 2015</b>			
Balance at the beginning of year	17,600	14,000	31,600
Capital improvements	1	7	8
Revaluations	155	263	418
Depreciation	(156)	(270)	(426)
<b>Balance at the end of year</b>	<b>17,600</b>	<b>14,000</b>	<b>31,600</b>

Refer to the Borrowings and Other Financial Liabilities notes for details of borrowings secured against the properties.

The Penrith property is a big box retail complex located at 120 Mulgoa Road, Penrith. The property was independently valued in December 2013 at \$16.5 million reflecting market yield of 9.5%. The property is currently held on a yield of 9%, which equates to a value of \$17.6 million. The property is fully let with gross income of around \$1.9 million p.a. Tenants include Toys R Us, Boating Camping Fishing, Barbeques Galore, Little Learning School and Rashay's Pizza Pasta Grill.

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

The Woods Action Centre is an entertainment precinct in Villawood, Sydney. The property is held on a yield of 9%, which equates to a value of \$16.5 million. Major tenants include AMF Bowling, Sydney Indoor Climbing Gym and Chipmunks Play Centre.

#### 8. Current Liabilities - Trade and Other Payables

	2016 \$'000	2015 \$'000
Trade payables:		
- Related parties	210	339
- Other parties	191	326
	<hr/> 401	<hr/> 665
Rental income in advance	18	17
<b>Total</b>	<hr/> <b>419</b>	<hr/> <b>682</b>

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

#### 9. Current Liabilities - Current Tax Payable

	2016 \$'000	2015 \$'000
Current tax payable	62	62
<b>Total</b>	<hr/> <b>62</b>	<hr/> <b>62</b>

#### 10. Current and Non-current Liabilities - Borrowings

	Penrith \$'000	The Woods \$'000	Total \$'000
<b>30 June 2016 (non-current)</b>			
Borrowings	10,725	7,000	17,725
	<hr/> <b>10,725</b>	<hr/> <b>7,000</b>	<hr/> <b>17,725</b>
<b>30 June 2015</b>			
Borrowings - current	10,725	-	10,725
Borrowings - non-current	-	7,000	7,000
	<hr/> <b>10,725</b>	<hr/> <b>7,000</b>	<hr/> <b>17,725</b>

The Penrith and the Woods properties' borrowings are due for renewal in August 2018 and May 2018 respectively. The Penrith and the Woods facilities are subject to a margin of 1.95% per annum (2015: 1.95% per annum) and 1.8% per annum (2015: 1.8% per annum) over BBSY, respectively. Refer to the Financial Risk Management note for a sensitivity analysis.

There is one \$7 million swap over the Woods property at 2.99% p.a. that will expire in December 2019. The mark to market of the swap is not on the Group's balance sheet given the ability to hold these to maturity and their inclusion in interest expense going forward.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 11. Non-current Liabilities – Other Financial Liabilities

	2016 \$'000	2015 \$'000
BlackWall Penrith Fund No 3	4,121	4,500
Woods PIPES Fund	3,908	100
Preference Shares	-	1,900
<b>Total</b>	<b>8,029</b>	<b>6,500</b>

BlackWall Penrith Fund No. 3 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.

Woods PIPES Fund is a hybrid property investment vehicle commenced in the 2016 financial year with a \$5,000,000 interest in the Woods property secured by a second mortgage. The current interest rate is 8% per annum. At as 30 June 2016, investors have subscribed for 3.9 million units in Woods PIPES Fund.

The Preference Shares were fully repaid during the year.

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

### 12. Share Capital

#### (a) Summary Table

	2016 \$'000	2015 \$'000
176,452,513 (2015: 186,307,581) Ordinary	12,807	13,792
<b>Total</b>	<b>12,807</b>	<b>13,792</b>

#### (b) Movement in shares on issue

	2016 No.	2015 No.
At the beginning of the year	186,307,581	202,481,427
Cancellation of shares	(9,855,068)	(16,173,486)
<b>At the end of the year</b>	<b>176,452,513</b>	<b>186,307,581</b>

During the year, the Company cancelled 9,855,068 ordinary shares. A total cost of \$985,000 was deducted from ordinary shareholder equity.

### 13. Auditor's Remuneration

	2016 \$'000	2015 \$'000
Remuneration of the auditor of the Group for:		
-Audit and other audit related services	42	42
-Tax compliance services	10	10
<b>Total</b>	<b>52</b>	<b>52</b>

### 14. Commitments and Contingencies

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



## Notes to the Financial Statements

### For the Year Ended 30 June 2016

	2016	2015
	\$'000	\$'000
Receivable within 1 year	2,679	2,513
Receivable within 2-5 years	6,447	6,444
Receivable over 5 years	5,705	5,705
<b>Total</b>	<b>14,831</b>	<b>14,662</b>

There are no other commitments and contingencies as at 30 June 2016 (2015: Nil).

### 15. Reconciliation of Profit After Income Tax to Operating Cash Flows

	2016	2015
	\$'000	\$'000
Profit for the year	515	745
Non-cash flows included in profit:		
Depreciation	432	426
Non-cash expense	55	-
Net gain on disposal of investments	(272)	(366)
Finance income	(9)	(31)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(13)	(104)
Increase/(decrease) in trade payables and accruals	(224)	80
Net cash flows from operating activities	484	750

### 16. 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.

### 17. Controlled Entities

Name	Country of incorporation	Percentage Owned	
		2016 %	2015 %
<b>Parent Entity:</b>			
Pelorus Private Equity Ltd	Australia		
<b>Subsidiaries of parent entity:</b>			
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

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 18. 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:

	2016 \$'000	2015 \$'000
<b>Results:</b>		
Profit after tax	506	425
Comprehensive income	2,944	2,101
<b>Total comprehensive income after tax</b>	<b>3,450</b>	<b>2,526</b>
<b>Financial position:</b>		
Current assets	19,319	12,643
Non-current assets	3,476	10,442
<b>Total assets</b>	<b>22,795</b>	<b>23,085</b>
Current liabilities	(7)	(4,362)
Non-current liabilities	(1,600)	-
<b>Total liabilities</b>	<b>(1,607)</b>	<b>(4,362)</b>
<b>Net assets</b>	<b>21,188</b>	<b>18,723</b>
Share capital	12,807	13,792
Reserves	5,319	2,375
Retained earnings	3,062	2,556
<b>Total equity</b>	<b>21,188</b>	<b>18,723</b>

The parent entity had no contingencies or capital commitments at 30 June 2016 (2015: Nil).

### 19. 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.

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.

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	2016 \$'000	2015 \$'000
<b>Revenue:</b>		
- Dividend and returns of capital received	1,081	691
- Consulting fees received	55	-
- Interest received	-	16
<b>Expenses:</b>		
- Interest paid	694	604
- Consulting and management fees paid	314	262
- Directors' fees	240	240
<b>Outstanding balances:</b>		
- Trade receivables - current	32	-
- Loan receivables (net of impairment) - non-current	388	690
- Trade and loan payables - current	(210)	(339)
- Financial liabilities - non-current	(8,029)	(6,500)

### (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)	
	2016	2015	2016	2015
BlackWall Property Trust	9,923	7,375	847	654
BlackWall Limited	205	205	7	37
Pelathon Pub Group	174	40,038	-	-
BlackWall Opportunities Fund	-	4,519	-	-
			<b>691</b>	<b>691</b>

Further details refer to Financial Assets note.

### (c) KMP

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

	Balance at 30 June		Balance at 30 June	
	2015 No. '000	Net change No. '000	2016 No. '000	
Joseph (Seph) Glew	34,899	(250)	34,649	
Robin Tedder	20,000	-	20,000	
Stuart Brown	5,369	-	5,369	
<b>Total</b>	<b>60,268</b>	<b>(250)</b>	<b>60,018</b>	

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 20. 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:

	2016 \$'000	2015 \$'000
<b>Financial Assets</b>		
Financial assets	13,225	13,044
<b>Financial liabilities</b>		
Borrowings	17,725	17,725
Other financial liabilities	8,029	6,500

#### (b) Market risk

##### (i) Foreign exchange risk

The Group's 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. The Group manages this risk by entering into hedging transactions with financial institutions as detailed in the Borrowings note. 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 2016		June 2015	
	Interest rate %	Balance \$'000	Interest rate %	Balance \$'000
Borrowings – unhedged portion	3.85	10,725	4.04	10,725
Other financial liabilities	8.51	8,029	9.28	6,500

#### 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:

## Notes to the Financial Statements

For the Year Ended 30 June 2016

Consolidated	Net profit Higher / (Lower)	
	2016 \$'000	2015 \$'000
<b>Movement in interest rates</b>		
+ 1.0%	(107)	(120)
- 0.5%	54	60

### (iii) Price risk

The major exposure is the Group's investments in BWR units. In relation to the investment in BWR units, a 10% decrease in the ASX trading price (from the price at 30 June 2016, i.e. \$1.26 per unit) would result in an unrealised loss of \$1,250,000 (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.

### (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
<b>At 30 June 2016</b>				
<b>Financial assets</b>				
Cash and cash equivalents	2,697	-	-	2,697
Trade and other receivables	104	-	-	104
Financial assets	13,225	-	-	13,225
	<b>16,026</b>	<b>-</b>	<b>-</b>	<b>16,026</b>
<b>Financial liabilities</b>				
Trade and other payables	419	-	-	419
Other financial liabilities	-	4,121	3,908	8,029
Borrowings	-	17,725	-	17,725
	<b>419</b>	<b>21,846</b>	<b>3,908</b>	<b>26,173</b>
<b>At 30 June 2015</b>	<b>Maturing within</b>	<b>Maturing</b>	<b>Maturing</b>	

## Notes to the Financial Statements

For the Year Ended 30 June 2016

	1 year \$'000	2 – 5 years \$'000	over 5 years \$'000	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	444	-	-	444
Trade and other receivables	135	-	-	135
Financial assets	13,044	-	-	13,044
	<b>13,623</b>	<b>-</b>	<b>-</b>	<b>13,623</b>
<b>Financial liabilities</b>				
Trade and other payables	682	-	-	682
Other financial liabilities	-	1,900	4,600	6,500
Borrowings	10,725	7,000	-	17,725
	<b>11,407</b>	<b>8,900</b>	<b>4,600</b>	<b>24,907</b>

### (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.

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
<b>At 30 June 2016</b>				
Financial assets	12,626	-	211	12,837
<b>At 30 June 2015</b>				
Financial assets	9,065	-	3,289	12,354

#### (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) Fair value measurements using significant observable inputs (Level 3)

## Notes to the Financial Statements

### For the Year Ended 30 June 2016

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

	<b>\$'000</b>
<b>At 30 June 2016</b>	
Balance at the beginning of year	3,289
Purchase	200
Sale	(3,406)
Fair value movement	128
Balance at the end of year	<u><b>211</b></u>
<b>At 30 June 2015</b>	
Balance at the beginning of year	2,757
Purchase	654
In-specie distribution received	(289)
Fair value movement	167
Balance at the end of year	<u><b>3,289</b></u>

#### 21. Dividend

There were no dividends paid or declared for the year ended 30 June 2016 (2015: \$nil).

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available for the subsequent reporting periods based on a tax rate of 30% (2015: 30%)	<u><b>530</b></u>	<u><b>527</b></u>

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.

#### 22. Segment Reporting

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

#### 23. Group Details

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

## Notes to the Financial Statements

For the Year Ended 30 June 2016

### 24. 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.

#### *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.

### 25. 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 139 Financial Instruments Recognition and Measurement (fair value 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.





## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

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.

#### **New and amended standards adopted by the Group**

##### *AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities*

In August 2013, the AASB made amendments to the above standard which exempt investment entities from consolidating controlled investees.

The Group has adopted this standard and there are no material changes to the Group's financial statements.

#### **Going Concern**

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.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

#### **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.

#### **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:

- 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 reserves in the year in which they arise.

##### **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.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

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 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 Financial Statements**

### **For the Year Ended 30 June 2016**

#### **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.

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.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

#### **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 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.

## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

#### **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.

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



## **Notes to the Financial Statements**

### **For the Year Ended 30 June 2016**

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)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 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. The impact to the Group shall not be material. The Group has not yet decided when to adopt AASB 9.

**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 2016 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 2016





## **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 statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entities.

### *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 controls as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### *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 Group'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 Group'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.

### *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
- recognition of changes in fair values of investment properties
- recognition of deferred tax assets and liabilities on revaluation of investments



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

For the year ended 30 June 2016 the financial impact of these departures is that Profit after tax is understated by:

	2016	2015
	\$	\$
Held for trading financial assets	1,735,411	2,100,507
Investment Properties	2,395,664	418,713
Movement in fair value of interest rate swap	(160,136)	(154,049)
Net unrecognised deferred tax liability	(1,600,000)	(361,635)
Total	2,370,939	2,003,536

Other comprehensive income is therefore overstated by \$2,531,075 (2015: \$2,519,220); and total comprehensive income is overstated by \$160,136 (2015: \$515,684). The departure has resulted net assets presented in the Statement of Financial Position at the reporting date to be overstated by \$314,185 (2015: \$515,684).

- AASB 139 *Financial Instruments: Recognition and Measurement* mandates that the changes in the fair value of held for trading financial assets be recognised through the profit or loss, and AASB 9 *Financial Instruments* stipulates that the initial election by management to designate the financial assets at fair value through profit or loss is irrevocable.
- The mark to market valuations of interest rate swaps maturing on 3 December 2019 has not been recognised.
- 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.

### Qualified Audit Opinion

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

- giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

Dated at Sydney the 30<sup>th</sup> day of September 2016.

**ESV Accounting and Business Advisors**

**Tim Valtwies**  
Partner

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## GLOSSARY

ASX	Australian Securities Exchange
BlackWall / BWF	BlackWall Limited (formerly known as BlackWall Property Funds Limited)
BOF	BlackWall Opportunities Fund
BWR	BlackWall Property Trust
Company	Pelorus Private Equity Limited
Consolidated annual financial statements	Financial statements
FVTPL	Fair value through profit and loss
Group or Pelorus	Pelorus Private Equity Limited & subsidiaries
GST	Goods and services tax
IFRS	International Financial Reporting Standards
KMP	Key management personnel
p.a.	Per annum
Outside equity interests / OEI	Non-controlling interests