



Interim Consolidated Financial Statements

Half-year Ended 31 December 2019

Pelorus Private Equity Limited

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Directors' Report

Principal Activities and Significant Changes in Affairs

Pelorus is an unlisted public investment company. The company has an investment in a retail mixed use property located in Penrith in NSW and an entertainment precinct in Villawood, 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 \$400,000 invested in such ventures. The Company has 158,161,465 shares on issue and NTA of \$0.16 per share.

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 Limited. As at December 2019 BWR had \$354 million of gross assets and net tangible assets of \$228 million or \$1.56 per unit. BWR has 146 million units on issue, of which 7.5% is held by Pelorus.

BWR is a total return property investment trust controlling stable income producing investments. Like all REITS, BWR has benefitted from the rising tide of recent "bull property markets". BWR has a strong record of finding and executing turnaround projects, and is well positioned to take advantage of these types of opportunities in the market.

120 Mulgoa Road, Penrith

Penrith is a retail mixed use property located at 120 Mulgoa Road, Penrith, in Western Sydney. Its tenants include Barbeques Galore, Boating Camping Fishing, Rashay's Restaurant and a Bliss Early Learning Centre. Tru Ninja and Factory Plus have recently taken majority of the space previously occupied by Toys R Us leaving a small 300sqm vacancy.

WRV - 850 Woodville Rd, Villawood (The Woods)

The Woods is an entertainment precinct in Sydney's west, approximately 28 kilometres from Sydney CBD. The property has great exposure to Woodville Road and is home to 8 different tenants including Zone Bowling, Chipmunks Playland, Sydney Indoor Climbing Gym, Jump Swim School and Cross Fit Bawn, The site recently released the space previously occupied by a go kart operator to Flip Out who will be open for trade in March 2020.

Dividends

There were no dividends paid or declared for the period ended 31 December 2019 (2018: \$nil).

Financial Statements

Statement of Financial Position

As at 31 December 2019

	Note	December 2019 \$'000	June 2019 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		309	36
Trade and other receivables		56	13
Financial assets	2	26,244	21,943
Loans	1	5,681	1,203
Total Current Assets		32,290	23,195
Non-current Assets			
Investment properties	3	22,800	21,000
Other Investment		102	34
Total Non-current Assets		22,902	21,034
TOTAL ASSETS		55,192	44,229
LIABILITIES			
Current Liabilities			
Trade and other payables		534	491
Current tax payable		82	62
Borrowings - property	4	17,311	11,150
Other financial liabilities	5	7,293	-
Total Current Liabilities		25,220	11,703
Non-current Liabilities			
Other financial liabilities		-	6,366
Deferred tax liabilities		4,625	3,685
Total Non-current Liabilities		4,625	10,051
TOTAL LIABILITIES		29,845	21,754
NET ASSETS		25,347	22,475
EQUITY			
Share capital		10,641	10,146
Retained earnings		1,922	2,606
Reserves		12,784	9,723
TOTAL EQUITY		25,347	22,475

Financial Statements

Statement of Profit or Loss

For the Half-Year Ended 31 December 2019

	Note	December 2019 \$'000	December 2018 \$'000
REVENUE			
Property rental income		696	1,367
WOTSO Franchise income	8	2,572	-
Investment income		83	63
Gain on disposal of assets		6	11
Total Revenue		3,357	1,441
EXPENSES			
Financing costs		(392)	(750)
Business operating expenses		(304)	(294)
WOTSO Franchise expenses	8	(2,572)	-
Depreciation expenses		(211)	(296)
Property outgoings		(252)	(395)
Other expenses		(7)	(9)
Impairment	7	(303)	-
Total Expenses		(4,041)	(1,744)
(Loss) / Profit Before Tax		(684)	(303)
Income tax expense		-	-
(Loss) / Profit After Tax for the Period		(684)	(303)

Statement of Other Comprehensive Income
For the Half-Year Ended 31 December 2019

	Note	December 2019 \$'000	December 2018 \$'000
(Loss) for the period		(684)	(303)
Other Comprehensive Income			
<i>Items that may be reclassified to profit or loss</i>			
Unrealised gain on revaluation of financial assets		3,238	990
Unrealised gain (loss) on revaluation of investment properties		551	(12)
Deferred tax		(728)	(131)
Other Comprehensive Income for the Period	6	3,061	847
Total Comprehensive Income for the Period		2,377	544
Total Comprehensive (Loss) / Income Attributable To:			
Owners of the Group		2,377	580
Outside equity interests		-	(36)
		2,377	544

The accompanying notes form part of these consolidated financial statements.

Financial Statements

Statement of Cash Flows For the Half-Year Ended 31 December 2019

	December 2019 \$'000	December 2018 \$'000
Cash Flows From Operating Activities		
WOTSO Franchise receipts	2,573	-
Receipts from property customers	1,240	1,459
Interest received	42	2
Dividends and distributions received	41	61
WOTSO Franchise payments	(2,558)	-
Payments to suppliers	(1,044)	(663)
Interest paid	(392)	(750)
Net Cash Flows (Used in) / From Operating Activities	(98)	109
Cash Flows From Investing Activities		
Net loans with related parties	5,173	(245)
Returns of capital received	397	511
Proceeds from sale of investments	-	900
Acquisition of investments	(3,561)	(867)
Payment to acquire Bin 24 net of cash received	(1,573)	-
Payment for capital expenditures	(560)	(308)
Net Cash Flows From / (Used in) Investing Activities	(124)	(9)
Cash Flows From Financing Activities		
Proceeds from issue of shares	495	-
Net Cash Flows From Financing Activities	495	-
Net Increase / (Decrease) in Cash Held	273	100
Cash and cash equivalents at the beginning of the year	36	74
Cash and Cash Equivalents at End of the Period	309	174

Statement of Changes in Equity

For the Half-Year Ended 31 December 2019

	Ordinary Shares \$'000	Retained Earnings/ (Accumulated Losses) \$'000	Reserves \$'000	Attributable to Owners of the Parent \$'000	Non- controlling Interest \$'000	Total \$'000
Balance at 1 July 2019	10,146	2,606	9,723	22,475	-	22,475
Loss for the period	-	(684)	-	(684)	-	(684)
Other comprehensive income	-	-	3,061	3,061	-	3,061
Issue of new shares	495	-	-	495	-	495
Balance at 31 December 2019	10,641	1,922	12,784	25,347	-	25,347
Balance at 1 July 2018	12,823	3,195	10,317	26,335	3,031	29,366
Loss for the period	-	(248)	-	(248)	(55)	(303)
Other comprehensive income	-	-	828	828	19	847
Balance at 31 December 2018	12,823	2,947	11,145	26,915	2,995	29,910

Notes
For the Half- Year Ended 31 December 2019

1. Current Assets – Loans

	Note	December 2019 \$'000	June 2019 \$'000
Loans – related and non-related parties		5,681	1,203
Total		5,681	1,203

2. Current Assets – Financial Assets

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

Financial Assets	Note	December 2019 \$'000	June 2019 \$'000
Listed - BlackWall Property Trust	(i)	15,840	14,445
Listed - BlackWall Limited		1,035	45
Listed - Total		16,875	14,490
Unlisted - WRV	(ii)	3,989	2,903
Unlisted – Kirela-C	(iii)	4,713	3,808
Unlisted – Pelorus Private Equity		-	80
Unlisted – Tilt & Co		50	50
Unlisted – Primary Market		50	50
Unlisted - Sportility		300	300
Unlisted - Pelathon Pub Group		267	262
Unlisted - Total		9,369	7,453
Total		26,244	21,943

(i) BlackWall Property Trust (BWR)

BlackWall Property Trust is an ASX-listed real estate investment trust managed by BlackWall. Pelorus holds 11.0 million BWR units (June 2019: 10.7 million BWR units). This represents 7.5% of BWR issued units (June 2019: 7%).

(ii) WRV

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, has commenced trading in March 2020 on a 10 year lease.

The Woods was independently valued in February 2020 at \$22.3 million and this value has been adopted in this report bringing the NTA of WRV to \$2.02.

Notes

For the Half- Year Ended 31 December 2019

(iii) *Kirela C*

Kirela C is an investment trust that holds various positions in 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.

In January 2020 Pelorus Private Equity acquired WOTSO Limited shares for a total value of \$2.02 million.

3. Non-current Assets – Investment Properties

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

The Penrith property is a retail complex located at 120 Mulgoa Road, Penrith. The property was independently valued in December 2019 at \$22.8 million which reflected a capitalisation of 6.6%. The property has gross income of around \$1.8 million p.a. Tenants include Boating Camping Fishing, Barbeques Galore, Little Learning School and Rashay's Pizza Pasta Grill.

A second property, The Woods has been deconsolidated off the balance sheet in June 2019 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.

A reconciliation of the property values are as follows:

	Penrith	The Woods	Total
	\$'000	\$'000	\$'000
31 December 2019			
Balance at the beginning of period	21,000	-	21,000
Capital improvements	560	-	560
Revaluations	1,451	-	1,451
Depreciation	(211)	-	(211)
Balance at the end of period	22,800	-	22,800
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

4. Current Liabilities – Borrowings - property

The borrowings against the property are detailed as follows:

	Penrith	The Woods	Total
	\$'000	\$'000	\$'000
31 December 2019			
Borrowings (current)	17,311	-	17,311
	17,311	-	17,311

Notes

For the Half- Year Ended 31 December 2019

30 June 2019

Borrowings (current)	11,150	-	11,150
	11,150	-	11,150

The Penrith property borrowings moved from CBA to BlackWall Property Trust (BWR) during the prior 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.

In January 2020 the borrowings were moved back to CBA with a loan value of \$10m and loan term of three years. The loan is subject to a margin of 0.94% pa over BBSY.

5. Current Liabilities – Other Financial Liabilities

	December 2019 \$000	June 2019 \$'000
BlackWall Penrith Fund No 3	4,116	4,116
Provision for Performance Fee – BlackWall Penrith PIPES No3	1,260	900
Provision for Performance Fee – BlackWall Fund Services	1,890	1,350
Related party	27	-
Total	7,293	6,366

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 Penrith property was independently valued in December 2019 at \$22.8 million, representing an unrealised capital gain of \$6.3 million above the initial property valuation of \$16.5 million. Upon termination of the fund in 2021 the capital gain is to be distributed to various parties, with \$1.26 million (20%) due to Penrith Fund No 3, \$1.89 million (30%) due to BlackWall as the Responsible Entity, and the balance due to the property owner.

6. Departure from Australian Accounting Standards

The Financial Statements have removed unrealised gains (losses) and deferred taxation from the Statement of Profit or Loss, and have instead disclosed these items in the Statement of Other Comprehensive Income. The reason for this is to make a clear distinction for the users of these financial statements between results actually achieved (Statement of Profit or Loss) and items which may (but are not certain) to be achieved in some future financial period (Statement of Other Comprehensive Income). Australian Accounting Standards require all unrealised gains (losses) and deferred taxation items to be included in the Statement of Profit or Loss.

As a result of this departure the Statement of Profit or Loss is understated for profits (and consequently the Statement of Other Comprehensive Income is overstated). The Statement of Profit or Loss is overstated for losses (and consequently the Statement of Other Comprehensive Income is understated). The specific amounts for each main category of departure from relevant AASB Standard is set out in the table below:

Notes

For the Half- Year Ended 31 December 2019

	December 2019 \$'000	December 2018 \$'000
Unrealised gain on revaluation of financial assets (AASB 9)	3,238	990
Unrealised gain (loss) on revaluation of investment properties (AASB 140)	551	(12)
Deferred tax (AASB 112)	(728)	(131)
Total unrealised gain and deferred tax	3,061	847

7. Acquisition of Subsidiary (\$'000)

On 31 July 2019 Pelorus acquired all the shares of Bin 24 Pty Ltd for \$1.58 million in cash and scrip. Bin 24 has a direct holding of shares in BlackWall Limited (ASX: BWF) and a loan book to related parties (the loan book is secured by various BWF shares and BlackWall Property Trust (ASX: BWR) units).

The net asset acquired from Bin 24 were fair valued at \$1.28 million, resulting in goodwill of \$0.3 million. The goodwill has been written off as impaired at acquisition.

Assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
Cash and cash equivalents	6
Receivables and other assets	105
Loan book (secured)	3,190
Investment in BlackWall Ltd (BWF)	989
Trade and other payables	(12)
Loans payable	(2,790)
Deferred tax liability	(213)
Net assets acquired	1,275
Add: goodwill on acquisition	303
Total purchase consideration	1,578

8. WOTSO Franchise

BWR Franchise Unit Trust is a newly established entity to manage the WOTSO sites located at Fortitude Valley QLD, Gold Coast QLD, Dickson ACT, Symonston ACT, and Adelaide SA under a Franchise arrangement. The Franchisor is WOTSO (a wholly owned subsidiary of BlackWall Ltd) and BWR Franchise Unit Trust is the Franchisee.

Under the franchise agreement the Franchisee is required to pay a franchise fee which is set at eight percent of gross rental income. The franchise fee paid to the Franchisor allows for the Franchisee to access branding, website, management systems, marketing, financial analysis, fit-out specifications, and staff training provided or facilitated by WOTSO. BWR Franchise Unit Trust records the site revenue, operating and payroll expenses in its own financial records. For the current reporting period the Franchise produced a break-even result.

Management has decided to dispose of this subsidiary to WOTSO Limited on 8 January 2020.

Notes

For the Half- Year Ended 31 December 2019

9. 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 period 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.

10. Fair Value Measurement of Financial Instruments

(a) 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. 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 31 December 2019				
Financial assets	16,875	-	9,369	26,244
Investment property	-	-	22,800	22,800
Loans	-	-	5,681	5,681
At 30 June 2019				
Financial assets	14,490	-	7,453	21,943
Investment property	-	-	21,000	21,000
Loans	-	-	1,203	1,203

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

The fair value of the unlisted securities is determined by reference to the published net tangible assets unit prices of each of the entities.

Notes

For the Half- Year Ended 31 December 2019

(c) Reconciliation of movements (Level 3)

- (i) The following table is a reconciliation of the movements in financial assets classified as Level 3 (for investment property refer to Note 3):

	\$'000
At 31 December 2019	
Balance at the beginning of period	7,453
Purchase	3,175
Sale	(3,091)
Return of capital	(11)
Fair value movement	1,843
Balance at the end of period	<u>9,369</u>
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>

(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. All these instruments are included in Level 3.

There were no transfers between Level 1, 2 and 3 financial instruments during the period. For all other financial assets and financial liabilities, carrying value is an approximation of fair value

Significant unobservable inputs associated with the valuation of investment properties are as follows:

Significant unobservable inputs used to measure fair value	Range of unobservable inputs	Impact of increase in input on fair value	Impact of decrease in input on fair value
Capitalisation rate (%)	6.0 – 7.3	Decrease	Increase
Net market rent (\$ per sqm)	186 – 474	Increase	Decrease

Notes

For the Half- Year Ended 31 December 2019

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

The following table is a reconciliation of the movements in loans classified as Level 3 for the period ended 31 December:

At 31 December 2019 (\$'000)

Balance at 30 June 2019	1,203
Loans advanced	5,678
Intercompany loan elimination	(1,200)
Balance at 31 December 2019	5,681

At 30 June 2019 (\$'000)

Balance at 30 June 2018	3
Loans advanced	1,200
Balance at 30 June 2019	1,203

11. Segment Reporting

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

12. Group Details

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

13. 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

Notes

For the Half- Year Ended 31 December 2019

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.

14. 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 and tax losses 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.

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.

Notes

For the Half- Year Ended 31 December 2019

New Accounting Standards and Interpretations

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The impact of adopting new standards and interpretations is set out below.

IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)

There has been no impact to the group upon adopting AASB 16.

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.

Joseph (Seph) Glew (Executive Chairman)
Paul Tresidder (Non-executive Director)
Jessica Glew (Executive Director)
Timothy Brown (Executive Director)
Sophie Gowland (Company Secretary)

Auditor

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, 16 March 2020

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 AASB 134 Interim Financial Reporting, 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 31 December 2019 and of its performance for the financial period 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, 16 March 2020

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 for the review of Pelorus Private Equity Limited and Controlled Entities for the half-year ended 31 December 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 16 March 2020



ESV Accounting and Business Advisors



Tim Valtwies
Partner



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PELORUS PRIVATE EQUITY LIMITED AND ITS CONSOLIDATED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pelorus Private Equity Limited and Controlled Entities ("the Group"), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The Directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 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 through the profit and loss
- recognition of changes in fair values of investment properties through the profit and loss
- recognition of deferred tax assets and liabilities on revaluation of investments

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF PELORUS PRIVATE EQUITY LIMITED AND ITS CONSOLIDATED ENTITIES

For the half-year ended 31 December 2019 the financial impact of these departures is that profit after tax is understated by:

	December 2019 \$	June 2019 \$
Held for trading financial assets	3,237,758	1,488,850
Investment properties	551,187	(1,969,048)
Net impact of offsetting tax loss and deferred tax liability movement	(727,682)	720,491
Total	3,061,263	240,293

Other comprehensive income is therefore overstated by \$3,061,263 (June 2019: \$240,293). The departure has resulted net assets presented in the Statement of Financial Position at the reporting date to be overstated by \$Nil (June 2019: \$Nil). The cumulative effect of the departure being \$12,784,000 which should be recorded in retained earnings.

- *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.

Qualified Review Opinion

Based on our review, which is not an audit, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, we have not become aware of any matters that makes us believe that the half-year financial report of Pelorus Private Equity Limited and its Controlled Entities is not in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Dated at Sydney the 16 March 2020

ESV

ESV Business Advice and Accounting



Tim Valtwies
Partner