

**SMSF PROPERTY FUND
AND ITS CONTROLLED ENTITIES
ARSN 159 753 474**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018**

**SMSF PROPERTY FUND
AND ITS CONTROLLED ENTITIES
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**DIRECTORS' REPORT
30 JUNE 2018**

The directors of Guardian Securities Limited (the "Responsible Entity"), the Responsible Entity of SMSF Property Fund (referred to hereafter as the "Fund"), present their financial report together with the financial statements of the Consolidated Entity (referred to hereafter as the "Consolidated Entity"), consisting of the unit trust and the special purpose vehicles it controlled for the year ended 30 June 2018, and the auditor's report thereon.

Directors

The following persons were directors of Guardian Securities Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Guy Hasenkam
Christopher Wilson
Errol Jackson

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia. SMSF Property Fund is a property fund that was formed to acquire Australian residential property for development purposes on behalf of fund investors. The Fund invests in Australian residential property through special purpose vehicles established for each investment opportunity, each of which form part of the Consolidated Entity.

The Consolidated Entity did not have any employees during the period.

No significant change in the nature of these activities occurred during the year.

Scheme information

SMSF Property Fund (the "Fund") is a registered managed investment scheme under the Corporations Act 2001. The Fund was constituted on 15 August 2012 and will terminate on 14 August 2092 unless terminated in accordance with the Constitution.

The registered office and principal place of business of the Responsible Entity and the Fund is Suite 45, Level 4 HQ Building, 58 Riverwalk Avenue, Robina QLD 4226.

Review of operations

The net loss from ordinary activities after income tax for the year ended 30 June 2018 amounted to \$4,138,635 (2017: \$2,157,782).

Included within the loss is impairment of \$2,642,764 (2017: \$1,331,170) which is largely due to the Consolidated Entity's builder going into administration during the prior financial year, which lead to additional work and defect rectifications.

The majority of projects are in development stage and commercial revenues from sales were \$2,198,385 (2017: \$1,894,841).

Scheme assets

At 30 June 2018, the Consolidated Entity had total assets of \$48,916,527 (2017: \$34,054,720), which were primarily invested in various residential development projects in Australia. The Consolidated Entity had 755 investors at 30 June 2018 (2017: 554).

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Review of operations (cont'd)

Responsible entity

The following fees were paid to Guardian Securities Limited out of Consolidated Entity's property during the financial year:

	2018	2017
	\$	\$
Management fees paid directly by the Consolidated Entity	549,460	504,312

A director of the Responsible Entity, Guy Hasenkam has subscribed for \$100,000 (2017: \$100,000) preference shares in the subsidiary Livingstone Street Residences Development Pty Ltd and \$50,000 (2017: \$50,000) preference shares in the subsidiary Park Avenue Developments Pty Ltd. The Guardian Investment Fund, subscribed for \$19,652,692 (2017: \$8,496,780) preference shares in various special purpose vehicles during the financial year. The Responsible Entity and its associates had no other funds invested in the Consolidated Entity at balance date.

Distributions

No distributions or redemptions were paid during the year (2017: \$nil distributions, \$510,000 partial redemption).

Investor Funds

The Consolidated Entity received \$6,859,857 (2017: \$1,506,864) of investor funds during the year, while \$nil was withdrawn (2017: \$510,000). The balance of investors' funds at the end of the financial year amounted to \$23,690,871 (2017: \$20,969,649).

Significant changes in the state of affairs

In the opinion of the Responsible Entity, there were no significant changes in the state of affairs of the Consolidated Entity that occurred during the year under review other than as disclosed in the review and results of operations.

Matters subsequent to the end of the financial year

On 28th August 2018, the unitholders of the Livingstone Class of Units resolved to extend the term of the Class of Units for five years to enable the sub-fund to hold the underlying developed townhouses for rental returns and capital appreciation.

As at 30 September 2018, the Westpac facility held by Burrell Avenue Developments Pty Ltd expired and there has since been no formal extension entered into with the lender. Refer to note 4 for further details.

Subsequent to year end, various developments have entered into sales contracts with standard sales terms and in accordance with forecast projections.

There have been no other transactions or events of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

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Likely developments

The Consolidated Entity will continue to pursue its policy of increasing returns through active investment selection.

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

Environmental regulations

The Consolidated Entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Indemnities and insurance premiums for officers or auditors

The Constitution of the Responsible Entity requires it to indemnify all current and former officers of the Responsible Entity (but not including auditors) out of the property of the Responsible Entity against:

- a. any liability for costs and expenses which may be incurred by that person in defending civil or criminal proceedings in which judgement is given in that person's favour, or in which the person is acquitted, or in connection with an application in relation to any such proceedings in which the court grants relief to the person under the Corporations Act 2001; and
- b. a liability incurred by the person, as an officer of the Responsible Entity or of a related body corporate, to another person (other than the Responsible Entity or a related body corporate) unless the liability arises out of conduct involving a lack of good faith.

During the financial year, the Responsible Entity paid an insurance premium in respect of a contract insuring each of the officers of the Responsible Entity. The amount of the premium is, under the terms of the insurance contract, confidential. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Responsible Entity or related body corporates. This insurance premium does not cover auditors.

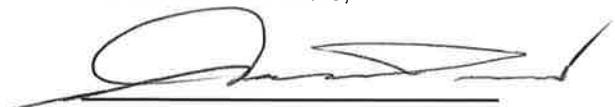
The Consolidated Entity has not indemnified or insured directors or officers.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the board,



Guy Hasenkam
Director

19th February 2019
Gold Coast

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GUARDIAN SECURITIES LIMITED AS RESPONSIBLE ENTITY FOR SMSF
PROPERTY FUND**

I declare to the best of my knowledge and belief, in relation to the audit of the financial report of SMSF Property Fund and its Controlled Entities for the year ended 30 June 2018, 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.



PKF



William Grant Chatham
Partner

19th February 2019
Gold Coast

Tel: +61 7 5553 1000 • Fax: +61 7 5553 1001 • Email: pkfgoldcoast.reception@pkf.com.au • www.pkf.com.au
PKF (Gold Coast) • ABN: 25 493 017 022
Level 6, RSL Centre • 9 Beach Road • Surfers Paradise • Queensland 4217 • Australia
PO Box 588 • Surfers Paradise • Queensland 4217 • Australia

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General information

The financial report covers SMSF Property Fund as a Consolidated Entity consisting of Paddington View Residences Development Pty Ltd (Paddington), Park Avenue Developments Pty Ltd (Park Avenue), Stafford Residences Development Pty Ltd (Stafford), Livingstone Street Residences Development Pty Ltd (Livingstone), Burrell Avenue Developments Pty Ltd (Burrell), Rosedene Street Residences Development Pty Ltd (Rosedene), Bryna Parade Residences Development Pty Ltd (Bryna), Chermside Residences Development Pty Ltd (Chermside), Fernvale Development Pty Ltd (Fernvale) and Glenvale Devine Developments Pty Ltd (Glenvale). The financial report is presented in Australian dollars, which is SMSF Property Fund's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 19th February 2019.

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Revenue and other revenue			
Sales revenue		2,198,385	1,894,841
Other revenue		-	146,088
Interest income	6	16,402	11,099
Total revenue		<u>2,214,787</u>	<u>2,052,028</u>
Expenses			
Cost of sales	11	(1,761,401)	(1,431,634)
Management fees	17	(549,460)	(504,312)
Professional fees		(260,991)	(90,886)
Marketing fees		(667,083)	(628,407)
Property expenses		(218,606)	(127,881)
Impairment	11	(2,642,764)	(1,331,170)
Other expenses		<u>(238,644)</u>	<u>(52,845)</u>
Total expenses		<u>(6,338,949)</u>	<u>(4,167,135)</u>
Loss before distributions and income tax attributable to unitholders		<u>(4,124,162)</u>	<u>(2,115,107)</u>
Distributions paid to investors		<u>-</u>	<u>-</u>
Loss after distributions and income tax attributable to unitholders		<u>(4,124,162)</u>	<u>(2,115,107)</u>
Income tax expense	7	<u>(14,473)</u>	<u>(42,675)</u>
Loss after distributions and income tax attributable to unitholders		<u>(4,138,635)</u>	<u>(2,157,782)</u>
Other comprehensive income			
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income		<u>-</u>	<u>-</u>
Change in net assets attributable to unitholders		<u>(4,138,635)</u>	<u>(2,157,782)</u>

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Assets			
Cash and cash equivalents	8	389,082	1,200,845
Other receivables	9	580,452	78,075
Other assets	10	70,000	80,000
Inventories	11	46,995,005	31,947,313
Deferred tax assets	12	881,988	748,487
Total assets		48,916,527	34,054,720
Liabilities			
Financial liabilities measured at amortised cost:			
Payables	13	2,930,000	2,025,015
Loans	14	2,662,917	2,139,617
Preference shares	15	19,361,106	8,796,780
Deferred tax liabilities	12	271,633	123,659
Total liabilities (excluding net assets attributable to investors)		25,225,656	13,085,071
Net assets attributable to investors – liability	5	23,690,871	20,969,649

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

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**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS
FOR THE YEAR ENDED 30 JUNE 2018**

	Units on Issue No.	Net Assets Attributable to Unitholders \$
Balance at 1 July 2017	26,357,947	20,969,649
Issue of units	6,934,853	6,859,857
Application funds received	-	-
Redemption of units	-	-
Increase in net assets attributable to unitholders from transactions in units	6,934,853	6,859,857
Change in net assets attributable to unitholders	-	(4,138,635)
Balance at 30 June 2018	33,292,800	23,690,871
Balance at 1 July 2016	24,926,079	22,130,567
Issue of units	1,431,868	1,431,868
Application funds received	-	74,996
Redemption of units	-	(510,000)
Increase in net assets attributable to unitholders from transactions in units	1,431,868	996,864
Change in net assets attributable to unitholders	-	(2,157,782)
Balance at 30 June 2017	26,357,947	20,969,649

The above consolidated statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

		Consolidated	
	Note	2018	2017
		\$	\$
Cash flows from operating activities			
Sales revenue		2,198,385	2,040,929
Interest income		16,402	11,099
Payment for inventories		(19,451,856)	(8,645,670)
Management fees paid		(276,580)	(390,071)
Other operating costs paid		(1,245,596)	(723,765)
Income taxes paid		-	-
Net cash flows from/(used in) operating activities	24	(18,759,245)	(7,707,478)
Cash flows from investing activities			
Net cash flows from/(used in) investing activities		-	-
Cash flows from financing activities			
Proceeds from issue of units and application monies received		6,859,857	1,506,864
Redemptions of units on issue		-	(510,000)
Proceeds from issue of preference shares		11,279,326	6,494,000
Redemptions paid for preference shares		(715,000)	(615,000)
Proceeds from borrowings		651,844	422,282
Repayment of borrowings		(128,544)	(20,609)
Net cash flows from/(used in) financing activities		17,947,483	7,277,537
Net increase/(decrease) in cash and cash equivalents		(811,762)	(429,941)
Cash and cash equivalents at the beginning of the financial year		1,200,844	1,630,786
Cash and cash equivalents at the end of the financial year	8	389,082	1,200,844

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

**SMSF PROPERTY FUND
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

1 GENERAL INFORMATION

The SMSF Property Fund ("the Fund" or "The Consolidated Entity") is a registered managed investment scheme domiciled in Australia and that was formed to acquire Australian residential property for development purposes on behalf of fund investors. The Fund invests in Australian residential property through special purpose vehicles established for each investment opportunity, each of which form part of the Consolidated Entity.

The financial report covers SMSF Property Fund as a Consolidated Entity consisting of Paddington View Residences Development Pty Ltd, Park Avenue Developments Pty Ltd, Stafford Residences Development Pty Ltd, Livingstone Street Residences Development Pty Ltd, Burrell Avenue Developments Pty Ltd, Rosedene Street Residences Development Pty Ltd, Bryna Parade Residences Development Pty Ltd, Chermside Residences Development Pty Ltd, Fernvale Development Pty Ltd and Glenvale Devine Developments Pty Ltd. The financial report is presented in Australian dollars, which is SMSF Property Fund's functional and presentation currency.

The financial report was authorised for issue, in accordance with a resolution of directors of the Responsible Entity, on 19th February 2019.

2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for the Consolidated Entity, a for-profit oriented entity. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets and liabilities at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within 12 months in relation to these balances cannot be reliably determined.

The financial report has also been prepared on a historical cost basis, except for financial assets and financial liabilities held at fair value through profit or loss, that have been measured at fair value.

In the case of net assets attributable to unitholders, the units are only redeemable in accordance with the terms of the relevant Supplementary Product Disclosure Statement. The amount expected to be settled within 12 months cannot be reliably determined. Each class of unit is associated with its own sub-fund were investors have certain rights discrete from investors who hold other unit classes.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New, revised or amending Accounting Standards and Interpretations adopted

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

Master Fund information

In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of SMSF Property Fund ('Fund' or 'unit trust') as at 30 June 2018 and the results of all subsidiaries for the year then ended. SMSF Property Fund and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

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

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Consolidated Entity. Losses incurred by the Consolidated Entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Consolidated Entity's functional currency.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Consolidated Entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sales revenue

Sales revenue is recognised at settlement, which is when the risks and rewards have been transferred to the customer in accordance with the valid sales contract.

Interest income

Interest income and expense is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income is recognised on a gross basis, including withholding tax, if any.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income tax (cont'd)

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as liabilities, distributions attributable to unitholders are recognised in profit or loss as finance costs.

Inventories

Inventories of the Consolidated Entity represent work in progress or finished goods for the property developments. Inventories are measured at the lower of cost and net realisable value.

Cost includes the cost of acquisition, and for development properties also includes development and costs of conversion incurred from the commencement of construction until the point of time that construction of the property is completed and the property is ready for sale.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement in accordance with the terms of the contract.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments

Classification

Financial assets that are classified as loans and receivables include balances due from accounts receivable. Other financial assets that are measured at amortised cost include cash and cash equivalents.

Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all of the risks and rewards of ownership. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Recognition

The Consolidated Entity recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets are recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Measurement

Financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities are amortised over the life of the asset or liability using the effective interest method.

Specific instruments - cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Specific instruments - loans and receivables

Financial assets classified as loans and receivables are carried at amortised costs using the effective interest rate method, less impairment losses, if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

Specific instruments - liabilities

Loans and borrowings, including preference shares which are defined as financial liabilities, are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial instruments (cont'd)

Specific instruments - liabilities (cont'd)

Financial liabilities arising from investor funds are carried at the redemption amount representing the investors' right to a residual interest in the Consolidated Entity's assets at reporting date.

Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Distribution and taxation

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Consolidated Entity is not subject to capital gains tax.

Units issued, applications and redemptions

All redeemable units issued by the Fund provide the investors with the right to redemption for cash and give rise to a financial liability. In accordance with the Product Disclosure Statement the Fund is contractually obliged to redeem units at the redemption price, however redemption is subject to the availability of surplus liquidity and at the approval of the Responsible Entity.

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goods and Services Tax ('GST')

Management fees, custody fees and other expenses are recognised net of the amount of Goods and Services Tax (GST) recoverable from the Australian Taxation Office (ATO). Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows are included in the statement of cash flow on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Consolidated Entity for the annual reporting period ended 30 June 2018. The Consolidated Entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Consolidated Entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Consolidated Entity will adopt this standard from 1 July 2018 but based on current financial instruments there is not expected to be a material impact.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.

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2 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New accounting standards and interpretations not yet mandatory or early adopted (cont'd)

AASB 15 Revenue from Contracts with Customers (Cont'd)

Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Consolidated Entity will adopt this standard from 1 July 2018 but based on the current contracts in place, there is not expected to be a material impact of its adoption.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Provision for impairment of inventories

The provision for impairment of inventories assessment required a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the estimated costs to complete and other factors that affect net realisable value. The directors of the Responsible Entity have assessed that as at 30 June 2018 certain inventory write downs were required for specific developments where estimated total construction costs exceed the estimated net realisable value. Refer to note 11 for further details.

Income tax

The Consolidated Entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Consolidated Entity recognises liabilities for anticipated tax audit issues based on the Consolidated Entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Consolidated Entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The directors of the Responsible Entity utilise project profit forecasts to assess the probability of whether such taxable amounts will be available. Forecasts are based on inputs and assumptions which are judgemental and may not be achievable. If forecast taxable amounts are not achieved, deferred tax assets may either be fully or partially non-recoverable resulting in these values being expensed. The directors of the Responsible Entity have determined that there is compelling evidence to recognise deferred tax assets in relation to temporary differences and losses on certain special purpose vehicle developments due to the level of forecasted profits. Refer to note 12 for further details.

4 GOING CONCERN

The Consolidated Entity has incurred a net loss of \$4,138,635 for the financial year ended 30 June (2017: \$2,157,782) and had net assets attributable to investors of \$23,690,871 (2017: \$20,969,649) as at that date. Based on current internal cash flow forecasts, each special purpose vehicle (subsidiaries) have access to sufficient resources to fund the estimated costs to complete each development and if required, each special purpose vehicle has the capacity to borrow external debt funding to fund these estimated costs to complete. As at the date of this report, Burrell Avenue Developments Pty Ltd's external bank loan, as outlined in note 14, is due for repayment, however, the loan extension documentation has not been formally finalised. The directors of the Responsible Entity are confident that this loan will be extended for a further 6 to 12 months which they estimate will be sufficient to cover estimated net completion costs. If external funding is not obtained, there is an option to obtain funding by preference shares in the Development Income Fund.

As such, the financial report has been prepared on a going concern basis as management is confident that the Consolidated Entity is a going concern and that it can meet its debts and obligations as and when they fall due at least until 28 February 2020.

5 NET ASSETS ATTRIBUTABLE TO INVESTORS – LIABILITY

Quantitative information about the Consolidated Entity's net assets attributable to unitholders is provided in the Statement of Changes in Net Assets Attributable to Unitholders. The Consolidated Entity manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

Investors within the Consolidated Entity are issued classes of units which correspond with the particular development the investors are investing in. Classes of units are issued with a fixed term and no withdrawal rights. Prior to the expiry of a class of units, properties corresponding to that class of units must be sold and net proceeds distributed to investors. Investors in a class of units will have a proportional beneficial interest in the property corresponding to that class of units. Investors will not have a beneficial interest in a property corresponding to another class of units.

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6 INTEREST INCOME						
	Balance	Consolidated 2018 Interest income	Average rate	Balance	Consolidated 2017 Interest income	Average rate
	\$	\$	%	\$	\$	%
Cash & cash equivalents	389,082	16,402	4%	1,200,845	11,099	1%

7 INCOME TAX		Consolidated 2018	Consolidated 2017
		\$	\$
<i>Income tax expense</i>			
Current tax		-	-
Deferred tax - origination and reversal of temporary differences		14,473	42,675
Adjustment recognised for prior periods		-	-
Aggregate income tax expense		<u>14,473</u>	<u>42,675</u>
Deferred tax included in income tax benefit comprises:			
Deferred tax assets		(133,502)	(80,984)
Deferred tax liabilities		147,975	123,659
Deferred tax - origination and reversal of temporary differences		<u>14,473</u>	<u>42,675</u>
<i>Numerical reconciliation of income tax expenses and tax at the statutory rate</i>			
Loss before income tax benefit		<u>(4,124,162)</u>	<u>(2,115,107)</u>
Tax at the statutory tax rate of 27.5% (2017: 27.5%)		(1,134,145)	(581,654)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:			
Fines & penalties		43	521
Legal fees		-	21
Blackhole expenditure		14,696	-
Capital raising expenditure		-	(45,886)
Other		61	(7,650)
		<u>(1,119,345)</u>	<u>(634,648)</u>
Under (over) provision from prior years		-	(46)
Derecognition of tax losses and temporary differences		201,673	212,143
Tax losses not recognised in current year		932,145	610,678
Previously unrecognised temporary difference now recognised		-	(185,174)
Previously unrecognised tax losses now recognised		-	-
Change in effective tax rate		-	39,722
Income tax expense		<u>14,473</u>	<u>42,675</u>

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8 CASH AND CASH EQUIVALENTS

	Consolidated	
	2018	2017
	\$	\$
Cash held with banks	389,082	1,200,845

Reconciliation to cash and cash equivalents at the end of the financial year

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	389,082	1,200,845
Balance as per statement of cash flows	389,082	1,200,845

9 OTHER RECEIVABLES

GST receivables	481,792	78,075
Other receivables	98,660	-
	580,452	78,075

Included within other receivables are amounts due from related parties. Refer to note 21 for further details.

10 OTHER ASSETS

Bonds	70,000	80,000
	70,000	80,000

11 INVENTORIES

Work in progress	43,373,898	31,947,313
Finished goods	3,621,107	-
Closing balance	46,995,005	31,947,313

Reconciliation of the movement since the beginning of the previous financial year:

Opening balance	31,947,313	26,064,447
Acquisitions	19,228,501	8,522,449
Capitalisation of interest	223,356	123,221
Disposals	(1,761,401)	(1,431,634)
Provision for impairment	(2,642,764)	(1,331,170)
Closing balance	46,995,005	31,947,313

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11 INVENTORIES (CONT'D)

	Acquisition date	Opening Balance \$	Capitalised Costs \$	Disposal \$	Impairment Provision \$	Book value 30 June \$
<i>The following table presents individual properties owned by the Consolidated Entity:</i>						
2018						
Paddington	31-May-13	3,628,158	(7,051)	-	-	3,621,107
Park Avenue	20-Jan-15	7,435,393	1,062,147	(1,761,401)	-	6,736,139
Stafford	16-Jun-14	858,384	572,759	-	-	1,431,143
Livingstone	31-Jul-14	2,696,173	597,543	-	(253,000)	3,040,716
Burrell	6-Feb-15	3,652,085	503,136	-	-	4,155,221
Rosedene	27-Apr-15	4,418,817	2,230,199	-	(1,263,347)	5,385,669
Bryna	16-Jul-15	6,391,835	1,533,721	-	-	7,925,557
Chermside	1-Oct-15	1,760,193	528,259	-	(1,126,417)	1,162,035
Fernvale	23-Jun-17	1,106,276	3,499,534	-	-	4,605,811
Glenvale	2-Feb-18	-	8,931,608	-	-	8,931,608
		<u>31,947,313</u>	<u>19,451,857</u>	<u>(1,761,401)</u>	<u>(2,642,764)</u>	<u>46,995,005</u>
2017						
Paddington	31-May-13	3,413,269	214,889	-	-	3,628,158
Park Avenue	20-Jan-15	6,212,892	1,933,909	(711,408)	-	7,435,393
Stafford	16-Jun-14	1,432,554	146,056	(720,226)	-	858,384
Livingstone	31-Jul-14	2,427,499	793,472	-	(524,798)	2,696,173
Burrell	6-Feb-15	4,280,735	628,650	-	-	3,652,085
Rosedene	27-Apr-15	3,242,951	1,757,238	-	(581,372)	4,418,817
Bryna	16-Jul-15	3,420,080	2,971,755	-	-	6,391,835
Chermside	1-Oct-15	1,634,467	350,726	-	(225,000)	1,760,193
Fernvale	23-Jun-17	-	1,106,276	-	-	1,106,276
		<u>26,064,447</u>	<u>8,645,670</u>	<u>(1,431,634)</u>	<u>(1,331,170)</u>	<u>31,947,313</u>

Title

All titles held are freehold.

Work in progress

Work in progress relates to ten (2017: nine) developments in Queensland being undertaken by the Consolidated Entity. Some of these developments have entered into fixed price agreements as at 30 June 2018 and under these agreements the Consolidated Entity has commitments of \$24,799,350 (2017: \$5,955,267) for the completion of construction under these contracts. Included within the commitments is \$19,803,212 (2017: \$nil) of commitments relating to Glenvale Devine Developments Pty Ltd's construction contract. The contract is currently being renegotiated and negotiations remain ongoing at the date of this report.

Finished goods

Included in inventories is \$3,621,107 (2017: \$nil) relating to one completed development being Paddington View Residences as at 30 June 2018.

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11 INVENTORIES (CONT'D)

Impairment

Provision for impairment of \$2,642,764 (2017: \$1,331,170) has been recorded to record inventories at their net realisable value. The impairment is largely attributable to the Consolidated Entity's related party builder going into administration during the prior financial year, which lead to additional work and defect rectification in excess of what was estimated in the prior year.

Economic dependency

All of the Consolidated Entity's projects are being developed by SMSF Property Australia Pty Ltd and all civil works contracts are with Intergrated Civil Pty Ltd, a related entity to SMSF Property Australia Pty Ltd. Should these entities be unable to complete the projects under the existing contracts, this may result in a significant negative economic impact on the projects and their recoverability.

Debt security and ranking

The Burrell Avenue Developments property has been mortgaged under a bank loan. Refer to note 14 for further information.

Various subsidiaries of the Consolidated Entity have issued preference shares to assist with funding of the various projects. These preference shares have priority repayment over ordinary unitholder in the various classes of units of the Consolidated Entity.

12 DEFERRED TAXES

	Consolidated	
	2018	2017
	\$	\$
<i>Deferred tax assets comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Inventories – work in progress	-	11,593
Formation costs	-	-
Accrued expenses	-	-
Tax losses	881,988	736,894
Deferred tax assets	<u>881,988</u>	<u>748,487</u>
<i>Movements:</i>		
Opening balance	748,487	667,503
Taken to profit or loss	133,501	80,984
Taken to equity	-	-
Closing balance	<u>881,988</u>	<u>748,487</u>
<i>Deferred tax liabilities comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Inventories – work in progress	271,633	123,659
Deferred tax liabilities	<u>271,633</u>	<u>123,659</u>
<i>Movements:</i>		
Opening balance	123,659	-
Taken to profit or loss	147,974	123,659
Taken to equity	-	-
Closing balance	<u>271,633</u>	<u>123,659</u>

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13 PAYABLES

	Consolidated	
	2018	2017
	\$	\$
Trade creditors and accruals	2,496,347	1,140,779
Deposits	408,234	803,142
Retentions payable	-	56,927
Other payables	25,419	24,167
	<u>2,930,000</u>	<u>2,025,015</u>

Deposits related to installments made under four house and land package purchases in Park Avenue Development. During the financial year, one of the houses construction was completed and settlement occurred with the respective buyer, whilst another contract was cancelled due to delays and the deposit refunded. As at 30 June 2018, there are two remaining house and land package purchases of which construction has commenced on one of the houses with a licenced builder. Refer to note 19 for further information.

14 LOANS

Bank loan	2,611,081	2,112,283
Loans from related parties	51,836	27,334
	<u>2,662,917</u>	<u>2,139,617</u>

Loans payable consist of a bank loan amounting to \$2,611,081 (2017: \$2,112,282) which is interest bearing at 4.25% (2017: 4.17%), matured on 30 September 2018 and has a first mortgage security over Burrell Avenue Development's property as outlined in note 4 and note 11. The directors of the Responsible Entity are confident that this loan will be extended for a further 6 to 12 months as required to complete and sell the underlying properties, however no formal documentation has been signed at the date of this report. Loans payable also include \$51,836 (2017: \$27,334) of loans from a related party which is interest free and unsecured as outlined in note 21.

15 PREFERENCE SHARES

Preference shares issued	<u>19,361,106</u>	<u>8,796,780</u>
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Cummulative preference shares have been issued to related parties from various development special purpose vehicles within the Consolidated Entity. The preference shares are interest bearing at 12% per annum, are redeemable 12 months from the date of issue and have priority repayment over investor units. As at 30 June 2018, various preference shares issued were due for redemption, however will not be redeemed until the properties underlying the developments are completed and sold. Refer to note 21 for further information.

Reconciliation:

Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:

Opening value	8,796,780	2,917,780
Issued during the year	11,279,326	6,494,000
Redeemed during the year	(715,000)	(615,000)
Closing value	<u>19,361,106</u>	<u>8,796,780</u>

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16 FINANCIAL INSTRUMENTS

The Consolidated Entity's assets principally consist of inventories and cash investments. It holds these assets at the discretion of the Responsible Entity and Investment Committee in accordance with the Fund's constitution and Product Disclosure Statement.

The allocation of assets between the various types of assets described above is determined by the Fund's Manager and Investment Committee who manage the Consolidated Entity's portfolio of assets to achieve the Consolidated Entity's investment objectives.

The Consolidated Entity's investing activities expose it to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk
- Operational risk

The nature and extent of the financial instruments employed by the Consolidated Entity are discussed below. This note presents information about the Consolidated Entity's exposure to each of the above risks, the Consolidated Entity's objectives, policies and processes for measuring and managing risks.

The Board of Directors of the Responsible Entity and Investment Committee has overall responsibility for the establishment and oversight of the Consolidated Entity's risk management framework.

The Board and Investment Committee is responsible for developing and monitoring the Consolidated Entity's risk management policies, including those related to its investment activities. The Consolidated Entity's risk management policies are established to identify and analyse the risks faced by the Consolidated Entity, including those risks managed by the Responsible Entity and Investment Committee, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities.

The Board and Investment Committee monitors compliance with the Consolidated Entity's risk management strategies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Consolidated Entity.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and property values will affect the Consolidated Entity's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Market risk is managed by the Board of Directors and Investment Committee.

Property value risk

The majority of the Consolidated Entity's assets are inventories which represent residential development properties. As a result, the Consolidated Entity is subject to property value risk from fluctuations in the prevailing levels of market property values. Changes in property values could have an effect on the net realisable value of the developments which would in turn impact the underlying value of the unitholders funds.

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16 FINANCIAL INSTRUMENTS (CONT'D)

Interest rate risk

A significant portion of the Consolidated Entity's financial assets and financial liabilities are interest-bearing. Interest-bearing financial assets and financial liabilities have variable interest rates and/or mature in the short-term. As a result, the Consolidated Entity is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash is invested in an interest-bearing deposit account with an Australian regulated banking institution.

The Consolidated Entity's interest rate risk is monitored on a monthly basis by the Board of Directors and Investment Committee.

Interest rate profile

At reporting date the interest rate profile of the Consolidated Entity's interest-bearing financial instruments was:

	Consolidated	
	2018	2017
	\$	\$
Fixed and variable rate instruments		
Financial assets:		
Cash and cash equivalents	389,082	1,200,845
Financial liabilities:		
Loans	2,662,917	2,139,617
Preference shares	19,361,106	8,796,780
	<u>22,024,023</u>	<u>10,936,397</u>

Interest rate sensitivity

An increase or decrease of 100 basis points in interest rates as at the reporting date would have an insignificant effect on the net assets attributable to unitholders and operating results.

The Consolidated Entity has issued preference shares which pay fixed interest of 12% per annum to the debt holders.

Credit risk

Credit risk is the risk that a counterparty to a financial instruments will fail to discharge an obligation or commitment that it has entered into with the Consolidated Entity. The Responsible Entity and Investment Committee manage the exposure to credit risk on an ongoing basis.

The Consolidated Entity's maximum exposure to credit risk at the reporting date was:

Cash and cash equivalents	389,082	1,200,845
Other receivables	580,452	78,075
Other assets	70,000	80,000
	<u>1,039,534</u>	<u>1,358,920</u>

All of the cash held by the Consolidated Entity is held by Australian regulated banks.

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16 FINANCIAL INSTRUMENTS (CONT'D)

Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity 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 Consolidated Entity's reputation.

The Consolidated Entity's liquidity risk is managed on a monthly basis by the Board of Directors and Investment Committee in accordance with the policies and procedures in place.

Investors are not eligible to redeem their units in the Consolidated Entity prior to the expiration of their relevant investment term as outlined in the Product Disclosure Statements. In the event that the underlying properties for each development are not sold prior to the expiration of the term, the term of the investment is automatically extended by the Consolidated Entity.

The following are the contractual maturities of financial liabilities, excluding interest payments and excluding the impact of netting agreements:

Consolidated 2018	Carrying value \$	Contractual cash flows \$	0-6 Months \$	6- 12 Months \$	1-2 years \$	More than 2 years \$
Accounts payable	2,930,000	2,930,000	2,930,000	-	-	-
Loans	2,662,917	2,662,917	2,662,917	-	-	-
Preference shares*	19,361,106	19,361,106	1,166,500	8,642,037	6,512,569	3,040,000
	24,954,023	24,954,023	6,759,417	8,642,037	6,512,569	3,040,000
Consolidated 2017	Carrying value \$	Contractual cash flows \$	0-6 Months \$	6- 12 Months \$	1-2 years \$	More than 2 years \$
Accounts payable	2,025,015	2,025,015	2,025,015	-	-	-
Loans	2,139,617	2,139,617	2,139,617	-	-	-
Preference shares	8,796,780	8,796,780	-	8,796,780	-	-
	12,961,412	12,961,412	4,164,632	8,796,780	-	-

* The preference shares have a Redemption Date of 12 months from the date of issue or upon sale of the assets by the issuer, whichever occurs earlier. Should the issuers project remain incomplete, unsold or otherwise unable to generate sufficient funds to redeem the Preference Shares at the Redemption Date, then the issuer will have right to automatically extend the term until sufficient profits are achieved in order for them to redeem the Preference Shares.

Fair value of financial statements

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

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16 FINANCIAL INSTRUMENTS (CONT'D)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Consolidated Entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Consolidated Entity's operations.

The objective of the Responsible Entity and Investment Committee is to manage operational risk so as to balance the avoidance of financial losses and damage to the Consolidated Entity's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Responsible Entity and Investment Committee. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

17 KEY MANAGEMENT PERSONNEL DISCLOSURES

The directors of Guardian Securities Limited are considered to be Key Management Personnel of the Consolidated Entity. The Directors of the Responsible Entity in office during the year and up to the date of the report are:

Guy Hasenkam
Christopher Wilson
Errol Jackson

In addition to the Directors noted above, Guardian Securities Limited, the Responsible Entity of the Consolidated Entity, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Consolidated Entity.

Compensation

No amount is paid by the Consolidated Entity directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Consolidated Entity to the Directors as Key Management Personnel.

Guardian Securities Limited provides management services to the Fund. Transactions between the Fund and the Responsible Entity result from normal dealings with that company as the Fund's Responsible Entity. Guardian Securities Limited is an Australian Financial Services License holder.

**SMSF PROPERTY FUND
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

	Consolidated	
	2018	2017
	\$	\$
Guardian Securities Limited receives all management fees that have been paid by the Consolidated Entity during the year. The Consolidated Entity paid the following fees to the Responsible Entity during the financial year:		
Management fees paid to Guardian Securities Limited	276,580	390,071
Management fees payable to Guardian Securities Limited	272,880	114,241
	549,460	504,312

Other

The Consolidated Entity has not made, guaranteed or secured, either directly or indirectly, any loans to the Directors and Key Management personnel of the Responsible Entity, or their personally related entities, at any time during the financial year.

No Directors and Key Management Personnel of the Responsible Entity, or their personally related entities, have entered into a material contract with the Consolidated Entity, with the exception of Guy Hasenkam who has invested in the Consolidated Entity through units and preference shares as outlined below:

Preference shares held in Livingstone Street Residences Development Pty Ltd	100,000	100,000
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The preference shares are on the same terms as all other preference shares issued within the Consolidated Entity and are interest bearing at 12% per annum, redeemable 12 months from the date of issue and have priority repayment over ordinary unitholder in the various classes of units of the Consolidated Entity.

Units held in Park Avenue Developments Pty Ltd	50,000	50,000
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The units held in Park Avenue Developments Pty Ltd are on the same terms as all other unitholder funds in accordance with the part 2 Product Disclosure Statement issued.

18 AUDITORS REMUNERATION

During the financial year the following fees were paid or payable for services provided by PKF (Gold Coast) the auditor of the Fund, its network firms and unrelated firms:

<i>Audit services – PKF (Gold Coast)</i>		
Audit of the financial statements and compliance plan	30,000	25,500
<i>Other services – PKF (Gold Coast)</i>		
Tax compilation and advice	24,000	13,500
	54,000	39,000

19 CONTINGENT LIABILITIES

The Consolidated Entity did not have any contingent liabilities as at 30 June 2018 (2017: \$nil), other than those arising from performance obligations in relation to contracts entered by Park Avenue Developments Pty Ltd under the it's normal operations.

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20 COMMITMENTS

Except for construction and development contracts relating to projects as outlined in note 11, there are no other commitments, either capital, operating or finance, as at 30 June 2018 (2017: \$nil).

21 RELATED PARTIES

	Consolidated	
	2018	2017
	\$	\$

Parent entity

SMSF Property Fund is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Key management personnel

Disclosures relating to key management personnel are set out in note 17.

Transactions with related parties

Finance and interest costs paid on preference shares	1,510,921	810,415
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Finance and interest costs have been paid to The Guardian Investment Fund which is a registered scheme of which Guardian Securities Limited also acts as Responsible Entity and to Guy Hasenkam. The costs are in relation to the preference shares issued which are outlined below.

Apart from the other transactions disclosed below and those disclosed above, there are no transactions with related parties during the financial year ended 30 June 2018 (2017: \$nil).

Receivables from and payables to related parties

Trade payables to The Guardian Investment Fund	524,248	86,617
Loans payable to GSL Services Pty Ltd	47,369	27,335

Loans payable to GSL Services Pty Ltd, a related entity to the Responsible Entity, are unsecured, interest free and at call.

Apart from the other transactions disclosed below, there are no receivables from or payables to related parties as at 30 June 2018 (2017: \$nil).

Related party investments held by the Consolidated Entity

The Consolidated Entity has no investment in related parties as at 30 June 2018 (2017: \$nil).

Related party investments

Preference shares	19,652,696	8,496,780
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Preference shares have been subscribed for by The Guardian Investment Fund which is a registered scheme of which Guardian Securities Limited also acts as the Responsible Entity.

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21 RELATED PARTIES (CONT'D)

	Consolidated	
	2018	2017
	\$	\$

Related party investments (cont'd)

Apart from the investments held by Guy Hasenkam, as outlined in note 17, and the other transactions disclosed below, no related parties have investments in the Consolidated Entity as at 30 June 2018 (2017: \$nil).

Other related party transactions

The Consolidated Entity is dependent upon the ongoing successful operation of SMSF Property Australia Pty Ltd ("the property development manager"), SMSF Property Capital Pty Ltd ("the authorised representatives"), SMSF Asset Sales Pty Ltd ("the sales agent") and Intergrated Civil Pty Ltd ("the civil works company"). These entities facilitate the development, construction and capital raising of the Consolidated Entity's developments.

Given the relationship between the Consolidated Entity and these parties, they are considered to be related parties and as a result the following transactions have occurred between the Consolidated Entity and these related parties during the financial year:

Property development manager transactions

The following fees were paid by the Consolidated Entity to the property development manager during the financial year:

Property Development fees paid to SMSF Property Australia Pty Ltd	2,664,813	628,413
Property Development fees payable to SMSF Property Australia Pty Ltd	18,261	21,500
	<u>2,683,074</u>	<u>649,913</u>

Construction contract transactions

The following construction costs were paid by the Consolidated Entity to the builder and civil works company during the financial year:

Construction costs paid to Intergrated Civil Pty Ltd	2,129,476	3,484,932
Construction costs payable to Intergrated Civil Pty Ltd	244,975	170,664
	<u>2,374,451</u>	<u>3,655,596</u>

Integrated Civil Pty Ltd are engaged to complete the civil works.

Marketing and promotion transactions

The following marketing and promotional fees were paid by the Consolidated Entity to the sales agent during the financial year:

Marketing and promotional fees paid to SMSF Property Capital Pty Ltd	554,791	378,884
Marketing and promotional fees payable to SMSF Property Capital Pty Ltd	38,725	91,276
	<u>593,516</u>	<u>470,160</u>

Investing activities

Employees and associates of the property development manager and authorised representative have invested the following amounts into the Consolidated Entity at year end:

Investments into the fund	<u>2,054,440</u>	<u>2,054,440</u>
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These investments are on normal terms and conditions as provided to other investors.

**SMSF PROPERTY FUND
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FOR THE YEAR ENDED 30 JUNE 2018**

22 PARENT ENTITY INFORMATION

	Consolidated	
	2018	2017
	\$	\$
The Corporations Act requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity, SMSF Property Fund. The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the accounting policy described in Note 2.		
Total assets	33,027,148	26,052,909
Total liabilities	311,542	163,523
Net assets attributable to investors – liability	32,715,606	25,889,385
Profit/(loss) from operating activities	-	-
Total comprehensive income	-	-
Change in net assets attributable to investors	-	-

Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contractual commitments

The parent entity has no contractual commitments as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity has no contingent liabilities as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

23 SUBSIDIARIES

The consolidated financial statements incorporates the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2.

Name of entity	Country of Incorporation	Equity holding	
		2018	2017
		%	%
Paddington View Residences Development Pty Ltd	Australia	100	100
Park Avenue Developments Pty Ltd	Australia	100	100
Stafford Residences Development Pty Ltd	Australia	100	100
Livingstone Street Residences Development Pty Ltd	Australia	100	100
Burrell Avenue Developments Pty Ltd	Australia	100	100
Rosedene Street Residences Development Pty Ltd	Australia	100	100
Bryna Parade Residences Development Pty Ltd	Australia	100	100
Chermside Residences Development Pty Ltd	Australia	100	100
Fernvale Development Pty Ltd	Australia	100	100
Glenvale Devine Developments Pty Ltd	Australia	100	100

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24 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
	\$	\$
Profit/(loss) from operating activities after tax and distributions	(4,138,635)	(2,157,782)
<i>Adjustments for non-cash items:</i>		
<i>Movements in working capital:</i>		
Increase/(decrease) in accounts payable	904,985	400,039
Decrease/ (increase) in inventories	(15,047,691)	(5,882,866)
(Increase)/decrease in receivables	(492,377)	(109,544)
(Increase)/decrease in deferred taxes	14,473	42,675
Cash flows from operating activities	<u>(18,759,245)</u>	<u>(7,707,478)</u>

25 EVENTS SUBSEQUENT TO REPORTING DATE

On 28 August 2018, the unitholders of the Livingstone Class of Units resolved to extend the term of the Class of Units for five years to enable the sub-fund to hold the underlying developed townhouses for rental returns and capital appreciation.

As at 30 September 2018, the Westpac facility held by Burrell Avenue Developments Pty Ltd expired and there has since been no formal extension entered into with the lender. Refer to note 4 for further details.

Subsequent to year end, various developments have entered into sales contracts with standard sales terms and in accordance with forecast projections.

There have been no transactions or events of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

26 SEGMENT REPORTING

The Fund is organised into one segment, being property development and operates in one geographical segment, being Australia.

**SMSF PROPERTY FUND
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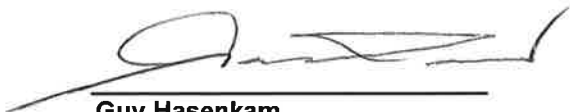
**DIRECTORS' DECLARATION
30 June 2018**

In the opinion of the directors of Guardian Securities Limited, Responsible Entity of SMSF Property Fund and its Consolidated Entities:

- a. the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- b. the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- c. the attached financial statements and notes thereto give a true and fair view of the Consolidated Entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- d. there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors,



Guy Hasenkam
Director

19th February 2019
Gold Coast

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF SMSF PROPERTY FUND

Audit Opinion

We have audited the accompanying financial statements of SMSF Property Fund ("the Fund"), which comprises the Consolidated Statement of Financial Position as at 30 June 2018, and the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Net Assets Attributable to Unitholders and Consolidated Statement of Cash Flows for the financial year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

In our opinion:

- (a) The financial statements of SMSF Property Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* ; and
- (b) The financial statements also comply with International Financial Reporting Standards as disclosed in note 2.

Basis of Opinion

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 statement is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report.

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

Independence

We are independent of the Fund in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the code) that are relevant to our audit of the financial statement in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Tel: +61 7 5553 1000 • Fax: +61 7 5553 1001 • Email: pkfgoldcoast.reception@pkf.com.au • www.pkf.com.au
 PKF (Gold Coast) • ABN: 25 493 017 022
 Level 6, RSL Centre • 9 Beach Road • Surfers Paradise • Queensland 4217 • Australia
 PO Box 588 • Surfers Paradise • Queensland 4217 • Australia

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Liability limited by a scheme approved under Professional Standards Legislation.

Other Information

The Directors of Guardian Securities Limited ("the Responsible Entity") are responsible for the other information. The other information comprises the information included in the Fund's annual report, but does not include the financial statement and our auditor's report thereon.

Our opinion on the financial statement does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Statement

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

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

The directors of the Responsible Entity are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statement that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Responsible Entity, as well as evaluating the overall presentation of the financial statement.

We conclude on the appropriateness of the directors' of the Responsible Entity's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Fund to express an opinion on the financial statement. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**PKF**

William Grant Chatham
Partner

19th February 2019
Gold Coast