

**PASSIVE INCOME  
(USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES**

**ARSN 155 770 095**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2016**

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2016**

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**DIRECTORS' REPORT**

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The Directors of Plantation Capital Ltd - the Responsible Entity of the Passive Income (USA Commercial Property) Fund (the Fund), a Managed Investment Scheme, present their report together with the financial statements of the Fund for the year ended 31 December 2016. This financial report has been prepared in accordance with Australian Accounting Standards.

**Principal Activities**

The Fund is an unlisted property fund that seeks to generate passive income and growth returns via its controlling interest in Ozinus Realty, LLC - a USA-based real estate investment trust (REIT) structure that owns a diversified portfolio of commercial properties located in the United States of America.

The investment activities of the Fund continued to meet the investment policy of the Fund as outlined in the Product Disclosure Statement (PDS) dated 18 July 2013 and the Supplementary Product Disclosure Statement (SPDS) dated 21 October 2016. The Fund, via its controlled subsidiaries, has primarily invested in USA based commercial properties.

The Fund did not have any employees during the period, however Sunizo, LLC – a wholly owned subsidiary of the US REIT, which is controlled by the Fund and manages the property portfolio, had twelve employees.

**Directors**

The Directors of the Responsible Entity during the year or since the end of the financial year are:

*Stephen (Steve) McKnight – Director & Secretary*

Chartered Accountant, Bachelor of Business (Accounting), Diploma Financial Services

Steve, a qualified chartered accountant and experienced investor, is recognised as one of Australia's foremost authorities on property investment as a means of creating personal wealth.

Since buying his first investment property in May 1999, Steve has completed hundreds of property transactions. Presently, his real estate portfolio includes single and multi-family properties in the USA, together with a substantial investment in this Fund.

Steve is the co-founder and current Chief Executive Officer of PropertyInvesting.com, a website that is committed to educating investors on how to successfully use real estate to create wealth. His first book, *From 0 to 130 Properties in 3.5 Years*, has sold over 200,000 copies. Steve has been featured as an expert investor in the print media, on television and on radio. He has contributed keynote addresses on real estate investing in Australia, New Zealand, Asia, Canada and the USA.

*Paul Harper – Director*

Chartered Accountant, Master of Entrepreneurship and Innovation, Bachelor of Business (Accounting)

Paul has been providing financial advisory services to corporations, institutions and high net worth individuals for over 25 years.

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**DIRECTORS' REPORT (cont'd)**

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**Directors (cont'd)**

Until November 2011, Paul worked as the Managing Director of Jeena Limited, a Melbourne-based firm of Chartered Accountants that provided family office services and specialised investment opportunities to select, high-net wealth clients and families. Recently Paul has been pursuing real estate acquisition and development opportunities in regional and rural markets. Paul also continues to hold a number of board and advisory positions within the financial sector.

In addition to holding a Masters in Entrepreneurship and Innovation and a Bachelor of Business (Accounting), Paul is a Fellow of the Institute of Chartered Accountants.

*Keith Woodhead – Director*

Master of Business Administration, Bachelor of Surveying, Graduate Diploma (Town Planning)

Keith is a highly experienced property professional with specific expertise in areas including acquisitions, disposals, subdivision, leasing, construction, and project and development management. His property-based experience also includes direct property assets and listed and unlisted property trusts across a range of property sectors including residential, retail, industrial and commercial.

Much of Keith's work has been within the property funds management sector, where he has been largely responsible for debt and equity raisings, offer document preparation, product management, corporate governance, compliance and transaction management.

**Review of Operations & Financial Results**

This financial report covers the twelve months ended 31 December 2016 and the comparative period is the 6 months ended 31 December 2015. This follows the Australian Taxation Office approval of the Fund's request to change in November 2015, to change its financial year end from 30 June to 31 December.

Pursuant to the PDS dated 18 July 2013 and the SPDS dated 21 October 2016, a total of \$3,398,931 of application money was received during the financial period, after deducting contribution fees. This resulted in the issue of 2,456,789 units. The Fund opened to new applications following the redemption offer and was fully subscribed again in October 2016, at which point it closed to new and top up applications.

The opportunity to redeem was offered to the unitholders in August 2016. This resulted in a redemption of \$2,452,547, being 2,006,665 units.

Under the distribution reinvestment plan a total of \$3,784,293 was reinvested during the period, resulting in an issue of 2,717,821 units.

Between 1 January 2016 and 31 December 2016, the Fund, via its controlled entities, did not acquire any new properties. 8344 RL Thornton Freeway, Dallas, TX was sold above book value in October 2016 for USD 3.975m. The Fund took advantage of a 1031 like-kind exchange to defer any capital gains tax liability arising from the sale.

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**DIRECTORS' REPORT (cont'd)**

**Review of Operations & Financial Results (cont'd)**

The Fund's consolidated net operating profit before distributions attributable to Unitholders for the year ended 31 December 2016 was \$7,061,578 (Six months to 31 December 2015: Profit \$2,384,186).

The parent entity recorded a net operating loss of \$1,893,333 (Six months to 31 December 2015: Loss \$396,275). This loss was expected as the results were before consolidating net income from profitable US operations.

	<b>Twelve Months Ended 31 December 2016</b>		<b>Six Months Ended 31 December 2015</b>	
	<b>\$</b>	<b>Cents Per Unit</b>	<b>\$</b>	<b>Cents Per Unit</b>
Interim Distribution Paid	3,421,115	4.8*	-	-
Final Distribution Payable	3,500,735	4.8*	2,790,562	4.0*
Total Distribution	6,921,850	9.6*	2,790,562	4.0*

\*Gross of US withholding tax

The ex-distribution unit price as at 31 December 2016 was \$1.4424 (31 December 2015: \$1.3908). The basis for valuation of the Fund's properties is disclosed in Note 1(h) to the financial statements.

There is only one class of issued units, the rights and entitlements thereof are detailed in the PDS dated 18 July 2013 and SPDS dated 21 October 2016, and in the Fund's Constitution.

For the twelve months ended 31 December 2016, Ozinus Realty, LLC – a US subsidiary, paid \$2,543,741 in dividends to the Fund (Six months to 31 December 2015: \$2,202,784).

**Fund Performance (Net Of Fees)**

On the metrics used to calculate the performance fee the Fund achieved a 10.17% return for the 12 months ended 31 December 2016. As this was below the 12% per annum performance hurdle, no performance fee was payable and the shortfall has been carried over pursuant to the disclosures made in the PDS dated 18 July 2013 and SPDS dated 21 October 2016.

	<b>12 Months Ended 31 December 2016 Cents Per Unit</b>	<b>6 Months Ended 31 December 2015 Cents Per Unit</b>	<b>Since Inception 1 January 2013 Cents Per Unit</b>
Capital growth	5.16	6.31	44.24
Cash Distribution	9.60*	4.00*	29.60*
<b>Total Return</b>	<b>14.76*</b>	<b>10.31*</b>	<b>73.84*</b>

\*Gross of US withholding tax

Note: Past performance is not a guarantee of future performance.

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**DIRECTORS' REPORT (cont'd)**

**Units on Issue**

	<b>Number As At 31 December 2016</b>	<b>Number As At 31 December 2015</b>
Opening Balance	69,764,039	66,142,526
New units issued during the period under the capital raising	2,456,789	4,773,689
New units issued under the distribution reinvestment plan	2,717,821	1,421,815
Units redeemed under the redemption offer	(2,006,665)	(2,573,991)
<b>Number of units on issue at period end</b>	<b>72,931,984</b>	<b>69,764,039</b>

**Fees Paid To and Interests Held By the Responsible Entity**

The following fees were paid to the Responsible Entity out of Fund property during the financial period:

	<b>Twelve Months Ended 31 December 2016</b>	<b>Six Months Ended 31 December 2015</b>
	<b>\$</b>	<b>\$</b>
Management fees	2,316,958	1,129,746
Performance fees	-	900,002
Total fees to the Responsible Entity	2,316,958	2,029,748
Other expense reimbursements	42,543	16,697
Total fees & reimbursements	2,359,501	2,046,445

Management fees are paid to the Responsible Entity to execute the investment strategy as outlined in the PDS dated 18 July 2013 and the SPDS dated 21 October 2016.

Expense reimbursements relate to costs incurred by the Fund but paid by the Responsible Entity and later reimbursed. Performance fee is payable to the Responsible Entity where certain performance criteria is met. During the period, performance of the Fund did not exceed the target hurdle (including any shortfall from prior period(s) – if any) and therefore the Responsible Entity was not entitled to any performance fee.

**Related Party Transactions**

Details of holdings in the Fund by the Responsible Entity, Directors, key personnel and their related entities are set out as below:

	<b># Units Held At 31 December 2016</b>	<b># Units Held At 30 June 2016</b>
Stephen McKnight <i>(Director)</i> & Associated Parties	1,834,453	1,786,226
Plantation Capital Limited	813,317	495,182
Davendra Prasad <i>(CFO)</i>	73,732	73,732

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**DIRECTORS' REPORT (cont'd)**

**Related Party Transactions (cont'd)**

	<b>\$ Value Units Held At 31 December 2016</b>	<b>\$ Value Units Held At 30 June 2016</b>
Stephen McKnight <i>(Director)</i> & Associated Parties	2,646,015	2,488,213
Plantation Capital Limited	1,173,128	689,789
Davendra Prasad <i>(CFO)</i>	106,351	102,709

**Derivatives & Other Financial Instruments**

The Fund's investments expose it to changes in interest rates and foreign currency variations, as well as credit and liquidity risk. The Directors have approved policies and procedures in each of these areas to manage these exposures. The Fund does not speculatively trade derivatives and only utilises derivatives to manage the risk and return of the Fund's investments.

The Fund has not entered into any derivative contracts to date. It purchases US dollars at market price based on prevailing advice and board policy. As at 31 December 2016, the Fund held cash in Australian Dollars (AUD) and United States Dollars (USD).

**Likely Developments and Expected Results of Operations**

The Fund expects to continue to operate in accordance with its investment policy as detailed in the PDS issued 18 July 2013 and the SPDS dated 21 October 2016.

**Significant Changes in State of Affairs**

The Fund completed its annual redemption offer during August 2016. In this instance redemption requests were honoured in full as the amount requested to be redeemed was lower than the amount allocated for redemptions as determined by the Directors.

One property was disposed during the financial year. The property sold was 8344 RL Thornton Freeway, Dallas, TX, sold in October 2016.

Apart from the above, in the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial period.

**Subsequent Events**

*Appreciation In Value Of The AUD Against The USD*

Between 1 January 2017 and the date these accounts were issued the AUD appreciated against the USD from \$0.7223 to \$0.7693 resulting in estimated unrealised foreign exchange loss of approximately \$6m.

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**DIRECTORS' REPORT (cont'd)**

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**Subsequent Events (cont'd)**

*Acquisition of 350 Technology Parkway, GA*

350 Technology Parkway, GA, was acquired on 6 January 2017 for USD 3.9m, a discount of \$750,000 to the independently appraised price of USD 4.65m.

*Contracted Property*

A property in Atlanta, GA was placed under contract for a purchase price of USD 535,000. As at the date of this report due diligence investigations were underway.

*Contamination Clean Up*

Historical soil contamination has been discovered at 720 S. Dixie Fwy, New Smyrna Beach, FL. Environmental consultants have been engaged to assist with the clean-up operations. The expected cost is USD 55,000.

**Environmental Regulation**

The Fund's operations are not subject to any significant environmental regulations under Australian Commonwealth, State or Territory Legislation.

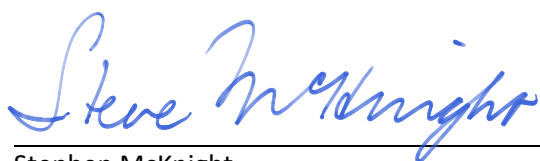
**Indemnification and Insurance of Officers and Auditors**

The Fund has entered into an insurance policy to indemnify all Directors and officers of the Responsible Entity, to an amount of \$5,000,000, against any liability arising from a claim brought against the company and the Directors by a third party for the supply of inappropriate services or advice. The agreement provides for the insurer to pay all damages and costs which may be brought against the Directors. The Insurance policy was renewed on 4 February 2017.

The Fund has not indemnified any auditor of the Fund.

The report is made in accordance with a resolution of the Directors.

Dated at Melbourne on 17 March 2017.



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Stephen McKnight  
Chairman



17 March 2017

The Board of Directors  
Plantation Capital Limited  
893A Canterbury Road  
Box Hill VIC 3128

Dear Board Members

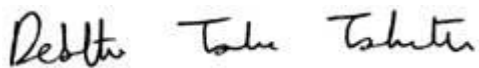
**Passive Income (USA Commercial Property) Fund**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Plantation Capital Limited, the Responsible Entity, regarding the financial year ended 31 December 2016 for Passive Income (USA Commercial Property) Fund.

As lead audit partner for the audit of the financial statements of Passive Income (USA Commercial Property) Fund for the financial year ended 31 December 2016, 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.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Twelve Months To 31 December 2016 \$	Six Months To 31 December 2015 \$
<b>Income</b>			
Due Diligence Rebate		-	102,352
Interest Income		16,652	13,773
Fair Value Gain On			
Investment Properties	1(h)	6,508,595	2,757,345
Rental Income		12,480,214	5,757,537
Realised Gain On Sale Of			
Property		715,755	-
Realised Foreign Currency			
Gain (Loss)		(68,894)	336,083
Other Income		111,617	358,840
<b>Total Income</b>		<b>19,763,939</b>	<b>9,325,930</b>
<b>Operating Expenses</b>			
Accounting And Audit Fees		48,815	49,179
Responsible Entity's Fees	18	2,316,958	2,029,748
Compliance Costs		42,622	23,289
Custodian Fees		32,973	15,584
Insurance		29,518	-
Finance Costs		1,390,506	596,499
Legal And Due Diligence		81,116	144,221
Property Expenses		6,028,565	3,279,375
Other Operating Expenses		71,892	46,379
<b>Total Operating Expenses</b>		<b>10,042,965</b>	<b>6,184,274</b>
Operating Profit			
Before Tax		9,720,974	3,141,656
Deferred Tax Expense	11	(2,659,396)	(757,470)
<b>Operating Profit</b>			
<b>After Tax</b>		<b>7,061,578</b>	<b>2,384,186</b>
Other Comprehensive Income		-	-
<b>Total Comprehensive Income</b>		<b>7,061,578</b>	<b>2,384,186</b>

The above statement should be read in conjunction with the accompanying notes

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	<b>Note</b>	<b>31 December 2016 \$</b>	<b>31 December 2015 \$</b>
Current Assets			
Cash And Cash			
Equivalents	4	16,501,951	12,813,059
Sundry Debtors	5	203,875	42,181
Other Current Assets	6	598,351	608,862
Total Current Assets		<u>17,304,177</u>	<u>13,464,102</u>
Non - Current Asset			
Investment Properties	7	120,739,305	115,581,375
Equipment		58,600	108,076
Other Non-Current Assets	6	623,138	716,143
Total Non - Current Asset		<u>121,421,043</u>	<u>116,405,594</u>
Total Assets		<u>138,725,220</u>	<u>129,869,696</u>
Current Liabilities			
Provisions	8	33,788	51,719
Trade And Other			
Payables	9	2,338,726	2,881,233
Distributions Payable	12	3,353,600	2,458,652
Borrowings	10	35,563	23,835
Other Current Liabilities		248,259	538,343
Total Current Liabilities		<u>6,009,936</u>	<u>5,953,782</u>
Non - Current Liabilities			
Borrowings	10	27,122,017	26,886,791
Deferred Tax Liability	11	8,095,517	5,424,656
Total Non – Current Liabilities		<u>35,217,534</u>	<u>32,311,447</u>
Total Liabilities		<u>41,227,470</u>	<u>38,265,229</u>
<b>Net Assets</b>		<u><b>97,497,750</b></u>	<u><b>91,604,467</b></u>
<b>Net Assets Attributable To Unitholders</b>			
Unitholders' Funds	17	81,013,865	76,283,188
Distributions			
Paid/Payable		(948,094)	(1,087,822)
Foreign Currency			
Reserve Account		17,431,979	16,409,101
<b>Total Net Assets Attributable To Unitholders</b>		<u><b>97,497,750</b></u>	<u><b>91,604,467</b></u>

The above statement should be read in conjunction with the accompanying notes

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**CONSOLIDATED STATEMENT OF CHANGES IN  
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>31 December 2016 Consolidated Entity</b>	<b>Note</b>	<b>Unitholders' Funds \$</b>	<b>Distributions Paid/Payable \$</b>	<b>Other Reserves \$</b>	<b>Total Equity \$</b>
Total Comprehensive Income For The Year		-	7,061,578	-	7,061,578
<b>Transactions With Unitholders In Their Capacity As Unitholders:</b>					
Balance At 31 December 2015		76,283,188	(1,087,822)	16,409,101	91,604,467
Foreign Currency Reserve		-	-	1,022,878	1,022,878
Distributions	12	-	(6,921,850)	-	(6,921,850)
Units Issued*	17	7,183,224	-	-	7,183,224
Units Redeemed	17	(2,452,547)	-	-	(2,452,547)
Total Transactions With Unitholders In Their Capacity As Unitholders		4,730,677	(6,921,850)	1,022,878	(1,168,295)
<b>Balance As At 31 December 2016</b>		<b>81,013,865</b>	<b>(948,094)</b>	<b>17,431,979</b>	<b>97,497,750</b>

<b>31 December 2015 Consolidated Entity</b>	<b>Note</b>	<b>Unitholders' Funds \$</b>	<b>Distributions Paid/Payable \$</b>	<b>Other Reserves \$</b>	<b>Total Equity \$</b>
Total Comprehensive Income For Six Months		-	2,384,186	-	2,384,186
<b>Transactions With Unitholders In Their Capacity As Unitholders:</b>					
Balance At 30 June 2015		71,015,920	(349,536)	11,642,056	82,308,440
Foreign Currency Reserve		-	-	4,767,045	4,767,045
Distributions		-	(3,122,472)	-	(3,122,472)
Units Issued*	17	8,595,618	-	-	8,595,618
Units Redeemed	17	(3,317,620)	-	-	(3,317,620)
Capital Raising Costs	17	(10,730)	-	-	(10,730)
Total Transactions With Unitholders In Their Capacity As Unitholders		5,267,268	(3,122,472)	4,767,045	6,911,841
<b>Balance As At 31 December 2015</b>		<b>76,283,188</b>	<b>(1,087,822)</b>	<b>16,409,101</b>	<b>91,604,467</b>

\* Applications And Reinvestments

The above statement should be read in conjunction with the accompanying notes

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	Twelve Months To 31 December 2016 \$	Six Months To 31 December 2015 \$
<b>Cash Flows From</b>			
<b>Operating Activities</b>			
Receipts From Customers		11,937,472	6,143,821
Payments To Suppliers		(6,060,896)	(3,326,044)
Management Fee		(1,873,522)	(1,126,536)
Performance Fee		(881,522)	(2,142,555)
Interest Received		16,652	13,773
Interest Paid		(1,321,961)	(561,885)
Other Income		111,617	129,282
Net Cash Provided By Operating Activities	14	1,927,840	(870,144)
<b>Cash Flows From</b>			
<b>Investing Activities</b>			
Sale / (Purchase) Of Investment Properties		5,062,186	(17,110,330)
Net Cash From Investing Activities		5,062,186	(17,110,330)
<b>Cash Flows From</b>			
<b>Financing Activities</b>			
Proceeds From/ (Payments Of) Borrowings		(30,603)	5,999,777
Applications Received From Unitholders		2,977,435	6,707,393
Redemptions Paid To Unitholders		(2,452,547)	(3,317,620)
Distributions Paid		(1,791,710)	(1,089,391)
Unit Raising Costs		-	(10,730)
Net Cash From Financing Activities		(1,297,425)	8,289,429
Net Increase In Cash And Cash Equivalents		5,692,601	(9,691,045)
Cash At Beginning Of The Financial Year		12,813,059	23,544,264
Effect Of Exchange Rate On Cash And Cash Equivalents		(2,003,709)	(1,040,160)
<b>Cash At The End Of The Financial Year</b>	4	<b>16,501,951</b>	<b>12,813,059</b>

The above statement should be read in conjunction with the accompanying notes

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies adopted by the Fund in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis Of Preparation Of The Financial Report**

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

This financial report has been prepared for the Fund as a consolidated Group. The Fund is a for-profit entity for the purpose of preparing the financial report.

The Responsible Entity of the Fund is Plantation Capital Limited (the Responsible Entity). Unless otherwise noted, the financial report is presented in Australian currency.

The Fund's objectives are to seek to generate passive income and growth returns by acquiring assets in a USA-based REIT structure, in accordance with the objectives disclosed in the PDS dated 18 July 2013 and the SPDS dated 21 October 2016.

The financial report was authorised for issue by the Directors of the Responsible Entity as at the date of the Directors' report.

*Compliance with IFRS*

The financial report of the Fund complies with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

*Critical accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the Fund's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

**(b) Principles Of Consolidation**

A controlled entity is any entity controlled by the Fund. Control exists where the Fund has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Fund to achieve the objectives of the Group.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(b) Principles Of Consolidation (cont'd)**

The consolidated financial report incorporates the assets and liabilities of all entities controlled by the Fund as at 31 December 2016 and the results of all controlled entities for the twelve months ended 31 December 2016 (prior period 6 months ended 31 December 2015).

The Fund and its controlled entities together are referred to in this financial report as the consolidated entity and the Fund.

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

Transactions, balances and unrealised gains on transactions between group entities are eliminated on consolidation. Where control of an entity is obtained during a financial period, its results are included in the consolidated income statement from the date on which control commences. Where control of an entity ceases during a financial period its results are included for that part of the period where control existed.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the parent entity.

**(c) Investments In Subsidiaries**

The Fund's indirect property investments are held via its controlling interest in Ozinus Realty, LLC – a limited liability company registered in Delaware that has elected to be treated as a (REIT) for US tax purposes. In turn, Ozinus Realty, LLC owns 100% of all the Limited Liability Companies that have been established to acquire the US properties purchased as at the date of this report.

**(d) Income And Expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues and expenses are recognised as follows.

*Interest income*

Income from cash deposits is recognised at the time of receipt and interest is accrued on term deposits.

*Income and expenses*

Property income and expenses from US investment properties are recognised on an accruals basis. Non-property income and expenses are also recognised on an accruals basis.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(e) Finance Costs**

Finance costs are recognised as expenses in the period in which they are incurred. Borrowing costs for long term borrowings are capitalised and amortised over the period of the loan.

**(f) Distributions**

Provision is made for the amount of any distribution declared, determined or publicly recommended by the Directors on or before the end of the period but not distributed at reporting date. The distribution amount payable to Unitholders as at period end is recognised separately on the statement of financial position, as Unitholders are presently entitled to the distributable income as at 31 December 2016 under the Fund's constitution.

**(g) Cash And Cash Equivalents**

Cash and cash equivalents include cash on hand and at deposit taking institutions including short-term deposits with an original maturity of three months or less which are held at call with deposit taking institutions. The Responsible Entity uses this for day to day management of the Fund's cash requirements. Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at balance date.

**(h) Investment Property**

Investment properties are properties that are held either to earn rental income, for capital appreciation, or both. Investment properties are stated at fair value. The Fund has an internal Director's valuation process for determining the fair value at each reporting date.

An external, independent appraiser, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values individual properties every six months, or sooner if considered appropriate and as determined by management in accordance with Responsible Entity's approved valuation policy. These external valuations are taken into consideration when determining the fair value of the investment properties. The fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion. Market data of recent transactions for similar assets and the investors required return (property capitalisation rate) are considered when adopting a valuation figure.

Unless the Directors believe a property's fair value was its purchase cost plus any capital expenditure, all properties are carried at the independent appraiser's assessment of fair market value, not including estimated transaction costs. Any gain or loss arising from a change in fair value is recognised in the income statement.

Income and expenses from investment property is accounted for as described in accounting policy 1(d).



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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(i) Trade And Other Receivables**

Trade receivables are recognised initially at fair value, and subsequently measured at fair value less a provision for impairment. Trade receivables are generally due for settlement within 30 days. A provision for doubtful debt is created for all receivables over 60 days. Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of receivables is raised when objective evidence of impairment in relation to collection exists on a case by case basis.

The provision is the difference between the assets carrying amount and the present value of estimated cash flows, discounted at the original effective interest rate. Cash flows for short term receivables are not discounted if the effect of discounting is immaterial.

**(j) Interest Bearing Liabilities**

Interest bearing liabilities are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the interest bearing liability using the effective interest method.

Interest bearing liabilities are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date. Interest bearing liabilities are derecognised from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

**(k) Financial Instruments**

*Classification*

The Fund classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, and loans and receivables. Classification depends on the purpose for which the investments were acquired. Management determines the classification at initial recognition.

*Loans and Receivables*

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

*Financial Liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including amounts due to Director-related entities.

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(l) Provisions (Liabilities)**

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation when the amount has been reliably estimated.

**(m) Unitholder Funds**

Units issued by the Fund are redeemable at the option of the unit holder ("puttable") as per the procedure outlined in the PDS dated 18 July 2013 and the SPDS dated 21 October 2016. As units satisfy all criteria for recognition as puttable financial instruments under paras 16A and 16B of AASB 132: Financial Instrument: Presentation, Unitholders' funds are classified as equity. Units are measured at their issue price.

**(n) Distributions And Taxation**

Under current Australian income tax legislation, the Fund is not liable to pay income tax provided Unitholders are presently entitled to the Fund's distributable income and its taxable income (including assessable realised capital gains) is fully distributed to Unitholders.

The Fund's constitution requires that all taxable income be distributed to Unitholders each financial year. However, due to differences in the way transactions are treated from an accounting and taxation standpoint, these financial accounts may show a balance of undistributed income at period end whereas all income has been distributed for taxation purposes.

The US subsidiary (Ozinus Realty, LLC) has elected to be taxed as a US (REIT) under US Federal taxation law, and on this basis will generally not be subject to US income taxes on that portion of the its taxable income which are distributed to its shareholders, provided that it complies with the requirements of the US Tax Code and maintains its REIT status.

The US REIT may ultimately realise a capital gain or loss on disposal which may result in a US income tax liability. If the capital gain is realised, it may give rise to a foreign income tax offset which would be available to Unitholders. A deferred tax liability is recognised at 35% of the temporary difference between the carrying amount of the assets in the Statement of Financial Position and their associated US tax cost bases. A current tax liability will be recognised in the financial statements for any realised taxable gain on the disposal of US investments properties.

**(o) Determination Of Application And Redemption Prices**

The application and redemption prices are determined by the value of net tangible assets attributable to Unitholders which is the value of assets of the Fund less its liabilities other than liabilities representing rights attaching to units, (redemption price reached after also adjusting for estimated capital gains taxes and transaction costs), divided by the number of units on issue.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(p) Goods And Services Tax (GST)**

Management 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 net of GST, adjusted for reduced input tax credits, where applicable. The net amount of GST recoverable from, or payable to, the ATO is included in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis.

**(q) Foreign Currencies**

*Functional and presentation currency*

The Fund's financial report is measured using its functional currency, which is the currency of the primary economic environment in which the Fund operates. The financial report is presented in Australian dollars, which is the Fund's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies of the Fund are translated into functional currency at the rate of exchange at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial period adjusted for any brokerage margin.

Resulting exchange differences arising on settlement or re-statement are recognised as income and expenses for the financial period.

*Consolidated Entities*

The results and financial position of foreign subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses in the income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of Unitholders' funds called the Foreign Currency Reserve Account.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to Unitholders' funds. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(r) New Accounting Standards For Application In Future Periods**

The Australian Accounting Standards Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Scheme. The Responsible Entity's assessment of the new and amended pronouncements relevant to the Scheme but applicable in future reporting periods is set out below:

<b>Standard Number</b>	<b>Standard Title</b>	<b>Applicable for periods ending</b>
AASB 2016-1	'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	31-Dec-2017
AASB 2016-2	'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	31-Dec-2017
AASB 9	'Financial Instruments', and the relevant amending standards	31-Dec-2018
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	31-Dec-2018
AASB 2014-1	Amendments to Australian Accounting Standards [Part E – Financial Instruments]	31-Dec-2018
AASB 2014-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)	31-Dec-2018
AASB 15	'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	31-Dec-2018
AASB 2014-5	Amendments to Australian Accounting Standards arising from AASB 15	31-Dec-2018
AASB 2015-8	Amendments to Australian Accounting Standards – Effective Date of AASB 15	31-Dec-2018
AASB 2016-3	Amendments to Australian Accounting Standards – Clarifications to AASB 15	31-Dec-2018
AASB 16	'Leases'	31-Dec-2019
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	31-Dec-2018

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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(r) New Accounting Standards For Application In Future Periods (cont'd)**

**AASB 9 Financial Instruments**

AASB 9 will replace AASB 139: Financial Instruments: Recognition and Measurement. The Group is yet to complete an assessment. The key changes that may affect the Group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost based on an expected loss approach.

**AASB 15 Revenue From Contracts with Customers**

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue. The Group is yet to complete an assessment.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. The give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(r) New Accounting Standards For Application In Future Periods (cont'd)**

**AASB 16 Leases**

Under IFRS 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their Statement of Financial Position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the Statement of Financial Position will be required to be capitalised on the Statement of Financial Position once AASB 16 is adopted. The Group is yet to complete an assessment.

**(s) Comparative Period**

As a result of a change of financial year end from 30 June to 31 December, current financial report is based on twelve months to 31 December 2016 whereas the comparative period is for six months.

**NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Fund makes certain estimates and assumptions which, by definition, will seldom represent actual results. The estimates and assumptions that have a significant inherent risk, which could have a material impact on the assets and liabilities in the financial period, are discussed below:

*Income Tax*

Under current legislation the Fund is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the Unitholders. In accordance with the Product Disclosure Statement and Constitution, the Fund fully distributes its taxable income to Unitholders. This assumes continued consistent treatment of this by the Australian Taxation Office.

*Investment Property*

Critical judgements are made by the Responsible Entity in respect of fair values of investment properties. Fair values are reviewed every six months by the Responsible Entity with reference to the property's purchase price, capital expenditure during the period and the external independent property appraiser's report of estimated fair value, excluding any transaction costs.

The critical assumptions underlying the Responsible Entity's estimates of fair values relate to the receipt of contractual rents, expected future market rentals, maintenance requirements and discount rates that reflect current market uncertainties. If there is any change in these assumptions or regional or national economic conditions, the fair value of investment properties may differ.

**NOTE 3: FINANCIAL RISK MANAGEMENT**

The Fund may be exposed to a variety of financial risks comprising:

- |                       |                        |
|-----------------------|------------------------|
| (a) Market Price Risk | (b) Currency Risk      |
| (c) Liquidity Risk    | (d) Fair Values        |
| (e) Credit Risk       | (f) Interest Rate Risk |

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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

The Board of Directors of the Responsible Entity has the overall responsibility for identifying and managing operational and financial risks. The Fund holds the following financial instruments during the period:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and Cash Equivalents	16,501,951	12,813,059
Sundry Debtors	203,875	42,181
Prepayments	431,138	480,578
Borrowing Costs	643,717	712,262
Other Current Assets	146,634	73,361
	<u>17,927,315</u>	<u>14,121,441</u>
<b>Financial liabilities</b>		
(excluding net assets attributable to Unitholders)		
Trade and Other Payables	2,620,773	3,213,520
Distributions Payable	3,353,600	2,458,652
Vendor Loans	6,110,231	6,082,430
Long Term Loans	20,919,286	20,701,466
USA REIT Funding	128,063	126,730
	<u>33,131,953</u>	<u>32,582,798</u>

**(a) Market Price Risk**

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price (other than those arising from interest rate risk or currency risk).

**(b) Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund, via its controlled US entities, operates internationally and invests in financial instruments that are denominated in currencies other than the Australian dollar, primarily in US Dollars (USD).

Currency risk arises as the value of financial instruments denominated in other currencies will fluctuate due to changes in exchange rates. The Fund has not entered into Forward Exchange contracts. It purchases foreign currency at market price based on prevailing advice and board policy.

At balance date, the carrying value of the Fund's net financial assets and liabilities held in foreign currencies expressed in AUD and as a percentage of its net assets were as follows:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(b) Currency Risk (cont'd)**

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>\$</b>		<b>\$</b>	
	<b>\$</b>	<b>% of net assets</b>	<b>\$</b>	<b>% of net assets</b>
Cash Held In USD	13,997,657	14.36%	9,546,813	10.42%

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>\$</b>		<b>\$</b>	
	<b>Year End</b>	<b>Average</b>	<b>Year End</b>	<b>Average</b>
AUD:USD exchange rates	0.7223	0.7437	0.7299	0.7269

*Market Derivatives*

Forward exchange contracts are entered into in order to buy and sell specified amounts of foreign currency in the future at stipulated exchange rates. The Fund may utilise forward exchange contracts to mitigate foreign currency risk for certain anticipated transactions undertaken in foreign currencies. At balance date there were no outstanding forward exchange contracts.

*Sensitivity*

If foreign exchange rates were to increase/decrease by 10% from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the period and net assets attributable to Unitholders is as follows:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>\$</b>		<b>\$</b>	
	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Impact on profit before finance costs allocated to Unitholders	(1,272,514)	1,555,295	(187,461)	229,125
Impact on net assets attributable to Unitholders	(6,859,295)	8,383,582	(5,663,059)	6,921,709

**(c) Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Given the Fund invests, albeit indirectly, in real estate, which by its nature is an illiquid asset, there is no guarantee that the Responsible Entity will be able to honour in full every redemption request made pursuant to the PDS dated 18 July 2013 and SPDS dated 21 October 2016.

There is also a risk that, when a redemption offer is made, the Fund will be unable to meet redemption requests in a timely manner or that redemption requests are scaled back.



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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

In the event the Fund is wound up and required to dispose assets to pay redemptions, there is a risk that the Fund may not be able to realise sufficient assets in a timely manner or at an optimal sale price. This may affect the Responsible Entity's ability to return capital to Unitholders.

The Responsible Entity manages this risk by ensuring there are sufficient liquid assets to meet operating debt obligations. For instance, the Responsible Entity will permit borrowings of up to 50% of a property's value so long as the total loan-to-valuation ratio across the whole portfolio remains at 40% or less (based on fair market value) and wherever possible pay interest expense from rental income received from that property. The liquidity risk associated with redemptions is managed by its redemption policy as disclosed in the PDS dated 18 July 2013 and SPDS dated 21 October 2016.

*Maturity Analysis*

The table below represents the undiscounted contractual settlement terms for financial instruments and management's expectation for settlement of undiscounted maturities.

**31 December 2016**

	<b>&lt; 1 Year \$'000</b>	<b>1-5 Years \$'000</b>	<b>&gt; 5 Years \$'000</b>	<b>Carrying Amount \$'000</b>
Liabilities				
Trade & Other Payables	(2,339)	-	-	(2,339)
Distributions Payable	(3,354)	-	-	(3,354)
Borrowings	(36)	(4,468)	(22,654)	(27,158)
Other Financial Liabilities	(281)	-	-	(281)
	<b>(6,010)</b>	<b>(4,468)</b>	<b>(22,654)</b>	<b>(33,132)</b>

**31 December 2015**

	<b>&lt; 1 Year \$'000</b>	<b>1-5 Years \$'000</b>	<b>&gt; 5 Years \$'000</b>	<b>Carrying amount \$'000</b>
Liabilities				
Trade & Other Payables	(2,881)	-	-	(2,882)
Distributions Payable	(2,458)	-	-	(2,458)
Other Financial Liabilities	-	(3,790)	(23,453)	(27,243)
	<b>(5,339)</b>	<b>(3,790)</b>	<b>(23,453)</b>	<b>(32,583)</b>

*Puttable Financial Instruments*

Units issued by the Fund are redeemable at the option of the unit holder ("puttable") as per the procedure outlined in the PDS dated 18 July 2013 and SPDS dated 21 October 2016. As the units satisfy all of the relevant criteria for recognition as puttable financial instruments under AASB 132, Unitholders' funds are classified as equity (rather than financial liabilities). Consequently, the

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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(c) Liquidity Risk (cont'd)**

*Puttable Financial Instruments (cont'd)*

foregoing liquidity risk disclosures do not include contractual or expected cash flow information in respect of the units.

**(d) Credit Risk Exposures**

Credit risk represents the loss that would be recognised if counterparties failed to meet the contracted obligation. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-Statement of Financial Position financial assets and liabilities as they are marked to market. The total credit risk for on-Statement of Financial Position items including fixed income and equity securities is therefore limited to the amount carried on the statement of financial position.

**(e) Fair Values Of Financial Assets And Liabilities**

Financial asset and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

- |          |   |
|----------|---|
| Level 1: | Quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair value of listed equity securities is determined at the quoted closing bid price at the balance date.   |
| Level 2: | Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value of derivatives is determined at quoted prices from financial institutions at the balance date. |
| Level 3: | Inputs for the asset or liabilities that are not based on observable market data. Unlisted equity securities have significant unobservable inputs. Their fair value is established by using valuation techniques.                               |

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Due to the short term nature of settlement, the carrying amounts of trade and other receivables, trade and other payables, and distributions payable are approximate fair values as presented in the Consolidated Statement of Financial Position.

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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(e) Fair Values Of Financial Assets And Liabilities (cont'd)**

Fair value of investment properties disclosed in Note 7 have been determined using Level 3 inputs.

		<b>Fair Value Measurement At 31 December 2016</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets At FVTPL</b>					
Investment Properties		-	-	120,739,305	120,739,305

		<b>Fair Value Measurement At 31 December 2015</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets At FVTPL</b>					
Investment Properties		-	-	115,581,375	115,581,375

		<b>Reconciliation Of Level 3 Fair Value Instruments</b>	
		<b>31 December 2016</b>	<b>31 December 2015</b>
		<b>\$</b>	<b>\$</b>
<b>Investment Properties</b>			
<b>Opening Balance</b>		<b>115,581,375</b>	<b>89,579,010</b>
Gains/(Losses)			
In Profit and Loss (Unrealised)		6,508,595	2,757,345
In Profit and Loss (Realised)		715,755	-
Purchases/ Capital Expenditure		2,090,838	18,003,605
Sales		(4,850,479)	-
Foreign Exchange Impact		693,221	5,241,415
<b>Closing Balance</b>		<b>120,739,305</b>	<b>115,581,375</b>

<b>Valuation Techniques Used</b>	<b>Inputs Used To Measure Fair Value</b>	<b>FV Sensitivity To Increase In Inputs</b>	<b>FV Sensitivity To Decrease In Inputs</b>
	Projected net operating income per management approach	Increase	Decrease
Income capitalisation & sales comparison approach	Capitalisation rates	Decrease	Increase

Income Capitalisation Approach analyses a property's income producing capabilities. Valuation techniques employed in this approach are discounted cash flow and direct capitalization analyses.

The Sales Comparison Approach is based on the assumption that a prudent buyer would not pay more for a property than it would cost to acquire a comparable substitute property.

Property valuations are conducted by an independent valuation expert every six months. These recommended valuations are reviewed by the Directors at half year end and year end.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(f) Interest Rate Risk**

The Fund's exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and liabilities at balance date are as follows:

<b>31 December 2016</b>	<b>Interest Bearing \$'000</b>	<b>Non- Interest Bearing \$'000</b>	<b>Total Carrying Amount \$'000</b>	<b>Weighted Average Effective Interest Rate</b>	<b>Fixed / Variable Rate</b>
<b>Financial Assets</b>					
Cash & Cash Equivalents	16,502	-	16,502	0.0%	Variable
Sundry Debtors	-	204	204		
Other Financial Assets	-	1,166	1,166		
<b>Total Financial Assets</b>	<b>16,502</b>	<b>1,370</b>	<b>17,872</b>		
<b>Financial Liabilities</b>					
Trade Creditors	-	(2,339)	(2,339)		
Distribution Payable	(3,354)		(3,354)		
USA REIT Funding	(128)		(128)		
Borrowings	(27,030)	-	(27,030)	4.86%	Fixed
Other Liabilities	-	(281)	(281)		
<b>Total Financial Liabilities</b>	<b>(30,512)</b>	<b>(2,620)</b>	<b>(33,132)</b>		
<b>Net Financial Assets</b>	<b>(14,010)</b>	<b>(1,250)</b>	<b>(15,260)</b>		
<b>31 December 2015</b>	<b>Interest Bearing \$'000</b>	<b>Non- Interest Bearing \$'000</b>	<b>Total Carrying Amount \$'000</b>	<b>Weighted Average Effective Interest Rate</b>	<b>Fixed / Variable Rate</b>
<b>Financial Assets</b>					
Cash and Cash Equivalents	12,813	-	12,813	0.75%	Variable
Sundry Debtors	-	42	42		
Other Financial Assets	-	1,266	1,266		
<b>Total Financial Assets</b>	<b>12,813</b>	<b>1,308</b>	<b>14,121</b>		
<b>Financial Liabilities</b>					
Trade Creditors	-	(3,213)	(3,213)		
Distribution Payable	(2,459)		(2,459)		
USA REIT Funding	(127)		(127)		
Borrowings	(26,784)	-	(26,784)	4.03%	Fixed
<b>Total Financial Liabilities</b>	<b>(29,370)</b>	<b>(3,213)</b>	<b>(32,583)</b>		
<b>Net Financial Assets</b>	<b>(16,557)</b>	<b>(1,905)</b>	<b>(18,462)</b>		

These accompanying notes form part of these financial statements

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)**

**(f) Interest Rate Risk (cont'd)**

*Sensitivity*

If interest rates were to increase 100 basis points, or decrease 100 basis points (as this would mean the effective interest rate is zero), from variable rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the period and net assets attributable to Unitholders is as follows:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>\$</b>		<b>\$</b>	
	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
Impact on profit before finance costs allocated to Unitholders	165,020	(165,020)	128,131	(128,131)
Impact on net assets attributable to Unitholders	-	-	-	-

	<b>Note</b>	<b>31 December 2016</b>	<b>31 December 2015</b>
		<b>\$</b>	<b>\$</b>

**NOTE 4: CASH AND CASH EQUIVALENTS**

Cash in bank Australian accounts AUD		2,504,294	3,266,246
Cash in bank Australian accounts USD	1(q)	800,387	2,061,812
Cash in bank US accounts USD	1(q)	13,197,270	7,485,001
		<u>16,501,951</u>	<u>12,813,059</u>

**NOTE 5: SUNDRY DEBTORS**

GST Refund	54,325	39,702
Rent Receivable	149,550	-
Interest on Applications	-	2,479
	<u>203,875</u>	<u>42,181</u>

**NOTE 6: OTHER ASSETS**

**Current Assets**

Security Deposits	91,173	73,361
Prepaid Insurance	404,195	440,962
Prepaid Expenses	26,943	39,616
Borrowing Costs	76,040	54,923
	<u>598,351</u>	<u>608,862</u>

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	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 6: OTHER ASSETS (cont'd)</b>		
<b>Non-Current Assets</b>		
Borrowing Costs	567,677	657,339
Office Set-Up Costs	55,461	58,804
	<u>623,138</u>	<u>716,143</u>

Borrowing costs totalling \$643,717 relating to the USD 15.11m refinance are being amortised over 10 years. The current portion of \$76,040 is included in current assets. The non-current portion of \$567,677 is included in non-current assets as other non-current assets.

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
	<b>USD</b>	<b>AUD</b>	<b>USD</b>	<b>AUD</b>
<b>NOTE 7: INVESTMENT PROPERTIES</b>				
<b>Texas Properties</b>				
8344 RL Thornton Fwy, Dallas*	-	-	3,400,000	4,658,172
1671 Riverview Dve, Lewisville	4,100,000	5,676,312	3,935,000	5,391,149
401 Powerhouse, McKinney	4,150,000	5,745,535	4,150,000	5,685,710
1205 Texas Parkway, Euless	4,400,000	6,091,652	4,200,000	5,754,213
Total Texas Property	<u>12,650,000</u>	<u>17,513,499</u>	<u>15,685,000</u>	<u>21,489,244</u>
<b>Georgia Properties</b>				
6620 Tara Blvd, Jonesboro	4,880,000	6,756,195	4,200,000	5,754,213
6205 & 6215 Shiloh Crossing, Alpharetta	6,440,000	8,915,963	6,300,000	8,631,319
1461 HWY 20 W, McDonough	4,750,000	6,576,215	4,500,000	6,165,228
2081 Jonesboro Rd, McDonough	4,150,000	5,745,535	4,000,000	5,480,203
270 Scientific Drive, Norcross	4,750,000	6,576,215	4,221,470	5,783,628
358 McDonough Pkway, McDonough	950,000	1,315,243	701,377	960,921
2192 Eastview Parkway, Conyers	2,300,000	3,184,272	1,900,000	2,603,096
400 Tech Pkway, Peachtree Corners	7,600,000	10,521,944	7,200,000	9,864,365
Total Georgia Property	<u>35,820,000</u>	<u>49,591,582</u>	<u>33,022,847</u>	<u>45,242,973</u>

\*8344 RL Thornton Freeway, Dallas, TX was sold in October 2016 for USD 3,975,000.

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	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Fair Value</b>		<b>Fair Value</b>	
	<b>USD</b>	<b>AUD</b>	<b>USD</b>	<b>AUD</b>
<b>NOTE 7: INVESTMENT PROPERTIES (cont'd)</b>				
<b>Florida Properties</b>				
3350 Hanson St, Fort Myers	1,150,000	1,592,136	1,110,000	1,520,756
13584 49th St Nth, Clearwater	3,700,000	5,122,525	3,530,000	4,836,279
4700 110th Ave Nth, Pinellas Park	1,510,000	2,090,544	1,425,000	1,952,322
2853 Work Dve, Fort Myers	2,830,000	3,918,040	2,650,000	3,630,634
2148 Fowler St, Fort Myers	1,260,000	1,744,428	1,200,000	1,644,061
1408 & 1424 Hamlin Ave	2,400,000		2,400,000	
& 2013 Murcott Dve, St Cloud		3,322,719		3,288,122
1904 Oak Grove Blvd, Lutz	3,500,000	4,845,632	3,050,000	4,178,655
5250 Giron Circle, Kissimmee	2,100,000	2,907,379	2,050,000	2,808,604
720 S. Dixie Fwy, New Smyrna Beach	2,800,000	3,876,506	2,500,000	3,425,127
2634 N. Orange Blossom Trail, Kissimmee	2,270,000		2,250,000	
		3,142,738		3,082,614
5961 Northland Rd, Fort Myers	1,100,000	1,522,913	760,000	1,041,239
16151 Pine Ridge Rd, Fort Myers	900,000	1,246,020	840,000	1,150,843
830 NE 24th Lane, Cape Coral	1,465,000	2,028,243	1,265,000	1,733,114
12050 49th St Nth, Clearwater	4,275,000	5,918,593	4,275,000	5,856,967
2621 NE 9th Ave, Cape Coral	975,000	1,349,855	825,000	1,130,292
1221 SE 9th Ter, Cape Coral	935,000	1,294,476	775,000	1,061,789
1013 SE 12th Avenue, Cape Coral	795,000	1,100,651	725,000	993,287
18538 US Hwy 19, Clearwater	580,000	802,990	580,000	794,629
932 NE 24th Lane, Cape Coral	815,000	1,128,340	730,000	1,000,137
5636 Youngquist Rd, Fort Myers	605,000	837,602	465,000	637,074
5760 Youngquist Rd, Fort Myers	875,000	1,211,408	750,000	1,027,538
3419 Westview Drive, Naples	1,900,000	2,630,486	1,500,000	2,055,075
Total Florida Property	38,740,000	53,634,224	35,655,000	48,849,158
<b>Total Property</b>	<b>87,210,000</b>	<b>120,739,305</b>	<b>84,362,847</b>	<b>115,581,375</b>

<b>31 December 2016</b>	<b>31 December 2015</b>
<b>\$</b>	<b>\$</b>

**NOTE 8: PROVISIONS**

Provision for Audit Fees	33,788	43,719
Provision - Non-Unitised Applications	-	8,000
	33,788	51,719

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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	31 December 2016 \$	31 December 2015 \$
<b>NOTE 9: TRADE AND OTHER PAYABLES</b>		
Trade Creditors	982,596	1,693,209
Accrued Property Taxes	350,169	312,350
Security Deposits Held	1,005,961	873,174
Other Current Liabilities	-	2,500
	2,338,726	2,881,233

**NOTE 10: BORROWINGS**

**Current Borrowings**

Borrowings due within the next 12 months	35,563	23,835
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**Non-Current Borrowings**

USA REIT Funding	128,063	126,730
Long Term Loans (excluding borrowings due within the next 12 months)	26,993,954	26,760,061
	27,122,017	26,886,791

Specifics of the finance terms for each loan are as follows:

	Loan AUD	Loan USD	Loan AUD	Loan USD
<i>1671 Riverview Drive, Lewisville, TX</i>				
4.0% pa fixed interest, interest-only repayments until Dec 2018	1,993,631	1,440,000	1,972,873	1,440,000
<i>401 Powerhouse, McKinney, TX</i>				
6.0% pa fixed interest, principal and interest repayments amortised over 5 years with a balloon payment due Feb 2019	1,010,411	729,820	1,035,712	755,966
<i>2634 N. Orange Blossom Trail, Kissimmee, FL</i>				
5.00% pa fixed interest, interest-only repayments until Mar 2019	1,084,868	783,600	1,073,572	783,600
<i>830 NE 24th Lane, Cape Coral, FL</i>				
4.25% pa fixed interest, interest-only repayments until Apr 2019	415,340	300,000	411,015	300,000



**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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	<b>31 December 2016</b>		<b>31 December 2015</b>	
<b>NOTE 10: BORROWINGS (cont'd)</b>	<b>Loan AUD</b>	<b>Loan USD</b>	<b>Loan AUD</b>	<b>Loan USD</b>
<i>13584 49th St Nth, Clearwater, FL</i> 3.5% pa fixed interest, interest-only repayments until April 2018, then 5.0% pa interest, interest-only repayments until April 2023	1,605,981	1,160,000	1,589,259	1,160,000
<i>Long Term Borrowings (Refinance)</i> Covering 7 properties: 2081 Jonesboro Rd, McDonough, GA 6205 & 6215 Shiloh Crossing, Alpharetta, GA 1205 Texas Parkway , Euless, TX 2853 Work Dve, Fort Myers, FL 1904 Oak Grove Blvd, Lutz, FL 12050 49th St Nth, Clearwater, FL 1408 & 1424 Hamlin Ave & 2013 Murcott Dve, St Cloud, FL 5.145% pa fixed interest, interest-only repayments until June 2025	15,935,207	11,510,000	15,769,283	11,510,000
400 Technology Parkway, Peachtree Corners, GA 4.5% pa fixed interest, interest-only repayments until Jan 2026	4,984,079	3,600,000	4,932,182	3,600,000
<i>USA REIT Funding</i> 12.5% pa interest. No maturity.	128,063	92,500	126,730	92,500
<b>Total Borrowings</b>	<b>27,157,580</b>	<b>19,615,920</b>	<b>26,910,626</b>	<b>19,642,066</b>
	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>\$</b>		<b>\$</b>	
<b>NOTE 11: DEFERRED TAX</b>				
Opening Balance	5,424,656		4,667,186	
Tax Expense:				
Movement From Change In				
Fair Value Of Properties	2,659,396		757,470	
Foreign Exchange Impact	11,465		-	
Closing Balance	8,095,517		5,424,656	

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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	Note	31 December 2016 \$	31 December 2015 \$
<b>NOTE 12: DISTRIBUTIONS</b>			
Interim	1(n)	3,421,115	-
Final	1(n)	3,500,735	2,458,652
		<u>6,921,850</u>	<u>2,458,652</u>
Payable At Period End		<u>3,353,600</u>	<u>2,458,652</u>

**NOTE 13: AUDITORS REMUNERATION**

Amounts paid and payable to the auditors	<u>48,815</u>	<u>49,179</u>
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**NOTE 14: CASH FLOW INFORMATION**

Reconciliation of net cash provided by operating activities to net operating profit

Net Operating Profit	7,061,578	2,384,186
Add/(Less) Non-Cash Items:		
Foreign Currency Gain	68,894	(336,083)
Unrealised Revaluation Gains	(7,224,350)	(2,757,345)
Withholding Tax Payable	(185,156)	(331,910)
(Increase) / Decrease In Sundry Debtors	(574,370)	(816)
(Increase) / Decrease In Other Current Assets	31,628	387,100
Increase / (Decrease) In Trade Creditors And Other Payables	525,685	(1,545,135)
Increase / (Decrease) In Other Current Liabilities	(438,086)	538,343
Increase In Deferred Tax Liability	2,659,396	757,470
Increase / (Decrease) In Provisions	2,621	34,046
<b>Net cash provided by operating activities</b>	<u><b>1,927,840</b></u>	<u><b>(870,144)</b></u>

**NOTE 15: PARENT ENTITY INFORMATION**

**(a) Parent Entity**

The parent entity of the Group is the Passive Income (USA Commercial Property) Fund

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	Twelve Months To 31 December 2016 \$	Six Months To 31 December 2015 \$
<b>NOTE 15: PARENT ENTITY INFORMATION (cont'd)</b>		
<b>(b) Financial Information - Passive Income (USA Commercial Property) Fund</b>		
<b>Income Statement Information</b>		
Net profit (loss) attributable to Unitholders of the parent entity	(1,893,333)	(396,275)
<b>Comprehensive Income Information</b>		
Total comprehensive income attributable to Unitholders of the parent entity	(1,893,333)	(396,275)
<b>Statement of Financial Position Information</b>		
Current Assets	4,350,365	7,382,451
Non-Current Assets	61,454,583	60,224,083
Current Liabilities	(3,614,977)	(3,604,483)
Non-Current Liabilities	(7,697,080)	(5,424,656)
Net Assets	54,492,891	58,577,395
<b>Net Assets Attributable To Unitholders Of The Parent Entity</b>		
Unitholders Funds	81,212,329	76,481,652
Undistributed Profits	(26,520,973)	(17,705,792)
Set up costs	(198,465)	(198,465)
Total Equity	54,492,891	58,577,395
<b>31 December 2016</b>		

**NOTE 16: CONTROLLED ENTITIES**

	Country of Incorporation	% Owned
Subsidiaries controlled by the Fund during the period were:		
Ozinus Realty, LLC (acquired 30 November 2012)	USA	100%
Ozinus Hanson, LLC (acquired 13 March 2013 )	USA	100%
Ozinus Pinellas Park, LLC (acquired 12 April 2013)	USA	100%
Ozinus Breckinridge, LLC (acquired 16 April 2013)	USA	100%

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**31 December 2016**

**NOTE 16: CONTROLLED ENTITIES (cont'd)**

	<b>Country of Incorporation</b>	<b>% Owned</b>
Ozinus Palmetto Grove, LLC <i>(acquired 15 August 2013)</i>	USA	100%
Ozinus Rams Plaza, LLC <i>(acquired 9 September 2013)</i>	USA	100%
Ozinus Hamlin, LLC <i>(acquired 8 October 2013)</i>	USA	100%
Ozinus Eagle Plaza, LLC <i>(acquired 3 December 2013)</i>	USA	100%
Ozinus Giron, LLC <i>(acquired 13 December 2013)</i>	USA	100%
Ozinus Riverview Drive, LLC <i>(acquired 26 December 2013)</i>	USA	100%
Ozinus Powerhouse, LLC <i>(acquired 6 February 2014)</i>	USA	100%
Ozinus NSB, LLC <i>(acquired 14 February 2014)</i>	USA	100%
Ozinus Orange Blossom, LLC <i>(acquired 7 March 2014)</i>	USA	100%
Ozinus Northland, LLC <i>(acquired 4 April 2014)</i>	USA	100%
Ozinus Pine Ridge, LLC <i>(acquired 15 April 2014)</i>	USA	100%
Ozinus Cape Coral 830CC, LLC <i>(acquired 30 April 2014)</i>	USA	100%
Ozinus Shops of Tara, LLC <i>(acquired 1 May 2014)</i>	USA	100%
Ozinus Pitney, LLC <i>(acquired 23 June 2014)</i>	USA	100%
Ozinus NE 9th CC, LLC <i>(acquired 27 June 2014)</i>	USA	100%
Ozinus SE 9-CC, LLC <i>(acquired 11 July 2014)</i>	USA	100%
Ozinus Texas Star, LLC <i>(acquired 16 July 2014)</i>	USA	100%
Ozinus Shiloh, LLC <i>(acquired 23 July 2014)</i>	USA	100%
Ozinus 1013 SE12-CC, LLC <i>(acquired 24 September 2014)</i>	USA	100%
Ozinus US 19N, LLC <i>(acquired 29 September 2014)</i>	USA	100%
Ozinus 932NE24-CC, LLC <i>(acquired 30 September 2014)</i>	USA	100%
Ozinus McDonough, LLC <i>(acquired 30 December 2014)</i>	USA	100%

These accompanying notes form part of these financial statements

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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	<b>31 December 2016</b>	
<b>NOTE 16: CONTROLLED ENTITIES (cont'd)</b>		
	<b>Country of Incorporation</b>	<b>% Owned</b>
Ozinus Jonesboro Towne Cr, LLC <i>(acquired 18 May 2015)</i>	USA	100%
Ozinus Scientific, LLC <i>(acquired 12 June 2015)</i>	USA	100%
Ozinus 5636 Youngquist, LLC <i>(acquired 15 July 2015)</i>	USA	100%
Ozinus 5760 Youngquist, LLC <i>(acquired 15 July 2015)</i>	USA	100%
Ozinus 358 McDonough, LLC <i>(acquired 24 July 2015)</i>	USA	100%
Ozinus Westview, LLC <i>(acquired 31 August 2015)</i>	USA	100%
Ozinus 2192 Parkway, LLC <i>(acquired 1 October 2015)</i>	USA	100%
Ozinus Westlake, LLC <i>(acquired 18 December 2015)</i>	USA	100%
	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 17: UNITHOLDERS' FUNDS</b>		
Opening Balance	76,283,188	71,015,920
Applications	3,398,931	6,707,393
Distributions Reinvested	3,784,293	1,888,225
	7,183,224	8,595,618
Redemptions	(2,452,547)	(3,317,620)
Net Applications, Redemptions and Reinvestments	4,730,677	5,277,998
Capital Raising Costs	-	(10,730)
Net Movement During The Period	4,730,677	5,267,268
Closing Balance	81,013,865	76,283,188

Under the Fund's constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. When managing capital, management's objective is to ensure the Fund continues to provide Unitholders with returns in accordance with the PDS dated 18 July 2013 and the SPDS dated 21 October 2016.

The Fund's redemption policies are disclosed in Note 3(o), and in the PDS dated 18 July 2013 and the SPDS dated 21 October 2016. The amount of net assets attributable to Unitholders can change on a monthly basis.

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**NOTE 18: RELATED PARTY TRANSACTIONS**

The Responsible Entity of the Fund is Plantation Capital Limited (ABN 65 133 678 029, AFSL 339481).

**Key Management Personnel**

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, including any Director (whether executive or otherwise) of the Responsible Entity (or its parents), are considered key management personnel of the Fund.

The Directors of the Responsible Entity during the financial period were:

Stephen McKnight  
Paul Harper  
Keith Woodhead

Key management personnel also included Mr. Davendra Prasad, Chief Financial Officer.

Remuneration of the key personnel is paid directly by the Responsible Entity. Key personnel are not provided with any remuneration by the Fund itself. Directors are not entitled to any equity interests in the Fund, or any rights to or options for equity interests in the Fund, as a result of the remuneration provided by the Responsible Entity. One Director, as Compliance Director was paid \$21,284 for providing compliance services for twelve months to 31 December 2016.

	<b>Twelve Months To 31 December 2016 \$</b>	<b>Six Months To 31 December 2015 \$</b>
<b>Fees Paid To And Interests Held By The Responsible Entity</b>		
The following fees were paid to the Responsible Entity out of Fund property during the financial period:		
Management Fees	2,316,958	1,129,746
Performance Fees	-	900,002
Total Fees To The Responsible Entity	2,316,958	2,029,748
Other Expense Reimbursements	42,543	16,697
Total Fees & Reimbursements	2,359,501	2,046,445

Fees paid to the Responsible Entity are pursuant to the disclosures made in the PDS dated 18 July 2013 and the SPDS dated 21 October 2016.

During the year, Plantation Capital Limited CEO, Steve McKnight, relocated to the US as CFO, Sunizo LLC on a one year contract, on an annual salary of US \$96,000 p.a. plus associated employment expenses. The outflows during the year were recouped from management fees payable to the Responsible Entity.

**Related Party Investments Held By the Fund**

The Fund has no investment in the Responsible Entity at period end.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
ARSN: 155 770 095**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**NOTE 18: RELATED PARTY TRANSACTIONS (cont'd)**

**Units In The Fund Held By Related Parties**

Details of holdings in the Fund by the Responsible Entity, Directors, key personnel and their related entities are set out as below:

	<b>Units Held At 31 December 2016 #</b>	<b>Units Held At 31 December 2015 #</b>
Stephen McKnight (Director) & Associated Parties	1,834,453	1,748,261
Plantation Capital Limited	813,317	482,938
Davendra Prasad (CFO)	73,732	71,909
	<b>Units Held At 31 December 2016 Value in AUD</b>	<b>Units Held At 31 December 2015 Value in AUD</b>
Stephen McKnight (Director) & Associated Parties	2,646,015	2,431,481
Plantation Capital Limited	1,173,128	671,670
Davendra Prasad (CFO)	106,351	100,011

Except as noted above, during, or since the end of the financial year, none of the Directors, or Director related entities held units in the Fund, directly, indirectly or beneficially.

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time the Responsible Entity or its Director-related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

**NOTE 19: SUBSEQUENT EVENTS**

The following significant events occurred subsequent to 31 December 2016:

*Acquisition of 350 Technology Parkway, GA*

350 Technology Parkway, GA, was acquired on 6 January 2017 for USD 3.9m, a discount of \$750,000 to the independently appraised price of USD 4.65m.

*Contracted Property*

A property in Atlanta, GA was placed under contract for a purchase price of USD 535,000. As at the date of this report due diligence investigations were underway.

*Contamination Clean Up*

Historical soil contamination has been discovered at 720 S. Dixie Fwy, New Smyrna Beach, FL. Environmental consultants have been engaged to assist with the clean-up operations. The expected cost is USD 55,000.

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

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**NOTE 20: COMMITMENTS AND CONTINGENCIES**

The Fund has no commitments or contingencies to report.

**NOTE 21: RESPONSIBLE ENTITY DETAILS**

Plantation Capital Limited's registered office and contact details are:

**Registered Office**

893A Canterbury Rd  
BOX HILL VIC 3128  
AUSTRALIA

**Postal Address**

PO Box 2193  
BLACKBURN SOUTH VIC 3130  
AUSTRALIA

**Other Details**

Phone: 03 8892 3800  
Fax: 03 8892 3811  
[www.passiveincomefund.com](http://www.passiveincomefund.com)  
[admin@passiveincomefund.com](mailto:admin@passiveincomefund.com)



**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND  
AND CONTROLLED ENTITIES  
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**DIRECTOR'S DECLARATION**

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In the opinion of the Directors of Plantation Capital Limited, the Responsible Entity of Passive Income Fund:

1. The financial statements and notes as set out on pages 8 to 38, are in accordance with the Corporations Act 2001 and:
  - (a) Comply with Accounting Standards in Australia and the Corporations Regulations 2001;
  - (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
  - (c) Give a true and fair view of the financial position of the Fund as at 31 December 2016 and of its performance, as represented by the results of its operations and its cash flows for the financial period ended on that date.
2. In the Directors' opinion there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration has been made in accordance with a Resolution of the Directors of the Responsible Entity, Plantation Capital Limited.



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Stephen McKnight  
Director  
Melbourne: 17 March 2017

# Independent Auditor's Report to the Unitholders of Passive Income (USA Commercial Property) Fund

## Report on the Audit of the Financial Report

### *Opinion*

We have audited the financial report of Passive Income (USA Commercial Property) Fund (the "fund") which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in net assets attributable to unitholders for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the directors of the Plantation Capital Limited ("Responsible Entity") as set out on pages 8 to 39.

In our opinion, the accompanying financial report of the 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 31 December 2016 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the fund in accordance with the auditor independence requirements of 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 report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if given to the directors of the Responsible Entity as at the time of this auditor's report.

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

### *Responsibilities of directors of the Responsible Entity for the Financial Report*

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

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

## *Auditor's Responsibilities for the Audit of the Financial Report*

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtain an understanding of internal control relevant to the audit 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 fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Responsible Entity.
- 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 report 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.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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.



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 17 March 2017