

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

ARSN 155 770 095

**FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2018**

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DIRECTORS' REPORT

The Directors of Plantation Capital Ltd, the Responsible Entity of the Passive Income (USA Commercial Property) Fund (the Fund), present their report together with the financial statements of the Fund for the year ended 31 December 2018. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The Fund is an unlisted managed investment scheme 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) 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 as outlined in the Product Disclosure Statement dated 4 July 2018 (PDS).

The Fund did not have any employees during the period, however Sunizo, LLC, a wholly-owned subsidiary of the REIT, which manages the properties and is controlled by the Fund, 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 residential and commercial properties in Australia and the USA, together with a substantial investment in the 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 worked in the finance and accounting industry for more than 26 years, including 15 years as a partner at Jeena Limited, a Melbourne-based firm of Chartered Accountants that provided taxation, accounting and investment services to high-net wealth clients and families.

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DIRECTORS' REPORT (cont'd)

Directors (cont'd)

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

Summary

This financial report is for the twelve months ended 31 December 2018.

Overall, the Fund performed very well as indicated by the total return achieved of 24.38 cents per unit. This equated to an annual performance percentage return on adjusted net assets, as calculated by the performance fee mechanism outlined in the PDS, of 18.42% per annum.

The Fund's performance is derived from three components: net rental income, capital growth, and movements in the AUD:USD foreign currency exchange rate.

Net rental income improved on the previous year with management seeking to increase returns by charging more rent, and recovering more common area expenses with an initiative for most new and renewed leases to be on a NNN basis (i.e. recovering most, if not all of a property's outgoings).

Unlike previous periods, where capital gains contributed to a substantial portion of the total return, this year the portfolio achieved more modest growth of \$3,363,580 (2017: \$9,092,265). This was partly because in many, but not all, instances the manufactured capital gain from value-adding had already been achieved and recognised, meaning current and future growth will principally arise from net rental increases, generic market improvement, and favourable foreign exchange movements.

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DIRECTORS' REPORT (cont'd)

Review of Operations & Financial Results (cont'd)

The movement in the AUD:USD is the final component of performance. During the year the Fund benefited from a substantial fall in the value of the AUD:USD (recall that a falling AUD against the USD is of benefit because the REIT's assets are in USD, so a stronger USD will result in more AUD), so much so that all of the adverse foreign exchange movements that caused the 2017 return to be less than we had hoped, were recovered.

More information about the Fund's returns and its performance is included later in this report.

Applications & Redemptions

A total of \$7,537,290 of application money was received during the year, after deducting contribution fees. This resulted in the issue of 5,097,133 units. Under the distribution reinvestment plan a total of \$4,963,805 was reinvested during the period, resulting in the issue of 3,433,590 units.

The Fund opened for redemptions in September 2018 and redeemed 2,766,193 units in full at a redemption price of \$1.4195 per unit. This resulted in a payout of \$3,926,611.

Property Sales

The Fund, via its controlled entities, sold two properties.

18538 US Highway 19, Clearwater, FL was sold for USD765,000 on 17 May 2018, realising a gross capital gain for taxation purposes of USD232,587.

401 – 405 Powerhouse Street, McKinney, TX was sold for USD4,950,000 on 6 August 2018, realising a gross capital gain for taxation purposes of USD917,733.

Other Property Information

Pursuant to the Fund's Valuation Policy, the Fund rotated its appraisers by appointing Valbridge Property Advisors to appraise eleven properties. Capright reappraised twenty-one properties.

The property at 5636 Youngquist Road, Fort Myers, FL was subject to an arson attack that resulted in an insurance claim, the status of which is still in progress. It is not expected that the Fund will suffer any material financial loss from this matter.

Profit

The Fund's consolidated net operating profit before distributions attributable to Unitholders was \$3,787,215 (year ended 31 December 2017: Profit \$12,926,577). The lower profit is because capital growth was less than in the previous period, and because most of the foreign exchange gains sit in the Foreign Currency Translation Reserve (i.e. the balance sheet) and so are not reflected as profit at this time. The parent entity recorded a net operating loss of \$1,642,035 (year ended 31 December 2017: Net Profit \$1,460,894). This parent entity result was before consolidation of US operations.

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DIRECTORS' REPORT (cont'd)

Review of Operations & Financial Results (cont'd)

	Twelve Months Ended 31 December 2018		Twelve Months Ended 31 December 2017	
	\$	Cents Per Unit	\$	Cents Per Unit
Interim Distribution Paid	3,895,421	5.0*	3,726,760	5.0*
Final Distribution Payable	4,097,365	5.0*	3,809,140	5.0*
Total Distribution	7,992,786	10.0*	7,535,900	10.0*

*Gross of US withholding tax

The ex-distribution unit price as at 31 December 2018 was \$1.5530 (31 December 2017: \$1.4092). There is only one class of issued units, the rights and entitlements thereof are detailed in the PDS, and in the Fund's Constitution. For the twelve months ended 31 December 2018, Ozinus Realty, LLC – a US subsidiary, paid USD3,779,524 in dividends to the Fund (year ended 31 December 2017: USD3,363,701).

Fund Performance (Net Of Fees)

The Fund returns in cents per unit are as below:

	12 Months Ended 31 December 2018 (Cents Per Unit)	12 Months Ended 31 December 2017 (Cents Per Unit)	Since Inception 1 January 2013 (Cents Per Unit)
Capital growth (including effect of foreign exchange)	14.38	(3.32)	55.30
Cash Distribution	10.00*	10.00*	49.60*
Total Return	24.38*	6.68*	104.90*

*Gross of US withholding tax. Past performance is not a guarantee of future performance.,

Units on Issue

	Number As At 31 December 2018	Number As At 31 December 2017
Opening Balance	76,182,791	72,931,984
New units issued during the period under the capital raising	5,097,133	2,515,440
New units issued under the distribution reinvestment plan	3,433,590	3,305,016
Units redeemed under the redemption offer	(2,766,193)	(2,569,649)
Number of units on issue at period end	81,947,321	76,182,791

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DIRECTORS' REPORT (cont'd)

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:

	12 Months Ended 31 December 2018	12 Months Ended 31 December 2017
	\$	\$
Management fees	2,702,135	2,373,384
Other expense reimbursements	40,257	40,585
Total fees & reimbursements	2,742,392	2,413,969

Management fees increased because there were more funds under management. This occurred principally because of the increase in asset values arising from the depreciation of the AUD:USD.

Expense reimbursements relate to Fund costs that are paid for by the Responsible Entity and reimbursed by the Fund.

Performance Fee

Using the methodology outlined in the PDS, the performance fee and associated cumulative performance fee shortfall, if any, is:

	2018	2017	2016
Return	18.417%	4.213%	11.035%
Hurdle	12.000%	12.000%	12.000%
Surplus / (Shortfall) %	6.417%	(7.787%)	(0.965%)
Cumulative Shortfall \$	\$365,866	\$2,422,715	\$267,722

The cumulative shortfall must be made up before a future performance fee is payable.

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 2018, the Fund held cash in Australian Dollars (AUD) and United States Dollars (USD).

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DIRECTORS' REPORT (cont'd)

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:

	# Units Held At 31 December 2018	# Units Held At 31 December 2017
Stephen McKnight <i>(Director)</i> & Associated Parties	1,881,635	1,759,008
Plantation Capital Limited (PCL)	1,276,377	1,046,519
	<u>3,158,012</u>	<u>2,805,527</u>
	\$ Value Units Held At 31 December 2018	\$ Value Units Held At 31 December 2017
Stephen McKnight <i>(Director)</i> & Associated Parties	2,922,179	2,478,794
Plantation Capital Limited (PCL)	1,982,213	1,474,755
	<u>4,904,392</u>	<u>3,953,549</u>

*During the year PCL acquired all units held by PropertyInvesting.com Pty Ltd on an arm's length basis.

Likely Developments and Expected Results of Operations

A project is underway to identify and consider which properties, if any, should be targeted for sale based on their risk-to-return outlook. Unless suitable replacement assets can be found, the Director's plan to return the net sales proceeds to investors via redemption opportunities and special distributions.

The Fund expects to continue to operate in accordance with its investment policy as detailed in the PDS.

Significant Changes in State of Affairs

A special meeting of unitholders was held on 18 March 2018 where it was agreed:

1. To ratify the decision of the Directors of Plantation Capital Limited to wind up the REIT structure on or before 31 December 2028 and to wind up the Passive Income (USA Commercial Property) Fund on or before 31 December 2029 and return all capital to members; and
2. To ratify the decision of the Directors of Plantation Capital Limited to increase the limit on subscriptions to the Passive Income (USA Commercial Property) Fund to 100,000,000 issued units (not including reinvestment of distributions).

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DIRECTORS' REPORT (cont'd)

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

The REIT purchased 2200 Kings Highway, Port Charlotte, FL on 1 March 2019 for USD1,900,000. This property had an independently appraised value of USD2,650,000.

Environmental Regulation

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

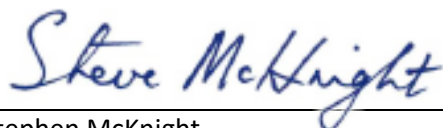
Indemnification and Insurance of Officers and Auditors

The Fund has entered into an insurance policy to indemnify all Directors and Officers of the Responsible Entity, against 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 current Insurance policy extends to April 2019.

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 13 March 2019.



Stephen McKnight
Chairman

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

13 March 2019

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 2018 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 2018, 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

DELOITTE TOUCHE TOHMATSU



Chester Hii
Partner
Chartered Accountants

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	Twelve Months To 31 December 2018 \$	Twelve Months To 31 December 2017 \$
Income			
Interest Income		9,413	4,570
Fair Value Gain On			
Investment Properties	1(h)	3,363,580	9,092,265
Rental Income		15,115,825	13,693,449
Realised Gain On Sale			
Of Property		377,228	-
Other Income		842,025	185,834
Total Income		19,708,071	22,976,118
Operating Expenses			
Accounting And Audit Fees		55,678	49,662
Responsible Entity's Fees	18	2,702,135	2,373,384
Compliance Costs		60,492	49,033
Custodian Fees		30,782	30,528
Insurance		29,518	27,058
Finance Costs		1,365,685	1,343,969
Legal And Due Diligence		68,740	81,032
Property Expenses		7,071,876	6,029,807
Realised Foreign Currency			
Loss		36,353	166,461
Other Operating Expenses		78,397	62,079
Total Operating Expenses		11,499,656	10,213,013
Operating Profit Before Tax		8,208,415	12,763,105
Tax (Expense)/ Credit	1(m)	(4,421,200)	163,472
Operating Profit After Tax		3,787,215	12,926,577
Other Comprehensive Income		-	-
Total Comprehensive Income		3,787,215	12,926,577

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

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

	Note	31 December 2018 \$	31 December 2017 \$
Current Assets			
Cash And Cash			
Equivalents	4	18,537,412	9,648,060
Sundry Debtors	5	170,409	211,081
Other Current Assets	6	786,909	530,582
Total Current Assets		19,494,730	10,389,723
Non-Current Assets			
Investment Properties	13	140,232,820	127,435,439
Equipment		52,780	52,706
Other Non-Current Assets	6	473,694	501,544
Total Non-Current Assets		140,759,294	127,989,689
Total Assets		160,254,024	138,379,412
Current Liabilities			
Provisions	8	28,264	28,504
Trade And Other			
Payables	9	3,691,656	2,358,651
Distributions Payable	12	3,631,102	3,449,737
Borrowings	10	1,534,410	1,875,826
Other Current Liabilities		938,353	139,360
Total Current Liabilities		9,823,785	7,852,078
Non-Current Liabilities			
Borrowings	10	23,169,782	23,169,217
Deferred Tax Liability	11	11,795,406	7,838,607
Total Non-Current Liabilities		34,965,188	31,007,824
Total Liabilities		44,788,973	38,859,902
Net Assets		115,465,051	99,519,510
Net Assets Attributable To Unitholders			
Unitholders' Funds	17	94,527,205	85,952,721
Retained Earnings		237,012	4,442,583
Foreign Currency			
Reserve Account		20,700,834	9,124,206
Total Net Assets Attributable To Unitholders		115,465,051	99,519,510

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 2018**

31 December 2018 Consolidated Entity	Note	Unitholders' Funds \$	Retained Earnings \$	Foreign Currency Reserves \$	Total Equity \$
Total Comprehensive Income For The Year		-	3,787,215	-	3,787,215
Transactions With Unitholders In Their Capacity As Unitholders:					
Balance At 31 December 2017		85,952,721	4,442,583	9,124,206	99,519,510
Foreign Currency Reserve		-	-	11,576,628	11,576,628
Distributions	12	-	(7,992,786)	-	(7,992,786)
Units Issued*	17	12,501,095	-	-	12,501,095
Units Redeemed	17	(3,926,611)	-	-	(3,926,611)
Total Transactions With Unitholders In Their Capacity As Unitholders		8,574,484	(7,992,786)	11,576,628	12,158,326
Balance As At 31 December 2018		94,527,205	237,012	20,700,834	115,465,051

31 December 2017 Consolidated Entity	Note	Unitholders' Funds \$	Retained Earnings \$	Foreign Currency Reserves \$	Total Equity \$
Total Comprehensive Income For The Year		-	12,926,577	-	12,926,577
Transactions With Unitholders In Their Capacity As Unitholders:					
Balance At 31 December 2016		81,013,865	(948,094)	17,431,979	97,497,750
Foreign Currency Reserve		-	-	(8,307,773)	(8,307,773)
Distributions	12	-	(7,535,900)	-	(7,535,900)
Units Issued*	17	8,272,976	-	-	8,272,976
Units Redeemed	17	(3,334,120)	-	-	(3,334,120)
Total Transactions With Unitholders In Their Capacity As Unitholders		4,938,856	(7,535,900)	(8,307,773)	(10,904,817)
Balance As At 31 December 2017		85,952,721	4,442,583	9,124,206	99,519,510

* Applications And Reinvestments

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

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	<u>Note</u>	<u>Twelve Months To 31 December 2018 \$</u>	<u>Twelve Months To 31 December 2017 \$</u>
Cash Flows From			
Operating Activities			
Receipts From Customers		14,900,170	13,748,189
Payments To Suppliers		(5,764,213)	(6,355,216)
Management Fee		(2,666,047)	(2,361,828)
Interest Received		9,413	4,570
Interest Paid		(1,337,835)	(1,224,457)
Other Income		842,025	185,834
Net Cash Provided By			
Operating Activities	14	<u>5,983,513</u>	<u>3,997,092</u>
Cash Flows From			
Investing Activities			
Purchase Of Investment			
Properties		-	(5,605,983)
Sale Of Investment			
Properties		<u>6,511,614</u>	<u>-</u>
Net Cash From Investing			
Activities		<u>6,511,614</u>	<u>(5,605,983)</u>
Cash Flows From			
Financing Activities			
Repayment Of Borrowings		(3,036,157)	(32,839)
Applications Received			
From Unitholders		7,537,290	3,575,235
Redemptions Paid			
To Unitholders		(3,926,611)	(3,334,120)
Distributions Paid*		<u>(2,847,616)</u>	<u>(2,821,822)</u>
Net Cash From Financing			
Activities		<u>(2,273,094)</u>	<u>(2,613,546)</u>
Net Increase / (Decrease) In			
Cash And Cash Equivalents		10,222,033	(4,222,437)
Cash At Beginning Of The			
Financial Year		9,648,060	16,501,951
Effect Of Exchange Rate On			
Cash And Cash Equivalents		<u>(1,332,681)</u>	<u>(2,631,454)</u>
Cash At The End Of The			
Financial Year	4	<u>18,537,412</u>	<u>9,648,060</u>

* During the year distributions totalling \$4,963,805 (2017: \$4,697,742) were reinvested by unitholders.

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

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 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 this 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 objective is to generate passive income and growth returns via its controlling interest in the REIT in accordance with the objectives disclosed in the PDS.

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.

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

(b) Principles Of Consolidation (cont'd)

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.

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

(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.

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

(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. The Responsible Entity uses this for day to day management of the Fund's cash requirements.

(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.

External, independent appraisers, having an appropriate recognised professional qualification and relevant experience in the location and category of property, value the REIT's property portfolio in accordance with the Responsible Entity's valuation policy. External valuations are taken into consideration when determining fair value. Recent transactions for similar assets and investors required return (property capitalisation rate) are considered when adopting a valuation. 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, ignoring transaction costs. Any gain or loss is recognised in the income statement.

(i) Interest Bearing Liabilities

Interest bearing liabilities are initially recognised at fair value and subsequently at amortised cost. Any difference between the proceeds (net of transaction costs) and 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 balance 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.

(j) Financial Instruments

Loans and Receivables

Loans and receivables are financial assets held in a business model where the objective is to hold the assets in order to collect contractual cashflows. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured either at amortised cost using the effective interest method, fair value through other comprehensive income or fair value through profit or loss. Measurement methods are selected depending on the Fund's business model for managing financial assets and contractual cash flow characteristics of the financial asset. All loans and receivables are measured at amortised cost.

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

(j) Financial Instruments (cont'd)

A simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses is used for trade receivables and lease receivables. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but no future credit losses.

The calculation of the effective interest rate includes all fees paid or received are an integral part of the effective interest rate. The transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

Loans and receivables comprise trade and other receivables.

Financial Liabilities

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

Non- derivative financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(k) Provisions (Liabilities)

Provisions are recognised when there is a present obligation from past events and it is probable that an outflow of resources will be required to settle the obligation when it can be reliably estimated.

(l) Unitholder Funds

Units issued by the Fund are redeemable at the option of the unit holder ("puttable") per the procedure outlined in the PDS dated 4 July 2018. 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.

(m) Distributions And Taxation

Under current Australian income tax legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its Unitholders. The Fund's constitution requires that all taxable income be attributed to Unitholders each year.

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

(m) Distributions And Taxation (cont'd)

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 tax on that portion of taxable income which is distributed to shareholders, provided 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 of property 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 upon distribution. A deferred tax liability is recognised at 26% (including a 5% Branch Profits tax on liquidating distributions or capital gains dividends) of the temporary difference between the carrying amount of the assets and their US tax cost bases. A current tax liability will be recognised for any realised taxable gain upon disposal of US investment properties if included in the dividends.

Section 9 of the PDS provides a summary of the Australian and US taxation laws and expected taxation treatment of the various returns in the hands of the REIT, the Fund and its investors (including how investors may be able to claim Foreign Income Tax Offsets for any tax paid on their behalf).

(n) Determination Of Application And Redemption Prices

Application and redemption prices are determined by the value of net tangible assets attributable to Unitholders, (redemption price reached after adjusting for estimated transaction costs), divided by the number of units on issue.

(o) Goods And Services Tax (GST)

Management fees and other expenses are recognised net of goods and services tax (GST), adjusted for reduced input tax credits as applicable, recoverable from the Australian Taxation Office (ATO). The net amount of GST recoverable from, or payable to, the ATO is included in the statement of financial position.

(p) Foreign Currencies

Functional and presentation currency

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

Transactions and balances

Transactions in foreign currencies are translated into functional currency at the rate of exchange at the date of the transaction. Foreign currency monetary items that are outstanding at reporting date (other than monetary items arising under foreign currency contracts where 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.

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

(p) Foreign Currencies (cont'd)

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 are translated at the closing rate at balance date
- income and expenses in the income statement are translated at average exchange rates
- all resulting exchange differences are recognised as a separate component of Unitholders' Funds under a 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.

(q) New Accounting Standards For Application In Future Periods

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for current and future reporting periods.

The Responsible Entity has assessed the impact of the new and revised standards that are relevant to the scheme. The impact of adopted new or revised Standards and Interpretations is discussed below.

New and revised IFRSs in issue but not yet effective:

At the date of authorisation of the financial statements, the Fund has not early adopted the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

Reference	Title	Applicable for Reporting Periods Beginning on or After
AASB 16	Leases	1 January 2019

AASB 16 Leases

Under AASB16 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 the 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 AASB16 is adopted.

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

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

Management has performed an assessment of this standard and established that the only item which requires reporting as a right to use asset and obligation to pay a liability, relates to Sunizo LLC's rental premises. Management has decided not to early adopt this standard as part of the financial statements. Management has assessed the impact to be immaterial to the financial statements.

Amendments to Accounting Standards that are mandatorily effective for the current reporting period:

AASB 9 Financial Instruments

In the current year, the Fund has applied AASB 9 Financial Instruments (as revised) and the related consequential amendments to other Accounting Standards in accordance with the transition provisions set out in AASB 9.

AASB 9 which replaced AASB 139 addresses the classification, measurement and de-recognition of financial assets and liabilities and has introduced revised rules around hedge accounting and impairment.

The investments were reported at fair value and any gains/(losses) recognised through profit and loss meaning reporting is already in compliance with requirements of AASB 9. Receivables have been assessed for impairment under the new expected credit loss model. However since receivables are short term and usually settled in a month, the changes did not have a material impact.

The Directors reviewed and assessed the financial instruments as at the reporting date, and have concluded that the initial application of AASB 9 had no material impact on the financial position and/or financial performance of the Fund for the current period or prior years.

AASB 15 Revenue from Contracts with Customers

The Fund has applied AASB 15 Revenue from Contracts with Customers (as amended) for the first time for the financial year ended 31 December 2018. AASB 15 introduces a five step approach to revenue recognition. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. AASB 15 provides (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 previous accounting pronouncements on revenue.

The application of AASB 15 had no material impact on the financial position and/or financial performance of the Fund for the current period or prior years.

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NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Fund makes certain estimates and assumptions, which could have a material impact on the assets and liabilities in the financial period. These are discussed below:

Income Tax

Under current legislation the Fund is not subject to income tax as its taxable income is distributed fully to Unitholders. Continued consistent treatment by the ATO is assumed.

Investment Property

Critical judgements are made by the Responsible Entity in respect of fair values of investment properties. These are reviewed every six months with reference to the property's purchase price, capital expenditure during the period and external independent property appraiser's report, excluding 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 Risk | (e) Credit Risk | (f) Interest Rate Risk |

The Board of Directors of the Responsible Entity has the overall responsibility for identifying and managing operational and financial risks. The Fund held the following financial instruments at balance date:

	31 December 2018	31 December 2017
	\$	\$
Financial Assets		
Cash and Cash Equivalents	18,537,412	9,648,060
Sundry Debtors	170,409	211,081
Prepayments	450,690	390,012
Borrowing Costs	502,845	524,205
Other Financial Assets	307,068	117,909
	19,968,424	10,891,267
Financial Liabilities		
(excluding net assets attributable to Unitholders)		
Payables and Other Financial Liabilities	4,658,273	2,526,515
Distributions Payable	3,631,102	3,449,737
Vendor Loans	3,177,004	5,609,477
Long Term Loans	21,396,205	19,317,310
USA REIT Funding	130,983	118,256
	32,993,567	31,021,295

These accompanying notes form part of these financial statements

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

(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 change in market price (except that arising from interest rate 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 with changing exchange rates. The Fund, via its controlled entities, invests in financial instruments denominated primarily in US Dollars (USD). 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:

	31 December 2018		31 December 2017	
	\$		\$	
	\$	% of net assets	\$	% of net assets
Cash Held In USD	15,764,925	13.65%	6,660,319	6.69%

	31 December 2018		31 December 2017	
	\$		\$	
	Year End	Average	Year End	Average
AUD:USD exchange rates	0.7062	0.7475	0.7822	0.7669

Market Derivatives

The Fund may utilise forward exchange contracts to mitigate foreign currency risk for transactions undertaken in foreign currencies. At balance date there were no outstanding forward contracts.

Sensitivity

If foreign exchange rates were to increase/decrease by 10% from rates 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:

	31 December 2018		31 December 2017	
	\$		\$	
	+10%	-10%	+10%	-10%
Impact on profit allocated to Unitholders	(980,701)	1,197,018	(1,433,441)	1,752,033
Impact on net assets attributable to Unitholders	(11,564,949)	14,134,133	(9,817,260)	11,998,255

These accompanying notes form part of these financial statements

**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)

(c) Liquidity Risk

Given the Fund invests, albeit indirectly, in real estate, which is an illiquid asset, there is no guarantee that the Responsible Entity will be able to honour every redemption request in full. There is also a risk that the Fund will be unable to meet these requests in a timely manner or that they may be scaled back. In the event the Fund is wound up and required to dispose assets, the Fund may not be able to realise sufficient assets in a timely manner or at an optimal price.

This may affect the Responsible Entity's ability to return capital to Unitholders. The liquidity risk associated with redemptions is managed by the redemption policy as disclosed on the website. The Responsible Entity manages this risk by ensuring there are sufficient liquid assets to meet operating debt and other obligations. For instance, the Responsible Entity permits borrowings of up to 60% of a property's value so long as the total loan-to-valuation ratio across the portfolio remains at 40% or less (based on fair market value).

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 2018

	< 1 Year \$'000	1-5 Years \$'000	> 5 Years \$'000	Carrying Amount \$'000
Liabilities				
Trade & Other Payables	(3,692)	-	-	(3,692)
Distributions Payable	(3,631)	-	-	(3,631)
Borrowings	(1,534)	(1,643)	(21,527)	(24,704)
Other Financial Liabilities	(967)	-	-	(967)
	(9,824)	(1,643)	(21,527)	(32,994)

31 December 2017

	< 1 Year \$'000	1-5 Years \$'000	> 5 Years \$'000	Carrying Amount \$'000
Liabilities				
Trade & Other Payables	(2,359)	-	-	(2,359)
Distributions Payable	(3,450)	-	-	(3,450)
Borrowings	(1,876)	(3,734)	(19,435)	(25,045)
Other Financial Liabilities	(167)	-	-	(167)
	(7,852)	(3,734)	(19,435)	(31,021)

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. As the units satisfy all relevant criteria for recognition as puttable financial instruments under AASB 132, Unitholders' Funds are classified as equity (rather than financial liabilities). Consequently, the liquidity risk disclosures do not include contractual or expected cash flow information in respect of the units.

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

(d) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to meet contractual obligations. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of financial assets and liabilities as they are marked to market. The total credit risk for 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 assets and liabilities measured and recognised at fair value have been determined using the following fair value measurement hierarchy:

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

Due to the short term nature of settlement, carrying amounts of trade and other receivables, trade and other payables, and distributions payable are approximate fair values.

Fair value of investment properties disclosed in Note 13 have been determined using Level 3 inputs.

Fair Value Measurement At 31 December 2018				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets At Fair Value Through Profit and Loss				
Investment Properties	-	-	140,232,820	140,232,820
Fair Value Measurement At 31 December 2017				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets At Fair Value Through Profit and Loss				
Investment Properties	-	-	127,435,439	127,435,439

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

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

	Reconciliation Of Level 3 Fair Value Instruments	
	31 December 2018	31 December 2017
	\$	\$
Investment Properties		
Opening Balance	127,435,439	120,739,305
Gains/(Losses)		
In Profit and Loss - Unrealised	3,363,580	9,092,265
In Profit and Loss - Realised	377,228	-
Purchases/ Capital Expenditure	3,419,643	7,027,796
Sale of Properties	(8,274,156)	-
Foreign Exchange Impact	13,911,086	(9,423,927)
Closing Balance	140,232,820	127,435,439

Valuation Techniques Used	Inputs Used To Measure Fair Value	FV Sensitivity To Increase In Inputs	FV Sensitivity To Decrease In Inputs
	Projected net	Increase	Decrease
Income capitalisation & sales comparison approach	operating income per management		
	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 capitalisation analysis. 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 in accordance with the Fund's valuation policy.

(f) Interest Rate Risk

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

31 December 2018	Interest Bearing \$'000	Non-Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
Financial Assets					
Cash & Cash Equivalents	18,537	-	18,537	0.0%	Variable
Sundry Debtors	-	170	170		
Other Financial Assets	-	1,261	1,261		
Total Financial Assets	18,537	1,431	19,968		

These accompanying notes form part of these financial statements

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)

(f) Interest Rate Risk (cont'd)

31 December 2018	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
Financial Liabilities					
Trade Creditors	-	(3,692)	(3,692)		
Distribution Payable		(3,631)	(3,631)		
USA REIT Funding	(131)		(131)		
Borrowings	(24,573)	-	(24,573)	4.88%	Fixed
Other Liabilities	-	(967)	(967)		
Total Financial Liabilities	(24,704)	(8,290)	(32,994)		
Net Financial Assets	(6,167)	(6,859)	(13,026)		
31 December 2017	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
Financial Assets					
Cash & Cash Equivalents	9,648	-	9,648	0.0%	Variable
Sundry Debtors	-	211	211		
Other Financial Assets	-	1,032	1,032		
Total Financial Assets	9,648	1,243	10,891		
Financial Liabilities					
Trade Creditors	-	(2,359)	(2,359)		
Distribution Payable		(3,450)	(3,450)		
USA REIT Funding	(118)		(118)		
Borrowings	(24,927)	-	(24,927)	4.85%	Fixed
Other Liabilities	-	(167)	(167)		
Total Financial Liabilities	(25,045)	(5,976)	(31,021)		
Net Financial Assets	(15,397)	(4,733)	(20,130)		

Sensitivity

The impact of an increase or decrease in interest rates by 100 basis points (a decrease would mean effective interest rate is zero) is as follows:

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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 (cont'd)

	31 December 2018		31 December 2017	
	\$		\$	
	+100bps	-100bps	+100bps	-100bps
Impact on profit before finance costs allocated to Unitholders	185,374	-	96,481	-
Impact on net assets attributable to Unitholders	185,374	-	96,481	-
	31 December 2018		31 December 2017	
	\$		\$	

NOTE 4: CASH AND CASH EQUIVALENTS

Cash in bank Australian accounts AUD	2,772,487	2,987,741
Cash in bank Australian accounts USD	1,087,884	1,133
Cash in bank US accounts USD	14,677,041	6,659,186
	18,537,412	9,648,060

NOTE 5: SUNDRY DEBTORS

GST Refund	66,179	66,430
Rent Receivable	104,230	144,651
	170,409	211,081

NOTE 6: OTHER ASSETS

Current Assets

Security Deposits	73,052	70,353
Prepaid Insurance	398,881	354,335
Prepaid Expenses	51,809	35,677
Borrowing Costs	77,773	70,217
Other Current Assets	185,394	-
	786,909	530,582

Non-Current Assets

Borrowing Costs	425,072	453,988
Office Set-Up Costs	48,622	47,556
	473,694	501,544

Borrowing costs totalling \$502,845 relating to the US\$15.11m refinance are being amortised over 10 years.

These accompanying notes form part of these financial statements

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	31 December 2018	31 December 2017		
	\$	\$		
NOTE 7: AUDITORS REMUNERATION				
Amounts paid and payable to the auditors	55,678	49,662		
NOTE 8: PROVISIONS				
Provision for Audit Fees	28,264	28,504		
NOTE 9: TRADE AND OTHER PAYABLES				
Trade Creditors	2,424,963	943,796		
Accrued Property Taxes	150,773	346,744		
Security Deposits Held	1,115,920	1,068,111		
	3,691,656	2,358,651		
NOTE 10: BORROWINGS				
Current Borrowings				
Due within 12 months	1,534,410	1,875,826		
Non-Current Borrowings				
USA REIT Funding	130,983	118,256		
Long Term Loans				
(excluding current)	23,038,799	23,050,961		
	23,169,782	23,169,217		
Total Borrowings	24,704,192	25,045,043		
Specifics Of Loan	AUD	USD	AUD	AUD
	(‘000)	(‘000)	(‘000)	(‘000)
<i>1671 Riverview Drive, Lewisville, TX</i>				
4.0% pa, due Dec 2018				
(Repaid during the year at maturity)	-	-	1,841	1,440
<i>401 Powerhouse, McKinney, TX</i>				
6.0% pa, due Feb 2019*				
(Property sold during the year)	-	-	900	704
<i>2634 N. Orange Blossom Trail, FL</i>				
5.00% pa, due Mar 2019	1,110	784	1,002	784
<i>830 NE 24th Lane, Cape Coral, FL</i>				
4.25% pa, due Apr 2019	425	300	384	300

These accompanying notes form part of these financial statements

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	31 December 2018		31 December 2017	
	\$		\$	
NOTE 10: BORROWINGS (cont'd)				
Specifics Of Loan (cont'd)	AUD	USD	AUD	AUD
	('000)	('000)	('000)	('000)
<i>13584 49th St Nth, Clearwater, FL</i>				
5.0% pa due Apr 2023	1,642	1,160	1,483	1,160
<i>Long Term Borrowings - Refinance</i>				
7 properties, 5.145% pa due Jun 2025	16,298	11,510	14,715	11,510
<i>400 Technology Parkway, GA</i>				
4.5% pa, due Jan 2026	5,098	3,600	4,602	3,600
<i>USA REIT Funding</i>				
12.5% pa, no maturity	131	92	118	92
Total Borrowings	24,704	17,446	25,045	19,590
* Principal and interest loan (all other borrowings are interest only)				
	31 December 2018		31 December 2017	
	\$		\$	
NOTE 11: DEFERRED TAX LIABILITY				
Opening Balance	7,838,607		8,095,517	
Movement From Change In Fair Value Of Properties*	3,113,221		363,036	
Foreign Exchange Impact	843,578		(619,946)	
Closing Balance	11,795,406		7,838,607	
* Includes the impact of a 5% US Branch Profits Tax (see Note 1(m))				
NOTE 12: DISTRIBUTIONS				
Interim	3,895,421		3,726,760	
Final	4,097,365		3,809,140	
	7,992,786		7,535,900	
Payable At Period End	3,631,102		3,449,737	

These accompanying notes form part of these financial statements

**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 2018**

	31 December 2018		31 December 2017	
NOTE 13: INVESTMENT PROPERTIES (AT FAIR VALUE)	AUD	USD	AUD	USD
Texas Properties				
1671 Riverview Dve, Lewisville	6,244,690	4,410,000	5,522,884	4,320,000
401 Powerhouse, McKinney	-	-	5,976,732	4,675,000
1205 Texas Parkway, Euless	7,193,430	5,080,000	6,392,227	5,000,000
Total Texas Property	13,438,120	9,490,000	17,891,843	13,995,000
Georgia Properties				
6620 Tara Blvd, Jonesboro	6,527,896	4,610,000	6,775,761	5,300,000
6205/15 Shiloh Crossing, Alpharetta	10,053,809	7,100,000	8,437,740	6,600,000
1461 HWY 20 W, McDonough	7,080,147	5,000,000	6,264,383	4,900,000
2081 Jonesboro Rd, McDonough	5,805,721	4,100,000	5,497,315	4,300,000
270 Scientific Drive, Norcross	7,108,468	5,020,000	6,200,460	4,850,000
358 McDonough Pkway, McDonough	1,656,754	1,170,000	1,291,230	1,010,000
2192 Eastview Parkway, Conyers	3,412,631	2,410,000	3,017,131	2,360,000
400 Tech Pkway, Peachtree Corners	11,328,236	8,000,000	9,907,952	7,750,000
350 Tech Pkway, Peachtree Corners	7,080,147	5,000,000	6,878,036	5,380,000
6564 Tara Blvd, Jonesboro	3,171,906	2,240,000	869,343	680,000
Total Georgia Property	63,225,715	44,650,000	55,139,351	43,130,000
Florida Properties				
3350 Hanson St, Fort Myers	1,939,960	1,370,000	1,687,548	1,320,000
13584 49th St Nth, Clearwater	5,451,713	3,850,000	4,941,192	3,865,000
4700 110th Ave Nth, Pinellas Park	2,336,449	1,650,000	1,994,375	1,560,000
2853 Work Dve, Fort Myers	4,941,943	3,490,000	4,218,870	3,300,000
2148 Fowler St, Fort Myers	1,883,319	1,330,000	1,636,410	1,280,000
1408 Hamlin & 2013 Murcott, St Cloud	4,106,485	2,900,000	3,707,492	2,900,000
1904 Oak Grove Blvd, Lutz	6,796,941	4,800,000	5,062,644	3,960,000
5250 Giron Circle, Kissimmee	3,483,432	2,460,000	2,940,424	2,300,000
720 S. Dixie Fwy, New Smyrna Beach	3,879,921	2,740,000	3,669,138	2,870,000
2634 N. Orange Blossom Trail	3,440,952	2,430,000	3,004,347	2,350,000
5961 Northland Rd, Fort Myers	1,883,319	1,330,000	1,649,195	1,290,000
16151 Pine Ridge Rd, Fort Myers	1,869,159	1,320,000	1,240,092	970,000
830 NE 24th Lane, Cape Coral	2,548,853	1,800,000	2,173,357	1,700,000
12050 49th St Nth, Clearwater	7,136,788	5,040,000	6,072,616	4,750,000
2621 NE 9th Ave, Cape Coral	1,755,877	1,240,000	1,342,368	1,050,000
1221 SE 9th Ter, Cape Coral	1,486,831	1,050,000	1,278,445	1,000,000
1013 SE 12th Avenue, Cape Coral	1,359,388	960,000	1,041,933	815,000
18538 US Hwy 19, Clearwater	-	-	811,813	635,000
932 NE 24th Lane, Cape Coral	1,585,953	1,120,000	1,240,092	970,000
5636 Youngquist Rd, Fort Myers	1,008,805	712,417	894,911	700,000
5760 Youngquist Rd, Fort Myers	1,585,953	1,120,000	1,240,092	970,000
3419 Westview Drive, Naples	3,086,944	2,180,000	2,556,891	2,000,000
Total Florida Property	63,568,985	44,892,417	54,404,245	42,555,000
Total Property	140,232,820	99,032,417	127,435,439	99,680,000

These accompanying notes form part of these financial statements

**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 2018**

	31 December 2018	31 December 2017
	\$	\$
NOTE 14: CASH FLOW INFORMATION		
Reconciliation of net cash provided by operating activities to net operating profit		
Net Operating Profit	3,787,215	12,926,577
Add / (Less) Non-Cash Items:		
Foreign Currency Loss	36,353	166,461
Unrealised Revaluation Gains	(3,363,580)	(9,092,265)
Realised Gains	(377,228)	-
(Increase) / Decrease In Sundry Debtors	40,672	(7,206)
(Increase) / Decrease In Other Current Assets	(228,477)	181,458
Increase / (Decrease) In Trade Payables and Other Liabilities	2,131,999	(9,177)
Increase / (Decrease) In Deferred Tax Liability	3,956,799	(163,472)
Decrease In Provisions	(240)	(5,284)
Net Cash Provided By Operating Activities	<u>5,983,513</u>	<u>3,997,092</u>

NOTE 15: PARENT ENTITY INFORMATION

(a) Parent Entity

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

	12 Months Ended 31 December 2018	12 Months Ended 31 December 2017
	\$	\$
(b) Financial Information		
Income Statement Information		
Net profit attributable to Unitholders of the parent entity	<u>2,314,764</u>	<u>1,460,894</u>
Comprehensive Income Information		
Total comprehensive income attributable to Unitholders of the parent entity	<u>2,314,764</u>	<u>1,460,894</u>
Statement of Financial Position Information		
Current Assets	6,587,548	3,455,402
Non-Current Assets	61,454,583	61,454,583
Current Liabilities	(3,950,320)	(3,714,636)
Net Assets	<u>64,091,811</u>	<u>61,195,349</u>

These accompanying notes form part of these financial statements

**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 2018**

	12 Months Ended 31 December 2018 \$	12 Months Ended 31 December 2017 \$
NOTE 15: PARENT ENTITY INFORMATION (cont'd)		
Statement of Financial Position Information (cont'd)		
Unitholders Funds	94,725,670	86,151,187
Undistributed Profits	(30,633,859)	(24,955,838)
Total Equity	<u>64,091,811</u>	<u>61,195,349</u>

NOTE 16: CONTROLLED ENTITIES

	Country of Incorporation	% Owned
Entities 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%
Ozinus Palmetto Grove, LLC (acquired 15 August 2013)	USA	100%
Ozinus Rams Plaza, LLC (acquired 9 September 2013)	USA	100%
Ozinus Hamlin, LLC (acquired 8 October 2013)	USA	100%
Ozinus Eagle Plaza, LLC (acquired 3 December 2013)	USA	100%
Ozinus Giron, LLC (acquired 13 December 2013)	USA	100%
Ozinus Riverview Drive, LLC (acquired 26 December 2013)	USA	100%
Ozinus Powerhouse, LLC (acquired 6 February 2014)	USA	100%
Ozinus NSB, LLC (acquired 14 February 2014)	USA	100%
Ozinus Orange Blossom, LLC (acquired 7 March 2014)	USA	100%
Ozinus Northland, LLC (acquired 4 April 2014)	USA	100%
Ozinus Pine Ridge, LLC (acquired 15 April 2014)	USA	100%

These accompanying notes form part of these financial statements

**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 2018**

NOTE 16: CONTROLLED ENTITIES (cont'd)

	Country of Incorporation	% Owned
Ozinus Cape Coral 830CC, LLC (acquired 30 April 2014)	USA	100%
Ozinus Shops of Tara, LLC (acquired 1 May 2014)	USA	100%
Ozinus Pitney, LLC (acquired 23 June 2014)	USA	100%
Ozinus NE 9th CC, LLC (acquired 27 June 2014)	USA	100%
Ozinus SE 9-CC, LLC (acquired 11 July 2014)	USA	100%
Ozinus Texas Star, LLC (acquired 16 July 2014)	USA	100%
Ozinus Shiloh, LLC (acquired 23 July 2014)	USA	100%
Ozinus 1013 SE12-CC, LLC (acquired 24 September 2014)	USA	100%
Ozinus US 19N, LLC (acquired 29 September 2014)	USA	100%
Ozinus 932NE24-CC, LLC (acquired 30 September 2014)	USA	100%
Ozinus McDonough, LLC (acquired 30 December 2014)	USA	100%
Ozinus Jonesboro Towne Cr, LLC (acquired 18 May 2015)	USA	100%
Ozinus Scientific, LLC (acquired 12 June 2015)	USA	100%
Ozinus 5636 Youngquist, LLC (acquired 15 July 2015)	USA	100%
Ozinus 5760 Youngquist, LLC (acquired 15 July 2015)	USA	100%
Ozinus 358 McDonough, LLC (acquired 24 July 2015)	USA	100%
Ozinus Westview, LLC (acquired 31 August 2015)	USA	100%
Ozinus 2192 Parkway, LLC (acquired 1 October 2015)	USA	100%
Ozinus Westlake, LLC (acquired 18 December 2015)	USA	100%
Ozinus 350Tech, LLC (acquired 19 December 2016)	USA	100%
Ozinus 6564 Tara, LLC (acquired 13 April 2017)	USA	100%
Sunizo, LLC (acquired 30 March 2015)	USA	100%

These accompanying notes form part of these financial statements

**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 2018**

	31 December 2018	31 December 2017
	\$	\$
NOTE 17: UNITHOLDERS' FUNDS		
Opening Balance	85,952,721	81,013,865
Applications	7,537,290	3,575,234
Distributions Reinvested	4,963,805	4,697,742
	12,501,095	8,272,976
Redemptions	(3,926,611)	(3,334,120)
Net Movement During The Period	8,574,484	4,938,856
Closing Balance	94,527,205	85,952,721

The Fund's redemption policies are disclosed in Note 1(o), and in the PDS. The amount of net assets attributable to Unitholders can change on a monthly basis.

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

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 \$22,580 for providing compliance services for twelve months to 31 December 2018.

	12 Months Ended 31 December 2018	12 Months Ended 31 December 2017
	\$	\$
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:		
Management Fees	2,702,135	2,373,384
Total Fees To The Responsible Entity	2,702,135	2,373,384
Other Expense Reimbursements	40,257	40,585
Total Fees & Reimbursements	2,742,392	2,413,969

Fees paid to the Responsible Entity are pursuant to the disclosures made in the PDS.

These accompanying notes form part of these financial statements

**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 2018**

NOTE 18: RELATED PARTY TRANSACTIONS (cont'd)

Related Party Investments Held By the Fund

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

Except as noted above, none of the Directors, or Director related entities held units in the Fund, directly, indirectly or beneficially. Responsible Entity or its Director-related entities may invest in or withdraw from the Fund on the same terms and conditions as applicable to other Fund investors.

Units In The Fund Held By Related Parties

	# Units Held At 31 December 2018	# Units Held At 31 December 2017
Stephen McKnight (<i>Director</i>) & Associated Parties	1,881,635	1,759,008
Plantation Capital Limited (PCL)	1,276,377	1,046,519
	<u>3,158,012</u>	<u>2,805,527</u>
	\$ Units Held At 31 December 2018	\$ Units Held At 31 December 2017
Stephen McKnight (<i>Director</i>) & Associated Parties	2,922,179	2,478,794
Plantation Capital Limited (PCL)	1,982,213	1,474,755
	<u>4,904,392</u>	<u>3,953,549</u>

*During the year PCL acquired all units held by PropertyInvesting.com Pty Ltd on an arm's length basis.

NOTE 19: SUBSEQUENT EVENTS

The REIT purchased 2200 Kings Highway, Port Charlotte, FL on 1 March 2019 for USD1,900,000. This property had an independently appraised value of USD2,650,000.

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
P: 03 8892 3800 F: 03 8892 3811
www.passiveincomefund.com
admin@passiveincomefund.com

These accompanying notes form part of these financial statements

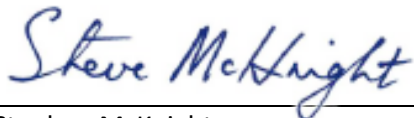
**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
AND CONTROLLED ENTITIES
ARSN: 155 770 095**

DIRECTOR'S DECLARATION

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 9 to 34, 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 2018 and of its performance, as represented by the results of its operations and its cash flows for the financial year 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.



Stephen McKnight

Director

Melbourne: 13 March 2019

Independent Auditor's Report to the Unitholders of Passive Income (USA Commercial Property) Fund and its controlled entities

Opinion

We have audited the financial report of Passive Income (USA Commercial Property) Fund and its controlled entities (the "Group") which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in net assets attributable to unitholders for the year then ended and the consolidated statement of cash flows 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 Plantation Capital Limited ("Responsible Entity").

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2018 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 Group 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 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.

Other Information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the Director's Report included in the Group's financial report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report 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 report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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.

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 either intend to liquidate the Group 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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
DELOITTE TOUCHE TOHMATSU



Chester Hii
Partner
Chartered Accountants
Melbourne, 13 March 2019