

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

ARSN 155 770 095

**FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022**

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
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**FINANCIAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2022**

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**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
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DIRECTORS' REPORT

The Directors of Plantation Capital Limited, 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 2022. 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 (US REIT) that owns a diversified portfolio of commercial properties located in the United States of America (USA).

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 USA-based subsidiary of the US REIT that manages the Fund's properties, had 6 employees (2021: 7).

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 a recognised authority 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 commercial properties in Australia, in addition to 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

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

Paul has worked in the finance and accounting industry for more than 27 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)

Paul has been a director since the inception of the Fund and visited the US operations periodically. More recently Paul has been working with Steve on creating a new managed investment scheme – the Strategic Opportunities (Growth & Income) Fund – which is scheduled for launch in early July 2023.

Paul has a Masters in Entrepreneurship and Innovation and a Bachelor of Business (Accounting).

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.

Keith has been a director since the inception of the Fund.

Review of Operations & Financial Results

It was a very pleasing year for the Fund. Based on the formula used to calculate the Responsible Entity's performance fee, the annual return was 41.17%. After all fees the return to investors was 40.22 cents per unit.

A more detailed review of operations and the financial results thereof is as follows:

Going Concern Basis

As the Fund has begun winding up it is no longer considered a going concern as defined by AASB 101. This is an accounting definition only. There is no material change in the application of accounting policies, including recognition, measurement and fair market value assumptions. Furthermore, there is no question about the Fund being able to meet its debt requirements or make capital returns to investors as the US REIT's property portfolio is sold.

COVID 19

The COVID-19 pandemic had a negligible impact on operations. Staff have flexible work arrangements and are able to work from the office, or their homes, as required.

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DIRECTORS' REPORT (cont'd)

Review of Operations & Financial Results (cont'd)

Profit

The Fund's consolidated net operating profit after tax, but before distributions, attributable to Unitholders for the year was \$18,566,279 (2021: \$5,562,799). The increase in the profit is primarily attributable to increases in fair market value and capital gains associated with independent appraisals and sales being higher than the carrying value of those properties.

The parent entity recorded a net operating profit (before consolidation of US operations) of \$6,713,513 (2021: \$4,397,986).

The Fund's performance is derived from three components: net rental income, capital growth, and movements in the AUD:USD foreign currency exchange rate. A summary of each component's contribution to overall profit is as follows:

Net Rental Income

While the US REIT owned fewer properties than the corresponding period, higher rents and favourable foreign exchange movements resulted in total rental income being on par with the prior year. Net rental income is expected to decline as more properties are sold.

Capital Gains

Capital gains comprise two components: movements in fair market value as a result of periodic revaluations, and sales prices when a property is sold that is above the carrying value of that asset. A summary of the components of capital gains is as follows:

	<u>2022</u>	<u>2021</u>
Movement in Fair Market Value from periodic revaluations	\$20,568,628	\$1,871,955
Capital gains from sales prices in excess of carrying values	\$5,352,601	\$1,930,883
Total	<u>\$25,921,229</u>	<u>\$3,802,838</u>

Fifteen properties were re-appraised by independent experts in 2022 (four in 2021). Appraisers and appraisals are conducted in accordance with the Fund's Valuation Policy, a copy of which is available at www.PassiveIncomeFund.com.

Foreign Exchange

The Fund's assets are predominantly held in US dollars, so a falling AUD:USD results in an unrealised gain to Unitholders, as the Fund's USD assets convert to comparatively more AUD assets.

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DIRECTORS' REPORT (cont'd)

Review of Operations & Financial Results (cont'd)

Profit (cont'd)

Foreign Exchange (cont'd)

	2022	2021
At Beginning Of The Year	0.7281	0.7716
At End of The Year	0.6815	0.7281
Movement	0.0466	0.0435
Movement %	6.40%	5.64%
At Date Of This Report	0.6601	0.7222

The rate disclosed above is the rate applicable on the Fund's foreign currency transactions, which is the wholesale bank rate, plus 10 basis points.

The realised portion of the foreign exchange movement is reflected in the Statement of Comprehensive Income. However the bulk of the gains from favourable exchange rate movements over the Fund's life are captured in the Foreign Currency Reserve Account in the Fund's Balance Sheet and flow through to the Fund's unit price. Such gains will become realised when USD assets are sold and the proceeds swapped back to Australian dollars for distribution to Unitholders.

Distributions

As shown in the table below, the Fund paid the following distributions (gross of US withholding tax) during the year:

	Twelve Months Ended 31 December 2022		Twelve Months Ended 31 December 2021	
	\$	Cents Per Unit	\$	Cents Per Unit
Interim Distributions Paid	11,843,674	15.00	4,748,312	6.00
Final Distribution Payable	9,128,173	13.00	7,721,150	10.00
Total Distribution	20,971,847	28.00	12,469,462	16.00

No distributions were reinvested by Unitholders as all distributions were paid out in cash with no reinvestments permitted (2021: \$3,174,254).

Applications & Redemptions

No application money was received as the Fund was closed to new and top-up investments. An amount of \$5.0m was allocated to the redemption offer in March 2022, of which \$2,652,131 was paid out (2021: \$5,670,930).

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DIRECTORS' REPORT (cont'd)

Review of Operations & Financial Results (cont'd)

Unit Price

The ex-distribution unit price as at 31 December 2022 was \$1.3576 (31 December 2021: \$1.2354). The unit price was expected to fall given the large amount of distributions made during the year, however that expected price reduction was more than offset by the gains from property sales and appraisals, and the favourable movement in the foreign exchange rate.

Fund Performance (Net Of Fees)

Cents Per Unit

The Fund's performance measured in cents per unit as reflected by movements in the unit price and distributions was as follows:

	12 Months Ended 31 December 2022 (Cents Per Unit)	12 Months Ended 31 December 2021 (Cents Per Unit)	Since Inception 1 January 2013 (Cents Per Unit)
Unit Price*	12.22	(1.58)	35.76
Cash Distributions	28.00	16.00	125.35
Total Cents Per Unit	40.22	14.42	161.11

* includes the effects of capital returns & foreign exchange.

Performance Fee

The Fund's performance as measured by the formula used to calculate the Responsible Entity's performance fee (as outlined in the Fund's PDS) was as follows:

	2022	2021
Performance Return	41.170%	11.919%
Performance Hurdle	12.000%	12.000%
Surplus / (Shortfall)	29.170%	(0.081%)

As the Fund's return exceeded the performance hurdle, including making up for any prior period shortfall, a performance fee of \$3,232,779 plus GST was payable in the current period (2021: nil).

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DIRECTORS' REPORT (cont'd)

Units on Issue

	Number As At 31 December 2022	Number As At 31 December 2021
Opening Balance	77,211,491	79,138,507
New units issued during the period under the capital raising	-	-
New units issued under the distribution reinvestment plan	-	2,717,100
Units redeemed under the redemption offer	(2,312,031)	(4,644,116)
Number of units on issue at period end	74,899,460	77,211,491

Dividends Received

During the year the US REIT paid gross dividends (ordinary and capital gains) to the Fund totalling USD 11,089,040 (2021: USD 4,984,090). The current year dividends were higher because of profits from the sale of US properties.

Fees Paid To and Interests Held By the Responsible Entity

The following fees (net of GST) were paid to the Responsible Entity out of the Fund assets during the financial period:

	12 Months Ended 31 December 2022 \$	12 Months Ended 31 December 2021 \$
Management Fees	2,180,994	2,114,431
Performance Fees	3,260,904	-
Total fees	5,441,898	2,114,431
Other Expense Reimbursements	17,790	63,643

There was an unexpected slight increase in management fees paid to the Responsible Entity. It had been expected that management fees would fall given the loss in funds under management arising from the redemption and returns of capital via distributions, however such reductions was offset by the profit from increases in fair market value and favourable exchange gains.

However, as more properties are sold management fees must eventually decrease as the amount of funds under management declines as a result of redemptions and capital distributions to Unitholders.

Expense reimbursements relate to Fund costs that are paid for by the Responsible Entity and reimbursed by the Fund. This is lower than the prior year as the cost of insurance premium is now paid directly by the Fund and hence a reimbursement was not necessary.

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DIRECTORS' REPORT (cont'd)

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 2022, the Fund held cash in Australian Dollars (AUD) and United States Dollars (USD).

Likely Developments and Expected Results of Operations

Fund Life

In March 2018 Unitholders voted to wind up the Fund on or before 31 December 2028. Clarifying an end date assisted the Directors to formulate relevant strategies and execute supporting actions to seek to maximise returns to investors over this timeframe.

Following on from recent increases in interest rates, the Directors expect that real estate capitalization rates will soon follow suit causing downwards pressure on commercial property prices. In response the Directors accelerated the timing of the wind up of the Fund as follows:

- | | |
|-------|---|
| 2023: | Strategically sell the US REIT's property portfolio in order to maximise investor value, with the goal of entering into contracts to sell all properties before 31 December 2023. Repay debt facilities. Offer a final redemption opportunity in March, and then begin quarterly distributions of capital and profit from June onwards. |
| 2024: | Continue making quarterly distributions of profit in March and June, with a final distribution in December. Wind up the Fund and the US REIT by 31 December 2024. |

The dates mentioned above are indicative only. The Directors closely monitor fluctuations of the AUD:USD foreign exchange rate and may enter into a forward rate exchange contract to manage risk and maximise returns. Unitholders will be regularly kept up to date through email correspondence, updates at www.PassiveIncomeFund.com, online webinars, and via ongoing statutory reporting obligations.

Profitability

As more properties are sold the amount of rental income collected will reduce. Rental income may fall to below operating costs in 2023, however it is expected the Fund will remain profitable if properties can be sold for more than their carrying values and foreign exchange movements are favourable. Appropriate accumulated cash reserves will be retained to ensure the US REIT and Fund can meet their financial obligations to financiers, suppliers and employees.

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DIRECTORS' REPORT (cont'd)

Significant Changes in State of Affairs

Other than what has been already mentioned, there have not been any significant changes to the state of affairs during the year.

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:

	# of Units Held at 31 December 2022	# of Units Held at 31 December 2021
Stephen McKnight <i>(Director)</i> & Associated Parties	2,115,522	2,115,522
Plantation Capital Limited (PCL)	1,459,436	1,459,436
	3,574,958	3,574,958

The number of units held had not changed during the year as no distribution reinvestments were available to all investors.

	Value of Units Held at 31 December 2022	Value of Units Held at 31 December 2021
Stephen McKnight <i>(Director)</i> & Associated Parties	2,872,033	\$2,613,516
Plantation Capital Limited (PCL)	1,981,330	\$1,802,987
	4,853,363	\$4,416,503

Related party entities received gross distributions from the Fund of \$1,000,988 (2021: \$562,888). Fees paid to Plantation Capital Limited were disclosed earlier in this report.

Subsequent Events

Plan of Liquidation

Effective 23 January 2023, the US REIT executed a Plan of Complete Liquidation and Dissolution thereby providing investors with a favourable outcome as the US tax on capital gains made by the US REIT will reduce to a flat 21%. As the Fund no longer needs to rely on AUS:US tax treaty benefits, it will not renew its Qualified Intermediary agreement with the IRS when the current agreement lapses in March. Unitholders will continue to receive foreign income tax offsets for the US tax paid by the Fund.

Loan Repayment

An application to repay the Wells Fargo loan via a defesance arrangement was submitted to Wells Fargo on 8 March 2023 with a proposed repayment date of 14 April 2023.

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DIRECTORS' REPORT (cont'd)

Subsequent Events (cont'd)

Sale of Properties

At the date of this report 1904 Oak Grove Blvd, Lutz and 2200 Kings Highway, Port Charlotte had been listed for sale but were not under contract for sale.

At the date of this report the following properties had been sold:

Property	Sale Price	Surplus / (Shortfall) To Fair Market Value At 31 Dec 2022
5961 Northland Rd, Fort Myers	\$1,925,000	\$103,230
16151 Pine Ridge Rd, Fort Myers	\$2,200,000	\$372,400

At the date of this report the following properties were under conditional sale contract:

Property	Sale Price	Surplus / (Shortfall) To Fair Market Value At 31 Dec 2022
5250 Giron Circle, Kissimmee	\$5,150,000	(\$200,000)
5636 Youngquist Rd, Fort Myers	\$1,250,000	(\$70,000)
3350 Hanson St, Fort Myers	\$2,450,000	\$80,000

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 expires in April 2023 and is expected to be renewed.

The Fund has not indemnified any auditor of the Fund.

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



Stephen McKnight

Chairman

Dated at Melbourne on 14 March 2023

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PLANTATION CAPITAL LIMITED, THE RESPONSIBLE ENTITY OF
PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND**

I declare that, to the best of my knowledge and belief, during the period ended 31 December 2022, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit and Assurance

Melbourne, Victoria

14 March 2023

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022**

	Note	2022 \$	2021 \$
Income			
Interest Income		44,783	621
Fair Value Gain On			
Investment Properties	1(h)	20,568,628	1,871,955
Rental Income		10,827,312	10,714,449
Gain On Sale Of Property		5,352,601	1,930,883
Foreign Currency Gain		714,264	677,642
Other Income		302,383	485,160
Total Income		37,809,971	15,680,710
Operating Expenses			
Accounting and Audit Fees		60,034	50,098
Responsible Entity's Fees	18	5,441,898	2,114,431
Compliance Costs		23,614	23,614
Custodian Fees		13,641	13,156
Insurance		42,988	37,968
Finance Costs		702,472	663,662
Legal and Due Diligence		88,835	36,672
Property Expenses		5,082,314	5,270,158
Other Operating Expenses		71,972	69,091
Total Operating Expenses		11,527,768	8,278,850
Operating Profit Before Tax		26,282,203	7,401,860
Tax Expense	1(m)	(7,715,924)	(1,839,061)
Operating Profit After Tax		18,566,279	5,562,799
Other Comprehensive Income		-	-
Total Comprehensive Income		18,566,279	5,562,799

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 2022**

	Note	2022 \$	2021 \$
Current Assets			
Cash And Cash			
Equivalents	4	24,644,427	21,091,050
Sundry Debtors	5	481,191	167,068
Other Current Assets	6	1,021,632	993,566
Total Current Assets		26,147,250	22,251,684
Non-Current Assets			
Investment Properties	14	101,422,632	95,890,133
Equipment		197	1,486
Other Non-Current Assets	6	100,147	170,475
Total Non-Current Assets		101,522,976	96,062,094
Total Assets		127,670,226	118,313,778
Current Liabilities			
Provisions	8	30,476	24,259
Trade And Other			
Payables	9	4,997,960	1,332,365
Distributions Payable	12	9,128,173	7,131,582
Other Current Liabilities		826,018	1,646,291
Total Current Liabilities		14,982,627	10,134,497
Non-Current Liabilities			
Borrowings	10	11,005,264	12,793,572
Deferred Tax Liability	11	15,032,690	9,928,909
Total Non-Current Liabilities		26,037,954	22,722,481
Total Liabilities		41,020,581	32,856,978
Net Assets		86,649,645	85,456,800
Net Assets Attributable To Unitholders			
Unitholders' Funds	17	84,930,477	87,582,608
Distributions Paid/Payable		(20,395,874)	(17,990,306)
Foreign Currency			
Reserve Account		22,115,042	15,864,498
Total Net Assets Attributable To Unitholders		86,649,645	85,456,800

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 2022**

31 December 2022 Consolidated Entity	Note	Unitholders' Funds \$	Distributions Paid/Payable \$	Foreign Currency Reserves \$	Total Equity \$
Total Comprehensive Income For The Year		-	18,566,279	-	18,566,279
Transactions With Unitholders In Their Capacity As Unitholders:					
Balance At 31 December 2021		87,582,608	(17,990,306)	15,864,498	85,456,800
Foreign Currency Reserve		-	-	6,250,544	6,250,544
Distributions	12	-	(20,971,847)	-	(20,971,847)
Units Issued*	17	-	-	-	-
Units Redeemed	17	(2,652,131)	-	-	(2,652,131)
Total Transactions With Unitholders In Their Capacity As Unitholders		(2,652,131)	(20,971,847)	6,250,544	(17,373,434)
Balance As At 31 December 2022		84,930,477	(20,395,874)	22,115,042	86,649,645

31 December 2021 Consolidated Entity	Note	Unitholders' Funds \$	Distributions Paid/Payable \$	Foreign Currency Reserves \$	Total Equity \$
Total Comprehensive Income For The Year		-	5,562,799	-	5,562,799
Transactions With Unitholders In Their Capacity As Unitholders:					
Balance At 31 December 2020		90,079,284	(11,083,643)	11,179,190	90,174,831
Foreign Currency Reserve		-	-	4,685,308	4,685,308
Distributions	12	-	(12,469,462)	-	(12,469,462)
Units Issued*	17	3,174,254	-	-	3,174,254
Units Redeemed	17	(5,670,930)	-	-	(5,670,930)
Total Transactions With Unitholders In Their Capacity As Unitholders		(2,496,676)	(12,469,462)	4,685,308	(10,280,830)
Balance As At 31 December 2021		87,582,608	(17,990,306)	15,864,498	85,456,800

* 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 2022**

	Note	2022 \$	2021 \$
Cash Flows From Operating Activities			
Rental Receipts From Customers		10,787,506	10,702,585
Realised Capital Gains from the Sale of Property		5,352,601	1,930,883
Realised Foreign Exchange Gain		714,264	677,642
Payments To Suppliers		(5,282,462)	(5,484,549)
Management Fee		(1,871,020)	(2,119,762)
Interest Received		44,783	621
Interest Paid		(632,144)	(618,658)
Net Cash Provided By Operating Activities Before Taxes Paid		9,113,528	5,088,762
Taxes Paid		(3,432,416)	(2,722,062)
Net Cash Provided By Operating Activities After Taxes Paid	13	5,681,112	2,366,700
Cash Flows From Investing Activities			
Capital Expenditure On Properties		(685,773)	(1,016,667)
Sale Of Investment Properties		22,542,180	7,102,590
Net Cash From Investing Activities		21,856,407	6,085,923
Cash Flows From Financing Activities			
Repayment Of Borrowings		(2,663,114)	-
Redemptions Paid To Unitholders		(2,652,131)	(5,670,930)
Distributions Paid		(18,975,258)	(7,575,296)
Net Cash From Financing Activities		(24,290,503)	(13,246,226)
Net Increase / (Decrease) In Cash And Cash Equivalents		3,247,016	(4,793,603)
Cash At Beginning Of The Financial Year		21,091,050	27,986,824
Effect Of Exchange Rate On Cash And Cash Equivalents		306,361	(2,102,171)
Cash At The End Of The Financial Year	4	24,644,427	21,091,050

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 2022**

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 US 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.

Going Concern Status

As the Fund has begun winding up it is no longer considered a going concern as defined by AASB 101. This is an accounting definition only. There is no material change to solvency or in the application of accounting policies, including recognition, measurement and fair market value assumptions.

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 US 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 noted otherwise, the Directors believe a property's fair value was either: (i) its purchase cost plus any capital expenditure, or (ii) independent appraiser's assessment of fair market value plus any capital expenditure post the valuation date, 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.

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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)

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.

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.

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

(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.

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 US 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.

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

(p) Foreign Currencies (cont'd)

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.

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) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation of the current financial year.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

Investment Property

The Directors assess valuations on an ongoing basis and at the end of each reporting period by evaluating the conditions and events specific to the Funds properties that may be indicative of significant changes in valuations or triggers thereof. Recoverable amounts of relevant assets are reassessed which incorporate various key assumptions. The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

The fair values of investment properties are reviewed every six months with reference to the property's purchase price, capital expenditure during the period and latest 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:

	2022	2021
	\$	\$
Financial Assets		
Cash and Cash Equivalents	24,644,427	21,091,050
Sundry Debtors	481,191	167,068
Prepayments	469,315	394,810
Borrowing Costs	120,016	189,489
Other Financial Assets	532,448	579,742
	<u>26,247,397</u>	<u>22,422,159</u>
Financial Liabilities		
(excluding net assets attributable to Unitholders)		
Payables and Other Financial Liabilities	5,854,454	3,002,915
Distributions Payable	9,128,173	7,131,582
Long Term Loans	10,869,534	12,666,529
USA REIT Funding	135,730	127,043
	<u>25,987,891</u>	<u>22,928,069</u>

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:

	2022		2021	
	\$		\$	
	\$	% of net assets	\$	% of net assets
Cash Held In USD	11,359,592	13.11	13,479,978	15.77

	2022		2021	
	\$		\$	
	Year End	Average	Year End	Average
AUD:USD exchange rates	0.6815	0.6947	0.7281	0.7513

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:

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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)

Sensitivity (cont'd)

	2022		2021	
	\$		\$	
	+10%	-10%	+10%	-10%
Impact on profit allocated to Unitholders	(8,768,847)	10,701,609	(755,378)	923,166
Impact on net assets attributable to Unitholders	(1,542,112)	1,884,964	(7,913,919)	9,672,304

(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 and 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 2022	< 1 Year	1-5 Years	> 5 Years	Carrying Amount
	\$'000	\$'000	\$'000	\$'000
Liabilities				
Trade & Other Payables	(5,028)	-	-	(5,028)
Distributions Payable	(9,128)	-	-	(9,128)
Borrowings	-	(11,005)	-	(11,005)
Other Financial Liabilities	(826)	-	-	(826)
	(14,928)	(11,005)	-	(25,987)

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)

(c) Liquidity Risk (cont'd)

Maturity Analysis (cont'd)

31 December 2021	< 1 Year \$'000	1-5 Years \$'000	> 5 Years \$'000	Carrying Amount \$'000
Liabilities				
Trade & Other Payables	(1,356)	-	-	(1,356)
Distributions Payable	(7,132)	-	-	(7,132)
Borrowings	-	(12,794)	-	(12,794)
Other Financial Liabilities	(1,646)	-	-	(1,646)
	(10,134)	(12,794)	-	(22,928)

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.

(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 as described in Note 1(h) and Note 2.

These accompanying notes form part of these financial statements

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NOTE 3: FINANCIAL RISK MANAGEMENT (cont'd)

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

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 2022				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets At Fair Value Through Profit and Loss				
Investment Properties	-	-	101,422,632	101,422,632

Fair Value Measurement At 31 December 2021				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial Assets At Fair Value Through Profit and Loss				
Investment Properties	-	-	95,890,133	95,890,133

Reconciliation Of Level 3 Fair Value Instruments		
	2022	2021
	\$	\$
Investment Properties		
Opening Balance	95,890,133	92,756,572
Gains		
In Profit and Loss - Unrealised	20,568,628	1,871,955
In Profit and Loss - Realised	5,352,601	1,930,883
Purchases/ Capital Expenditure	685,773	1,016,667
Sale of Properties	(20,553,260)	(4,533,527)
Foreign Exchange Impact	(521,243)	2,847,583
Closing Balance	101,422,632	95,890,133

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

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)

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

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 2022	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
Financial Assets					
Cash & Cash					
Equivalents	24,644	-	24,644	0.0%	Variable
Sundry Debtors	-	481	481		
Other Financial Assets	-	1,122	1,122		
Total Financial Assets	24,644	1,603	26,247		
Financial Liabilities					
Trade Creditors	-	(5,028)	(5,028)		
Distribution Payable	-	(9,128)	(9,128)		
USA REIT Funding	(136)	-	(136)		
Borrowings	(10,869)	-	(10,869)	4.83%	Fixed
Other Liabilities	-	(826)	(826)		
Total Financial Liabilities	(11,005)	(14,982)	(25,987)		
Net Financial Assets	13,639	(13,379)	260		

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)

(f) Interest Rate Risk (cont'd)

31 December 2021	Interest Bearing \$'000	Non- Interest Bearing \$'000	Total Carrying Amount \$'000	Weighted Average Effective Interest Rate	Fixed / Variable Rate
Financial Assets					
Cash & Cash Equivalents	21,091	-	21,091	0.0%	Variable
Sundry Debtors	-	167	167		
Other Financial Assets	-	1,164	1,164		
Total Financial Assets	21,091	1,331	22,422		
Financial Liabilities					
Trade Creditors	-	(1,356)	(1,356)		
Distribution Payable	-	(7,132)	(7,132)		
USA REIT Funding	(127)	-	(127)		
Borrowings	(12,667)	-	(12,667)	4.89%	Fixed
Other Liabilities	-	(1,646)	(1,646)		
Total Financial Liabilities	(12,794)	(10,134)	(22,928)		
Net Financial Assets	8,297	(8,803)	(506)		

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:

	2022 \$		2021 \$	
	+100bps	-100bps	+100bps	-100bps
Impact on profit before finance costs allocated to Unitholders	246,444	(246,444)	210,911	(210,911)
Impact on net assets attributable to Unitholders	246,444	(246,444)	210,911	(210,911)

These accompanying notes form part of these financial statements

**PASSIVE INCOME (USA COMMERCIAL PROPERTY) FUND
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	2022	2021
	\$	\$
NOTE 4: CASH AND CASH EQUIVALENTS		
Cash In Bank - AUD	13,284,635	7,611,073
Cash In Bank - USD	11,359,792	13,479,977
	<u>24,644,427</u>	<u>21,091,050</u>
NOTE 5: SUNDRY DEBTORS		
GST Refund	351,037	50,114
Rent Receivable	130,154	116,954
	<u>481,191</u>	<u>167,068</u>
NOTE 6: OTHER ASSETS		
Current Assets		
Security Deposits	33,759	43,588
Prepaid Insurance	361,454	343,603
Prepaid Expenses	107,861	51,207
Borrowing Costs #	48,033	54,383
Other Current Assets	470,525	500,785
	<u>1,021,632</u>	<u>993,566</u>
Non-Current Assets		
Borrowing Costs #	71,983	135,106
Office Set-Up Costs	28,164	35,369
	<u>100,147</u>	<u>170,475</u>
# Borrowing costs totalling US\$549,235 relating to the US\$15.11m refinance are being amortised over 10 years.		
NOTE 7: AUDITORS REMUNERATION		
Amounts Paid and Payable to the Auditors	<u>60,034</u>	<u>50,098</u>
NOTE 8: PROVISIONS		
Provision for Audit Fees	<u>30,476</u>	<u>24,259</u>

These accompanying notes form part of these financial statements

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	2022	2021
	\$	\$
NOTE 9: TRADE AND OTHER PAYABLES		
Accrued Property Taxes	34,453	55,911
Performance Fee Payable	3,556,057	-
Security Deposits Held	752,091	764,130
Trade Creditors	655,359	512,324
	<u>4,997,960</u>	<u>1,332,365</u>

NOTE 10: NON-CURRENT BORROWINGS

USA REIT Funding	135,730	127,043
Long Term Loans	10,869,534	12,666,529
	<u>11,005,264</u>	<u>12,793,572</u>

Specifics Of Loan	AUD	USD	AUD	USD
	('000)	('000)	('000)	('000)
<i>Wells Fargo</i>				
5.145% pa due Jun 2025	5,587	3,808	7,722	5,623
<i>RGA</i>				
4.500% pa, due Jan 2026	5,282	3,600	4,945	3,600
<i>USA REIT Funding</i>				
12.500% pa, No maturity. Unsecured.	136	93	127	93
<i>Other Loans</i>				
1.000% pa, No maturity. Unsecured.	-	-	-	-
Total Borrowings	<u>11,005</u>	<u>7,501</u>	<u>12,794</u>	<u>9,316</u>

Wells Fargo Loan

This loan is secured by GA; 2853 Work Dve, Fort Myers, FL; 1904 Oak Grove Blvd, Lutz, FL; 12050 49th St Nth, Clearwater, FL; and 1408-24 Hamlin Ave & 2013 Murcott Dve, St Cloud, FL. It was also secured by 1205 Texas Parkway, Euless, TX and 6205- 15 Shiloh Crossing, Alpharetta, GA, 2081 Jonesboro Rd, McDonough, however these properties have been sold and the principal loan amount owing, plus an additional 25%, have been repaid from the sale proceeds as per the terms of the loan agreement.

RGA Loan

This loan is secured by 400 Technology Parkway, GA.

Covenants

The Wells Fargo and RGA loans have covenants attached to them and are monitored and reported to comply with loan obligations. Interest expense is not capitalised for any loan facility of the scheme.

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 2022**

	2022	2021
	\$	\$
NOTE 11: DEFERRED TAX LIABILITY		
Opening Balance	9,928,909	8,846,312
Movement From Change in Fair Value of Properties	5,103,781	1,082,597
Closing Balance	<u>15,032,690</u>	<u>9,928,909</u>
NOTE 12: DISTRIBUTIONS		
Interim	11,843,674	4,748,312
Final	9,128,173	7,721,150
	<u>20,971,847</u>	<u>12,469,462</u>
Payable At Year End	<u>9,128,173</u>	<u>7,131,582</u>
NOTE 13: CASH FLOW INFORMATION		
Reconciliation of net cash provided by operating activities to net operating profit		
Net Operating Profit	18,566,279	5,562,799
Add / (Less) Non-Cash Items:		
Unrealised Revaluation Gains	(20,568,628)	(1,871,955)
Increase In Sundry Debtors	(314,123)	(9,630)
(Increase) / Decrease In Other Assets	42,262	(442,390)
Increase / (Decrease) In Trade Payables and Other Liabilities	2,851,541	(1,954,721)
Increase in Deferred Tax Liability	5,103,781	1,082,597
Net Cash Provided By Operating Activities	<u>5,681,112</u>	<u>2,366,700</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 2022**

NOTE 14: INVESTMENT PROPERTIES	As At 31 December 2022		As At 31 December 2021	
	AUD	USD	AUD	USD
Georgia Properties				
6620 Tara Blvd, Jonesboro	-	-	6,658,728	4,848,220
2081 Jonesboro Rd, McDonough	-	-	5,223,629	3,803,324
270 Scientific Drive, Norcross	8,657,373	5,900,000	7,691,251	5,600,000
358 McDonough Pkway, McDonough	2,567,865	1,750,000	2,634,552	1,918,217
2192 Eastview Parkway, Conyers	5,275,128	3,595,000	3,158,907	2,300,000
400 Tech Pkway, Peachtree Corners	15,407,191	10,500,000	11,866,502	8,640,000
6564 Tara Blvd, Jonesboro	-	-	3,262,588	2,375,491
Total Georgia Property	31,907,557	21,745,000	40,496,157	29,485,252
Florida Properties				
3350 Hanson St, Fort Myers	3,477,623	2,370,000	2,206,348	1,606,442
4700 110th Ave Nth, Pinellas Park	-	-	2,564,794	1,867,426
2853 Work Dve, Fort Myers	9,275,127	6,321,000	6,581,949	4,792,318
1408 Hamlin & 2013 Murcott, St Cloud	9,855,763	6,716,702	6,064,288	4,415,408
1904 Oak Grove Blvd, Lutz	9,977,991	6,800,000	7,116,194	5,181,301
5250 Giron Circle, Kissimmee	7,850,330	5,350,000	4,566,680	3,325,000
720 S. Dixie Fwy, New Smyrna Beach	-	-	3,516,002	2,560,000
2634 N. Orange Blossom Trail	6,236,244	4,250,000	3,957,940	2,881,776
5961 Northland Rd, Fort Myers	2,673,177	1,821,770	2,124,983	1,547,200
16151 Pine Ridge Rd, Fort Myers	2,681,731	1,827,600	2,472,188	1,800,000
12050 49th St Nth, Clearwater	8,476,889	5,777,000	6,972,644	5,076,782
5636 Youngquist Rd, Fort Myers	1,936,904	1,320,000	1,387,172	1,010,000
5760 Youngquist Rd, Fort Myers	2,685,253	1,830,000	2,047,506	1,490,789
2200 Kings HWay, Port Charlotte	4,388,043	2,990,452	3,815,288	2,777,913
Total Florida Property	69,515,075	47,374,524	55,393,976	40,332,355
Total Property	101,422,632	69,119,524	95,890,133	69,817,607

These accompanying notes form part of these financial statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 15: PARENT ENTITY INFORMATION

(a) Parent Entity

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

	2022	2021
	\$	\$
(b) Financial Information		
Income Statement Information		
Net profit attributable to Unitholders of the parent entity	6,713,513	4,397,986
Comprehensive Income Information		
Total comprehensive income attributable to Unitholders of the parent entity	6,713,513	4,397,986
Statement of Financial Position Information		
Current Assets	21,605,267	21,160,728
Non-Current Assets	13,896,152	25,681,813
Current Liabilities	(12,928,495)	(7,359,150)
Net Assets	22,572,924	39,483,391
Unitholders Funds	85,128,942	87,781,073
Undistributed Profits	(62,556,018)	(48,297,682)
Total Equity	22,572,924	39,483,391

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 Palmetto Grove, LLC (acquired 15 August 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%

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 2022**

NOTE 16: CONTROLLED ENTITIES (cont'd)

	Country of Incorporation	% Owned
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%
Ozinus Shops of Tara, LLC (acquired 1 May 2014)	USA	100%
Ozinus 49N CW, LLC (acquired 23 June 2014)	USA	100%
Ozinus Texas Star, LLC (acquired 16 July 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 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%
Ozinus Maple, LLC (acquired 31 January 2019)	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
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	\$	\$
NOTE 17: UNITHOLDERS' FUNDS		
Opening Balance	87,582,608	90,079,284
Applications	-	-
Distributions Reinvested	-	3,174,254
Redemptions	(2,652,131)	(5,670,930)
Net Movement During The Period	(2,652,131)	(2,496,676)
Closing Balance	84,930,477	87,582,608

The Fund's redemption policies are disclosed in Note 1(n), 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

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 remunerated \$23,257 for providing compliance services for twelve months to 31 December 2022 (2021: \$23,257).

Fees Paid To and Interests Held By the Responsible Entity

The following fees (net of GST) were paid to the Responsible Entity out of the Fund assets during the financial period:

	12 Months Ended 31 December 2022	12 Months Ended 31 December 2021
	\$	\$
Management Fees	2,180,994	2,114,431
Performance Fees	3,260,904	-
Total fees	5,441,898	2,114,431
Other Expense Reimbursements	17,790	63,643

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 2022**

NOTE 18: RELATED PARTY TRANSACTIONS (cont'd)

There was an unexpected slight increase in management fees paid to the Responsible Entity. It had been expected that management fees would fall given the loss in funds under management arising from the redemption and returns of capital via distributions, however such reductions was offset by the profit from increases in fair market value and favourable exchange gains.

However, as more properties are sold management fees must eventually decrease as the amount of funds under management declines as a result of redemptions and capital distributions to Unitholders.

Expense reimbursements relate to Fund costs that are paid for by the Responsible Entity and reimbursed by the Fund. This is lower than the prior year as the cost of insurance premium is now paid directly by the Fund and hence a reimbursement was not necessary.

Related Party Investments Held By the Fund

The Fund has no investment in the Responsible Entity.

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 investors.

Units In The Fund Held By Related Parties

	# of Units Held at 31 Dec 2022	# of Units Held at 31 Dec 2021
Stephen McKnight (<i>Director</i>)		
& Associated Parties	2,115,522	2,115,522
Plantation Capital Limited (PCL)	1,459,436	1,459,436
	<u>3,574,958</u>	<u>3,574,958</u>
	Value of Units Held at 31 Dec 2022	Value of Units Held at 31 Dec 2021
Stephen McKnight (<i>Director</i>)		
& Associated Parties	\$2,872,033	\$2,613,516
Plantation Capital Limited (PCL)	\$1,981,330	\$1,802,987
	<u>\$4,853,363</u>	<u>\$4,416,503</u>

The rise in value of units is attributable to the increase in unit price impacted by the AUD depreciating against the USD.

Related party entities received gross distributions from the Fund of \$1,000,988 (2021: \$562,888).

These accompanying notes form part of these financial statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

NOTE 19: SUBSEQUENT EVENTS

Plan of Liquidation

Effective 23 January 2023, the US REIT executed a Plan of Complete Liquidation and Dissolution thereby providing investors with a favourable outcome as the US tax on capital gains made by the US REIT will reduce to a flat 21%. As the Fund no longer needs to rely on AUS:US tax treaty benefits, it will not renew its Qualified Intermediary agreement with the IRS when the current agreement lapses in March. Unitholders will continue to receive foreign income tax offsets for the US tax paid by the Fund.

Loan Repayment

An application to repay the Wells Fargo loan via a defesance arrangement was submitted to Wells Fargo on 8 March 2023 with a proposed repayment date of 14 April 2023.

Sale of Properties

At the date of this report 1904 Oak Grove Blvd, Lutz and 2200 Kings Highway , Port Charlotte had been listed for sale but were not under contract for sale.

At the date of this report the following properties had been sold:

Property	Sale Price	Surplus / (Shortfall) To Fair Market Value At 31 Dec 2022
5961 Northland Rd, Fort Myers	\$1,925,000	\$103,230
16151 Pine Ridge Rd, Fort Myers	\$2,200,000	\$372,400

At the date of this report the following properties were under conditional sale contract:

Property	Sale Price	Surplus / (Shortfall) To Fair Market Value At 31 Dec 2022
5250 Giron Circle, Kissimmee	\$5,150,000	(\$200,000)
5636 Youngquist Rd, Fort Myers	\$1,250,000	(\$70,000)
3350 Hanson St, Fort Myers	\$2,450,000	\$80,000

NOTE 20: COMMITMENTS AND CONTINGENCIES

The Fund has no commitments or contingencies to report.

**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 2022**

NOTE 21: RESPONSIBLE ENTITY DETAILS

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

Registered Office	Postal Address	Other Details
2 / 271 PARA RD GREENSBOROUGH VIC. 3088 AUSTRALIA	PO BOX 532 CANTERBURY VIC. 3126 AUSTRALIA	P: 03 8592 0270 F: 03 8592 0276 W: www.PassiveIncomeFund.com E: admin@passiveincomefund.com

**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 11 to 37, 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 2022 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

Dated at Melbourne on 14th March 2023

**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 Scheme**), which comprises the statement of financial position as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in net assets and 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 directors' declaration.

In our opinion:

- a) The accompanying financial report of Passive Income (USA Commercial Property) Fund is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Scheme's financial position as at 31 December 2022 and of its financial performance for the year then ended; and
 - ii. complying with *Australian Accounting Standards and the Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter - Going Concern

Without modifying our opinion, as the Passive Income (USA Commercial Property) Fund has an expected life of less than two years remaining, we draw attention to Note 1(c) of the financial report, which discloses that the Responsible Entity has initiated the winding-up of the Passive Income (USA Commercial Property) Fund. As such, the Scheme is no longer regarded a going concern under AASB 101 Presentation of Financial Statements.

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 Scheme 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 Plantation Capital Limited, 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.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Scheme's annual report for the year ended 31 December 2022 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 accordingly 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 Plantation Capital Limited 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 Scheme's ability 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 Scheme or to cease operations, or have 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.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.



MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit and Assurance

Melbourne, Victoria

14 March 2023