



360 CAPITAL ACTIVE REIT

(formerly 360 Capital Total Return Active Fund)

Financial Report For the year ended 30 June 2020

360 Capital Active REIT comprises 360 Capital Active REIT (ARSN 602 303 613) and its controlled entities.

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360 Capital Active REIT
Responsible Entity report
For the year ended 30 June 2020

The Directors of 360 Capital FM Limited (CFML) (ABN 15 090 664 396) (AFSL No 221474), the Responsible Entity, present their report together with the financial report of 360 Capital Active REIT, formerly 360 Capital Total Return Active Fund, ARSN 602 303 613 (Fund) (Active Fund) for the year ended 30 June 2020.

The Active Fund forms part of the stapled entity, 360 Capital REIT, formerly 360 Capital Total Return Fund (Stapled Fund) (ASX: TOT) comprising 360 Capital Passive REIT, formerly 360 Capital Total Return Passive Fund (Passive Fund) (Parent Entity) ARSN 602 304 432 and its controlled entities and 360 Capital Active REIT, formerly 360 Capital Total Return Active Fund and its controlled entities..

Directors

The following persons were Directors of 360 Capital FM Limited during the year up to the date of this report, unless otherwise stated:

David van Aanholt (Chairman)
Tony Robert Pitt
William John Ballhausen
Graham Ephraim Lenzner
Andrew Graeme Moffat

Principal activities

The Fund listed on the Australian Stock Exchange (ASX) in April 2015 as a unique fund investing in various forms of real estate assets. On 21 February 2020, securityholders approved an updated strategy for the Fund.

The Fund may invest across a wide range of assets within both Australia and New Zealand real estate markets, including;

- repositioning assets
- investing in investment properties
- investing in development projects
- investing in real estate based operating business
- underwriting potential capital raisings including syndicates and both unlisted and listed funds
- strategic positions in unlisted funds
- capitalising on mispriced trading opportunities in listed REIT sector
- participating in mergers and acquisition activities
- participating in special situations within markets including distressed sales, investments with restructuring potential, and providing loans

Operating and financial review

The Fund's statutory net profit attributable to unitholders for the year ended 30 June 2020 was \$4.2 million (2019: \$295,273).

The Fund's statutory balance sheet as at 30 June 2020 had total assets of \$39.7 million (2019: \$15.3 million). The increase in total assets during the year is due to the acquisition of URB Investments (URB) in December 2019.

Acquisition of URB Investments Limited

URB Investments Limited (URB) was an ASX listed investment company specialising in investing in small and medium sized companies located within Australia and New Zealand.

The acquisition was implemented through a scheme of arrangement under which each scheme share would be transferred to TOT in exchange for 0.9833 TOT securities for every fully paid scheme share transferred (Scrip consideration).

On 6 November 2019, the resolution to approve the scheme was passed by the requisite majorities of URB shareholders. The TOT stapled units under scrip consideration were issued on 20 December 2019. The commencement of trading of new TOT securities on ASX was on 23 December 2019.

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Operating and financial review (continued)

Since completion of the merger with URB in December 2019, TOT had sold the majority of URB's listed equities portfolio prior to the COVID-19 market sell-off, having sold approximately \$20.0 million in line with holding values. Post period, TOT exchanged contracts for the sale the Penrith shopping centre asset in line with book value. The only remaining URB investment is the interest in Home HQ Artarmon which is deemed non-core.

Investment in residential apartments

During the year, the Fund acquired 23 apartments in Gladesville, NSW at 20.0% below valuation and commenced sales campaign. At 30 June 2020, the sale of 7 apartments had settled with a further 5 exchanged.

TOT has now exchanged contracts for the sale of 14 apartments, at an average premium of 23.8% to the November 2019 purchase price. Whilst transaction volumes have slowed, TOT is confident of selling the remaining apartments over FY21.

As part of the acquisition, the Fund entered into a debt facility with Bankwest for \$8.25 million in November 2019 which was subsequently repaid in June 2020.

Investment in Velocity Property Group

Velocity Property Group (ASX: VP7) (Velocity) is an ASX listed boutique property development company that develops multi-unit apartment and mixed commercial developments in Queensland.

TOT through a joint venture investment company TGP TOT JV Pty Limited (JV), acquired 19.99% strategic stake in Velocity for a total of \$1.6 million on 23 December 2019. During the 6 months to 30 June 2020, the Board of VP7 undertook a rationalisation and de-gearing programme in preparation for its repositioning as a commercial real estate debt company. The carrying value of the Funds 50% interest in the JV was \$1.0 million at balance date. TOT also acquired a \$10.0 million secured notes with a term of two years and an interest rate of 7.0% per annum together with options to purchase, subject to various conditions.

Debt origination and management joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT. This revenue stream adds to the Fund's active earnings.

Capital management

During the year the Fund issued 9.14 million stapled units at \$1.18 per unit to institutional investors raising circa \$10.8 million. The allotment of new stapled units was completed on 21 October 2019. The proceeds were allocated to fund the lending activities and replenishing working capital.

The Fund also issued 64.25 million stapled units under scheme of arrangement in relation to the acquisition of URB Investments Limited. The scheme was implemented on 20 December 2019 and the ASX trading of the new units commenced on 23 December 2019.

During the year the Fund bought back and cancelled 4,815,353 units (2019: Nil).

As part of the acquisition of the residential apartments in Gladesville, the Fund entered into a debt facility with Bankwest for \$8.25 million in November 2019 which was subsequently repaid in June 2020.

Impact of COVID-19 on the Fund

The World Health Organization declared a global pandemic in March 2020 as a result of the novel coronavirus (COVID-19). The Fund has considered the impact of COVID-19 in preparing its financial report for the year. The effects of the pandemic are continuing to unfold, and the extent of the social, medical and economic impacts worldwide are unknown.

As a result of COVID-19, TOT ceased its lending activities and shifted management's focus to converting outstanding loan positions and assets to cash.

The responsible entity took a conservative approach with a focus on capital preservation given the market volatility and economic uncertainty, as such TOT did not deploy cash balances into new opportunities impacting earnings for FY20.

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Responsible Entity report
For the year ended 30 June 2020

Investment strategy

Given the Responsible Entity's opinion we had been in the late stages of the real estate cycle, TOT's focus over the past three years had been real estate debt investing. The self-liquidating nature of these loans and their relatively short tenor has allowed TOT to build a substantial cash balance in excess of \$90 million at the reporting date.

TOT has refined its focus to investing in real estate equity, across both corporate and direct asset opportunities. The rationale for refining TOT's strategy is:

- COVID-19 will likely lead to volatility in commercial real estate values over the near-term creating greater opportunity for investment and potential capital growth;
- Potential deterioration of economic and real estate fundamentals provides opportunistic investors like TOT with an attractive entry point for long-term capital growth; and
- TOT leverages 360 Capital Group's 15-year real estate track record and experience, allowing TOT to partner with third party capital to access larger, higher quality transactions.

TOT's objective of providing regular quarterly distributions in line with passive earnings and reinvestment of active earnings remains unchanged, with a five-year track record of consistent quarterly distributions, averaging 9.8cps per annum.

Outlook

TOT's strategy has evolved from a pure total return focus to that of providing regular quarterly distributions in line with the Fund's passive earnings and reinvestment of the TOT's active earnings.

The responsible entity remains focused on continuing to increase liquidity and awareness of the Fund and greater focus on acquisitions / investments that provide recurring income.

Distributions

The Fund did not declare any distributions during the year (2019: Nil).

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of 360 Capital Total Return Active Fund that occurred during the year under review other than those listed above or elsewhere in the Responsible Entity's report.

Likely developments and expected results of operations

The Fund will continue to invest in real estate based activities and actively manage a diversified portfolio of investments as outlined in the Stapled Fund's Product Disclosure Statement (PDS) dated 17 March 2015.

Events subsequent to balance date

Subsequent to balance date the Fund settled five additional apartments at Gladesville. Post balance date the Fund purchased \$16.0 million of listed equities.

In the event there is a longer than expected impact from the COVID-19 pandemic, this could have unforeseen impacts to the consolidated entity post 30 June 2020.

No other circumstances have arisen since the end of the year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Environmental Issues

The Fund complied with all environmental regulations during the course of the financial year.

360 Capital Active REIT
Responsible Entity report
For the year ended 30 June 2020

Buy back arrangements

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from stapled securityholders. During the year ended 30 June 2020 there were 4,815,353 units bought back and cancelled (2019: Nil).

Distribution Reinvestment Plan

No securities were issued under the Distribution Reinvestment Plan (DRP) during the year of ended 30 June 2020 (2019: 4,371,752).

Units issued in the Fund

During the year the Fund issued 73,390,235 new securities issued during the year (2019: 4,371,752).

Number of interests on issue

As at 30 June 2020 the number of securities on issue in the Fund was 138,800,281 (2019: 70,225,399). During the period a total of 9,143,498 and 64,246,737 securities were issued under the Fund's Institutional Placement and URB Scrip consideration, respectively.

Fees, commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 17 to the financial statements.

Units held by the Responsible Entity or Related Parties of the Responsible Entity

As at 30 June 2020 related parties of the Responsible Entity held units in the Fund, as detailed in Note 17 to the financial statements.

Indemnification and insurance of Directors and Officers

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as Officers of the Responsible Entity of the Fund against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity of the Responsible Entity, other than conduct involving a wilful breach of duty in relation to the Responsible Entity.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer of the Responsible Entity.

Indemnification of auditors

To the extent permitted by law, the Fund has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Non-audit services

Disclosed in Note 19 are the non-audit services provided by the Fund's auditors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 6 and forms part of the Responsible Entity's report for the year ended 30 June 2020.

**360 Capital Active REIT
Responsible Entity report
For the year ended 30 June 2020**

Rounding of amounts

360 Capital Active REIT is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the annual financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



David van Aanholt
Chairman

Sydney
31 August 2020



Tony Robert Pitt
Managing Director

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**Building a better
working world**

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Auditor's Independence Declaration to the Directors of 360 Capital FM Limited as Responsible Entity for 360 Capital Active REIT

As lead auditor for the audit of the financial report of 360 Capital Active REIT for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of 360 Capital Active REIT and the entities it controlled during the financial year.

Ernst & Young
Ernst & Young

Mark Conroy
Mark Conroy
Partner
31 August 2020

360 Capital Active REIT
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
Revenue from continuing operations			
Sale of inventory		6,675	-
Distributions		805	-
Finance revenue		547	99
Total revenue from continuing operations		8,027	99
Other income			
Share of equity accounted profits		299	45
Gain on business combination	15	4,513	-
Net gain on fair value of financial assets		-	270
Other income		56	139
Total other income		4,868	454
Total revenue from continuing operations and other income		12,895	553
Cost of goods sold	4	5,644	-
Marketing expenses		310	-
Administration expenses		263	100
Management fees	21	174	89
Finance expenses		161	-
Transaction costs		777	9
Net loss on sale of financial assets	6	515	-
Net loss on fair value of financial assets		1,254	-
Loss allowance on financial assets		124	-
Profit from continuing operations before tax		3,673	355
Income tax expense	2	(565)	60
Profit for the year		4,238	295
Total comprehensive income for the year		4,238	295
Earnings per unit for continuing operations			
attributable to the unitholders of 360 Capital Active REIT		cents	cents
Basic and diluted profit per unit	20	3.9	0.4

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

360 Capital Active REIT
Statement of financial position
As at 30 June 2020

	Note	30 June 2020 \$'000	30 June 2019 \$'000
Current assets			
Cash and cash equivalents	11	2,114	9,530
Receivables	3	474	472
Inventory	4	11,838	-
Financial assets at fair value through profit or loss	6	11,021	-
Total current assets		25,447	10,002
Non-current assets			
Investments equity accounted	7	1,142	397
Financial assets at fair value through profit or loss	6	3,260	4,819
Notes receivable	5	9,876	-
Deferred tax assets	8	-	51
Total non-current assets		14,278	5,267
Total assets		39,725	15,269
Current liabilities			
Trade and other payables	9	77	2,178
Loan to related entity	21	9,027	-
Income tax payable		1,292	-
Total current liabilities		10,396	2,178
Non-current liabilities			
Deferred tax liabilities	8	42	-
Total non-current liabilities		42	-
Total liabilities		10,438	2,178
Net assets		29,287	13,091
Equity			
Issued capital – ordinary units	10	24,713	12,755
Retained earnings		4,574	336
Total equity		29,287	13,091

The above statement of financial position should be read with the accompanying notes.

360 Capital Active REIT
Statement of changes in equity
For the year ended 30 June 2020

	Note	Issued capital \$	Retained earnings \$	Total equity \$
Balance at 1 July 2019		12,755	336	13,091
Total comprehensive income for the year		-	4,238	4,238
Transactions with unitholders in their capacity as unitholders				
Issued units	10	13,059	-	13,059
Unit buyback	10	(989)	-	(989)
Equity raising transaction costs	10	(112)	-	(112)
		11,958	-	11,958
Balance at 30 June 2020		24,713	4,574	29,287
Balance at 1 July 2018				
		11,949	41	11,990
Total comprehensive income for the year		-	295	295
Transactions with unitholders in their capacity as unitholders				
Issued units - DRP	10	811	-	811
Equity raising transaction costs	10	(5)	-	(5)
		806	-	806
Balance at 30 June 2019		12,755	336	13,091

The above statement of changes in equity should be read with the accompanying notes.

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360 Capital Active REIT
Statement of cash flows
For the year ended 30 June 2020

	30 June 2020	30 June 2019
Note	\$	\$
Cash flows from operating activities		
Cash receipts from customers (inclusive of GST)	56	102
Cash payments to suppliers (inclusive of GST)	(1,033)	(192)
Payments for inventory	(17,482)	-
Proceeds from disposal of inventory	6,675	-
Dividends and distributions received	1,157	-
Finance revenue	550	99
Finance expenses	(161)	-
Income tax paid	(12)	-
Net cash (outflows)/inflows from operating activities	11	(10,250)
Cash flows from investing activities		
Payments for financial assets	(10,631)	(2,423)
Payments for notes receivable	(10,000)	-
Payments for equity accounted investment	(797)	-
Proceeds from disposal of financial assets	19,932	-
Net proceeds from acquisition of controlled entity, net cash received	53,438	-
Payment of transaction costs to acquire subsidiaries	(487)	-
Net cash inflows/(outflows) from investing activities	51,455	(2,423)
Cash flows from financing activities		
Proceeds from borrowings	8,250	-
Repayment of borrowings	(8,250)	-
Proceeds from issue of capital	1,715	811
Payment of transaction costs to issue capital	(112)	(5)
Payments for buy back of units	(989)	-
Proceeds from loan to related party	(49,235)	529
Net cash (outflows)/inflows from financing activities	(48,621)	1,335
Net decrease in cash and cash equivalents	(7,416)	(1,079)
Cash and cash equivalents at the beginning of the year	9,530	10,609
Cash and cash equivalents at the end of the year	11	2,114

The above statement of cash flows should be read with the accompanying notes.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

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Financial Information

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Fund.

Note 1: Distributions

The Fund did not declare or pay any distributions during the year.

Note 2: Income tax expense

The Fund calculates income tax expense using the tax rate applicable to the expected total annual earnings. The major components of income tax expense during the year are:

	30 June 2020 \$'000	30 June 2019 \$'000
Profit before tax attributable to stapled securityholders	3,673	355
Income tax expense at the effective corporate rate of 27.5%	1,010	98
<u>Increase/(decrease) in income tax expense due to:</u>		
Gain on purchase of subsidiary	(1,241)	-
Loss on sale of investment	(4)	-
Impairment of financial asset	34	-
Equity raising costs	(31)	(30)
Transaction costs	8	2
Equity accounted profits	(82)	(12)
Other tax adjustments	176	2
Income tax expense	(130)	60
Adjustment for current tax of prior years	(141)	-
Tax offsets and rebates	(294)	-
Income tax (benefit)/expense recognised in the statement of profit or loss	(565)	60

The current year tax expense within the Active Fund was primarily related to URB Investments Limited (URB) income post acquisition in December 2019. On 23 August 2019 the Active Fund created a tax consolidated group consisting of the Active Fund and 360 Capital TOT Residential Pty Limited and URB joined the tax consolidated group on acquisition on 20 December 2019.

Note 3: Receivables

	30 June 2020 \$'000	30 June 2019 \$'000
Current		
Trade receivables	460	50
Prepayments	14	-
Related party loan receivable	-	422
	474	472

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Notes to the financial report
For the year ended 30 June 2020

Note 3: Receivables (continued)

a) Expected credit losses

During the year, the Fund made a Nil (2019: Nil) ECL provision in respect of impairment under AASB 9 as this number is considered immaterial to the Fund.

b) Fair values

The receivables are carried at amounts that approximate their fair value. There are no receivables where the fair value would be materially different from the carrying value.

c) Credit risk

There is a limited amount of credit risk - refer to Note 14 for more information on the risk management policy of the Fund.

Note 4: Inventory

	30 June	30 June
	2020	2019
	\$'000	\$'000
Gladesville apartments	11,838	-
	11,838	-

On 3 September 2019 the Fund announced that it had exchanged contracts to acquire 23 brand new strata titled apartments in Gladesville, NSW for a total purchase price of \$16.5 million. The apartments comprise a combination of one, two and three- bedroom apartments. The settlement was completed on 14 November 2019 and funded using a \$8.25 million facility with a major Australian bank and \$8.25 million from the existing cash reserves. During the year, 7 apartments were sold. The carrying value of inventory includes associated acquisition costs including stamp duty.

Movements in the carrying value during the year are as follows:

	30 June	30 June
	2020	2019
	\$'000	\$'000
Balance at 1 July	-	-
Inventory purchased during the period	16,500	-
Purchase costs capitalised	982	-
Cost of goods sold during the period	(5,644)	-
Closing balance	11,838	-

Note 5: Notes receivable

	30 June	30 June
	2020	2019
	\$'000	\$'000
Non-current		
Notes receivable – amortised cost	10,000	-
Loss allowance	(124)	-
Total	9,876	-

TOT acquired \$10.0 million secured notes with a term of two years and an interest rate of 7.0% per annum during the year together with options to purchase Velocity shares, subject to various conditions. Notes receivable are initially recognised at fair value and subsequently carried at amortised cost in accordance with AASB 9. The Fund has recognised a total loss allowance of \$123,720 based on the 12-month expected credit loss (ECL) for the notes receivable in accordance with AASB 9.

360 Capital Active REIT
Notes to the financial report
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Note 5: Notes receivable (continued)

Movements in the carrying value during the year are as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Balance at 1 July	-	-
Notes receivable acquired during the period	10,000	-
Loss allowance	(124)	-
Closing balance	9,876	-

Note 6: Financial assets at fair value through the profit or loss

	30 June 2020 \$'000	30 June 2019 \$'000
Current		
Units in unlisted property funds	11,021	-
	11,021	-
Non-current		
Units in listed property funds	3,260	4,819
	3,260	4,819
Total	14,281	4,819

Movements in the carrying value during the year are as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Balance at 1 July	4,819	-
Financial assets acquired – on market	8,439	4,549
Financial assets acquired – as part of business acquisition	32,317	-
Financial assets disposed - on market	(20,349)	-
Financial assets derecognised – as part of business acquisition	(9,240)	-
Fair value adjustment of financial assets	(1,187)	270
Realised gain on disposal of financial assets	(515)	-
Closing balance	14,281	4,819

Note 7: Investments equity accounted

	30 June 2020 %	30 June 2019 %	30 June 2020 \$'000	30 June 2019 \$'000
Joint venture				
AMF Finance Pty Limited	50	50	181	397
TGP TOT JV Pty Limited	50	-	961	-
			1,142	397

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Notes to the financial report
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Note 7: Investments equity accounted (continued)

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF or AMF Finance). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT. The other 50% stake is held by 360 Capital Group (ASX: TGP).

TOT holds a 50% investment in TGP TOT JV Pty Limited, which acquired a 19.99% strategic stake in Velocity Property Group (ASX: VP7) for \$1.6 million on 23 December 2019. The other 50% interest in the joint venture is held by 360 Capital Group.

Reconciliation of movements in equity accounted investments for the year are as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
AMF Finance Pty Limited		
Opening balance – 1 July	397	352
Equity accounted profit for the year	134	45
Dividends received during the year	(350)	-
Closing Balance	181	397
TGP TOT JV Pty Limited		
Opening balance – 1 July	-	-
Acquisition of equity interest	796	-
Equity accounted profit for the year	165	-
Closing Balance	961	-
	1,142	397

	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
AMF Finance Pty Limited				
Year Ended 30 June 2020	422	61	1,451	268
Year Ended 30 June 2019	866	73	877	90
TGP TOT JV Pty Limited				
Year Ended 30 June 2020	1,938	15	343	330
Year Ended 30 June 2019	-	-	-	-

Note 8: Deferred tax assets and liabilities

	30 June 2020 \$'000	30 June 2019 \$'000
Deferred tax assets comprises temporary differences attributable to:		
Accrued expenses	7	-
Business acquisition costs	390	-
Unrealised loss on investment	239	-
Tax losses	-	125
	636	125
Deferred tax liabilities comprises temporary differences attributable to:		
Unrealised gain on investment	678	74
	678	74
Net deferred tax (liabilities)/assets	(42)	51

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 8: Deferred tax assets and liabilities (continued)

A reconciliation of the carrying amount of deferred tax assets and liabilities movements during the year is set out below:

	30 June 2020 \$'000	30 June 2019 \$'000
Balance at 1 July	51	111
Net deferred tax liabilities acquired through acquisition of URB	(289)	-
Fair value movement on investments	239	-
Recognition of timing differences	82	(74)
Tax losses	(125)	14
Closing balance	(42)	51
Net deferred tax assets expected to reverse within 12 months	(671)	125
Net deferred tax assets expected to reverse after more than 12 months	629	(74)
	(42)	51

For further information on recognition of deferred tax balances refer to Note 2.

Note 9: Trade and other payables

	30 June 2020 \$'000	30 June 2019 \$'000
Trade payables and accruals	77	2,178
	77	2,178

Included in prior year trade payables is a \$2.1 million contract note relating to the purchase of URB shares on 28 June 2019. All trade and other payables are expected to be settled within 12 months.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 10: Equity

(a) Issued capital

	30 June 2020 000's	30 June 2019 000's
360 Capital Active REIT - Ordinary units issued	138,800	70,225
	\$'000	\$'000
360 Capital Active REIT - Ordinary units issued	24,713	12,755
Total issued capital	24,713	12,755

(b) Movements in issued capital

Movement during the year in the number of issued units of the Fund was as follows:

	30 June 2020 000's	30 June 2019 000's
Opening balance	70,225	65,854
Units issued - Institutional placement	9,143	-
Units issued for URB scrip	64,247	-
Units issued under Distribution Reinvestment Plan	-	4,371
Units bought back and cancelled	(4,815)	-
Closing balance	138,800	70,225

Movement during the year in the value of issued units of the Fund was as follows:

	30 June 2020 \$'000	30 June 2019 \$'000
Opening balance	12,755	11,949
Units issued - Institutional placement	1,715	-
Units issued for URB scrip	11,344	-
Units issued under Distribution Reinvestment Plan	-	811
Units bought back and cancelled	(989)	-
Transaction costs incurred in issuing capital	(112)	(5)
Closing balance	24,713	12,755

c) Equity Raising

During the year the Stapled Fund issued 9.14 million stapled units at \$1.18 per unit to institutional investors raising circa \$10.8 million. The allotment of new stapled units was completed on 21 October 2019. The proceeds were allocated to fund the lending activities and replenishing working capital. Securities were issued at the trading price on the day of the issue.

The Stapled Fund also issued 64.25 million stapled units under scheme of arrangement in relation to the acquisition of URB Investments Limited. The scheme was implemented on 20 December 2019 and the ASX trading of the new units commenced on 23 December 2019.

No securities were issued under the Distribution Reinvestment Plan (DRP) during the year ended 30 June 2020 (2019: 4,371,752).

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 11: Cash flow information

(a) Reconciliation of cash and cash equivalents

	30 June	30 June
	2020	2019
	\$'000	\$'000
Cash at bank	2,114	9,530
Cash and cash equivalents in the statement of cash flows	2,114	9,530

(b) Reconciliation of net profit to net cash inflows from operating activities

	30 June	30 June
	2020	2019
	\$'000	\$'000
Net income for the year	4,238	295
<u>Adjustment for:</u>		
Net gain on disposal of financial assets	515	-
Net loss/(gain) on fair value of financial assets	1,254	(270)
Tax effect of net gain on fair value of financial assets	(345)	74
Gain on business combination	(4,513)	-
Net increase in equity accounted investments	(299)	(45)
Transaction costs	777	9
Impairment of financial assets	124	-
Net sales of inventory	1,031	-
<u>Change in assets and liabilities</u>		
Increase in inventory	(11,838)	-
Increase in receivables	(369)	(63)
Increase in payables	(825)	9
Net cash (outflows)/inflows from operating activities	(10,250)	9

Risk

This section of the notes discusses the Funds' exposure to various risks and shows how these could affect the consolidated entity's financial position and performance.

Note 12: Basis of preparation

a) Reporting entity

The Active Fund forms part of the stapled entity, 360 Capital REIT, formerly 360 Capital Total Return Fund (ASX: TOT) comprising 360 Capital Passive REIT, formerly 360 Capital Total Return Passive Fund and its controlled entities and 360 Capital Active REIT, formerly 360 Capital Total Return Active Fund and its controlled entities.

The Responsible Entity of the Fund is 360 Capital FM Limited. The registered office and the principal place of business is Level 8, 56 Pitt Street, Sydney NSW 2000 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity's report.

The financial report was authorised for issue by the Board on 31 August 2020.

The principal accounting policies adopted in the preparation of the financial report are set out below and in Note 23.

b) Statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report complies with IFRS as issued and interpretations adopted by the International Accounting Standards Board.

c) Basis of preparation

Basis of preparation

360 Capital Total Return Active Fund is a for-profit entity for the purpose of preparing the financial report.

The financial report has been prepared on accruals basis and on the historical cost basis except for financial assets, which are stated at their fair value. The accounting policies set out in Note 23 have been applied consistently to all periods presented in this financial report except for the new accounting standard AASB 16 Leases. For more detail on the impact of the adoption of this standard refer to Note 23(a).

The financial report is presented in Australian dollars.

The Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the financial report and Responsible Entity report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Note 12: Basis of preparation (continued)

d) Critical judgements and significant accounting estimates

Critical accounting estimates, judgements and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting estimates, judgements and assumptions have required additional analysis due to the COVID-19 pandemic. Given the effects of the COVID-19 global pandemic continue to unfold and the ultimate impact is still unknown, changes to estimates and assumptions used to measure assets and liabilities may arise in the future. Other than adjusting events which provide evidence of conditions which existed at the reporting date, the impact of events that arise subsequent to the reporting date will be accounted for in future reporting periods.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities are:

Financial assets at fair value through profit or loss

The fair value of investments which are not traded in an active market is determined by using valuation techniques. The Fund uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The fair value assessment of these assets include the best estimate of the impacts of the COVID-19 pandemic using information available at the balance date.

Income taxes

In circumstances where the Fund becomes subject to income taxes in Australia there are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

The Fund recognises liabilities based on the Fund's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Certain new or amended Australian Accounting Standards have been published that are not mandatory for this reporting period. Based on management's assessment, the recently issued or amended Accounting Standards are not expected to have a significant impact on the amounts recognised or disclosures made in this financial report when restated for the application of the new or amended Accounting Standards.

e) Changes in accounting policies and disclosures

The Fund applied AASB 16 for the first time. The adoption of this standard has not had a material impact on the financial statements of the Fund.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 13: Capital Management

Under the direction of the Board, the Fund manages its capital structure to safeguard the ability of the Fund to continue as a going concern while maximising the return to unitholders through the optimisation of net debt and total equity balances.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units, purchase the Fund's own units, or sell assets to reduce debt. During the year the Fund issued 4.4 million securities under the Fund's Distribution Reinvestment Plan (DRP), refer to Note 8: Equity for further information.

There were no changes in the Fund's approach to capital management during the year.

Note 14: Other financial assets and liabilities

Overview

The Fund's activities expose it to various types of financial risks including credit risk, liquidity risk, and market risk. The Board of Directors of the Responsible Entity has responsibility for the establishment and oversight of the risk management framework ensuring the effective management of risk.

The Board has established risk management principles and policies and monitor their implementation. Policies are established to identify and analyse the financial risks faced by the Fund, to set appropriate risk limits and controls, and monitor the risks and adherence to limits. The Board meets regularly to review risk management policies and systems and ensure they reflect changes in market conditions and the Fund's activities.

The nature and extent of the financial instruments and the risk management policies employed by the Fund are discussed in this section.

Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund is exposed to credit risk through the financial assets listed in the table below. The table also details the maximum exposure to credit risk for each class of financial instrument.

	30 June	30 June
	2020	2019
	\$'000	\$'000
Cash and cash equivalents	2,114	9,530
Receivables	474	472
Notes receivable	9,876	-
Total	12,464	10,002

The Fund manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. At reporting date, there has been no significant deterioration in the credit risk of financial assets and nothing is credit impaired, and all amounts are expected to be received in full.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 14: Other financial assets and liabilities (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Fund's market risk is managed in accordance with the investment guidelines as outlined in the Fund's Product Disclosure Statement.

Interest rate risk

The Fund's interest rate risk arises from cash balances. The potential impact of a change in interest rates by +/-1% on profit and equity has been disclosed in a table below.

The Fund's exposure to interest rate risk by maturity period is:

	Floating interest rate \$'000	Fixed interest maturing in 1 year or less \$'000	Fixed interest maturing in 1 to 5 years \$'000	Fixed interest maturing in more than 5 years \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2020						
<u>Financial assets</u>						
Cash and cash equivalents	2,114	-	-	-	-	2,114
Receivables	474	-	-	-	-	474
Notes receivable	-	-	9,876	-	-	9,876
Total financial assets	2,588	-	9,876	-	-	12,464
<u>Financial liabilities</u>						
Trade and other payables	77	-	-	-	-	77
Total financial liabilities	77	-	-	-	-	77
Net financial assets	2,511	-	9,876	-	-	12,387
30 June 2019						
<u>Financial assets</u>						
Cash and cash equivalents	9,530	-	-	-	-	9,530
Receivables	-	-	-	-	472	472
Total financial assets	9,530	-	-	-	472	10,002
<u>Financial liabilities</u>						
Trade and other payables	-	-	-	-	2,178	2,178
Total financial liabilities	-	-	-	-	2,178	2,178
Net financial assets	9,530	-	-	-	(1,706)	7,824

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 14: Other financial assets and liabilities (continued)

Summarised interest rate sensitivity analysis

The table below illustrates the potential impact a change in interest rates by +/-1% would have had on the Fund's profit:

	Carrying amount \$'000	Change in interest rate	
		-1% Profit \$'000	1% Profit \$'000
30 June 2020			
<u>Financial assets</u>			
Cash and cash equivalents	2,114	(21)	21
Notes receivable	9,876	(100)	100
Total increase/(decrease)		(121)	121
30 June 2019			
<u>Financial assets</u>			
Cash and cash equivalents	9,530	(95)	95
Total increase/(decrease)		(95)	95

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Board has a policy of prudent liquidity risk management ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund monitors its exposure to liquidity by ensuring that there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due.

The following are contractual maturities of financial liabilities, including estimated interest payments (using existing variable interest rates):

	Carrying amount \$'000	Contractual cash flow \$'000	Less than 1 Year \$'000	Between 1- 5 Years \$'000	Over 5 Years \$'000
30 June 2020					
Trade and other payables	77	77	77	-	-
	77	77	77	-	-
30 June 2019					
Trade and other payables	2,178	2,178	2,178	-	-
	2,178	2,178	2,178	-	-

Other markets risk

The Fund does not have any material exposure to any other market risks such as currency risk.

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360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 14: Other financial assets and liabilities (continued)

Fair values

The fair value of the Fund's financial assets and liabilities are approximately equal to that of their carrying values as at 30 June 2020. The fair values of receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows and based on the lowest level input that is significant to the fair value measurements as a whole:

- Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
- Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
- Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At the balance date, the Fund held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss as at 30 June 2020	14,281	14,281	-	-
Financial assets at fair value through profit or loss as at 30 June 2019	4,819	4,819	-	-

There were no transfers between Level 1 and Level 2 fair value measurements, and no other transfers into or out of Level 3 fair value measurements. Fair value hierarchy levels are reviewed on an annual basis unless there is a significant change in circumstances indicating that the classification may have changed.

Valuation techniques

Fair value profit or loss financial assets

For fair value profit or loss financial assets, the Fund invests in listed investments. The value of the investments in the listed market is stated at unit price as quoted on the ASX at each statement of financial position date. As such, listed investments are categorised as Level 1 instruments. The fair value of the unlisted shares are estimated at the arms' length acquisition cost given this occurred within the reporting period and no material events have occurred since acquisition to suggest this is not a reasonable determination of fair value. The fair value assessment of the unlisted shares includes the best estimate of the impacts of the COVID-19 pandemic using information available at the balance date.

Fund Structure

This section of the notes provides information which will help users understand how the fund structure affects the financial position and performance of the consolidated entity.

Note 15: Business combinations

URB Investments Limited

URB Investments Limited (URB) was an ASX listed investment company specialising in investing in small and medium sized companies located within Australia and New Zealand.

The acquisition was implemented through a scheme of arrangement under which each scheme share will be transferred to TOT in exchange for 0.9833 TOT securities for every fully paid scheme share transferred (Scrip consideration).

On 6 November 2019, the resolution to approve the scheme was passed by the requisite majorities of URB shareholders. The stapled units under scrip consideration were issued on 20 December 2019.

The commencement of trading of new TOT securities on ASX was on 23 December 2019.

Details of the purchase consideration to acquire URB Investments Limited on 20 December 2019 are as follows:

	\$'000
Unit issued (64,246,737 at \$1.09)	70,029
Financial assets at fair value through profit or loss	9,240
Total purchase consideration	79,269

The fair value of assets and liabilities recognised as a result of the acquisition are as follows:

	\$'000
Assets	
Cash and cash equivalents	53,438
Receivables	30
Financial assets at fair value through profit or loss	32,317
Other current assets	608
Liabilities	
Trade and other payables	(42)
Deferred tax liabilities	(1,984)
Other current liabilities	(585)
Net identifiable assets acquired	83,782
Less: Gain on bargain purchase	(4,513)
Total purchase consideration	79,269

The fair value of receivables and other current assets approximates the collectible amount. Financial assets which consist of listed securities and unlisted property trusts have been adjusted to their market value at the date of acquisition.

A bargain on purchase of URB Investments Limited of \$4.5 million has been recognised as income in the consolidated statement of profit or loss for the period. The bargain represents the different between total purchase consideration and net identifiable assets acquired. The gain on the acquisition of URB was attributed to the lower scrip consideration paid. TOT share price was trading at a discount of circa 8% from its NAV on the implementation date

360 Capital Active REIT
Notes to the financial report
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Note 15: Business combinations (continued)

Revenue and profit contribution

The acquired business contributed revenues of \$0.5 million and a net loss after tax of \$1.6 million to the Fund from 21 December 2019 to 30 June 2020.

If the acquisition had occurred on 1 July 2019, consolidated total revenue from continuing operations and the consolidated net loss of the acquired business for the year ended 30 June 2020 would have been \$1.7 million and \$2.3 million respectively. Net loss for the half year from 1 July 2019 would include transaction costs of \$1.5 million expensed by URB prior to the Acquisition date. These amounts have been calculated using the Fund's accounting policies.

Contingent consideration

There is no contingent consideration as part of this transaction.

Purchase consideration – cash outflow on acquisition

	\$'000
Cash consideration paid	-
Cash and cash equivalents acquired	53,438
Inflow of cash to acquire subsidiary	53,438
Less: Business combination transaction costs expensed through profit or loss	(487)
Less: Business combination transaction costs recognised in equity	(62)
Total cash inflow on acquisition of controlled entity	52,889

Acquisition related costs

Acquisition related costs of \$0.49 million incurred have been expensed in the consolidated statement of profit or loss and have been included as part of net cash flows from investing activities in the consolidated statement of cash flows. Transaction costs include tax, legal and advisory fees. The attributable costs of the issuance of equity of \$0.06 million have been charged directly to equity as a reduction in issued capital and have been included as part of net cash flows from financing activities in the consolidated statement of cash flows.

Gain on fair value of financial assets

Prior to gaining control of URB on 20 December 2019, the Fund had accumulated an ownership interest of 11.7% and had recognised this investment as a financial asset at fair value through profit or loss. Upon gaining control of URB, this investment was treated as if it was disposed of at fair value on acquisition date and the resulting gain recognised in profit or loss.

	\$'000
Opening balance at 1 July 2019: Financial assets at fair value through profit or loss	4,819
Consideration paid for units	4,317
Disposal of financial assets (at Acquisition date fair value)	(9,240)
Gain on fair value of financial assets	104

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Notes to the financial report
For the year ended 30 June 2020

Note 16: Controlled entities

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries controlled by 360 Capital Active REIT:

Name of entity	Country of Domicile	Class of units	Equity Holding	
			30 June 2020	30 June 2019
360 Capital Active REIT	Australia	Ordinary	100	100
360 Capital TOT Residential Pty Limited	Australia	Ordinary	100	-
URB Investments Pty Limited	Australia	Ordinary	100	-

Unrecognised Items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

Note 17: Capital commitments and contingencies

Capital commitments

As at 30 June 2020 the Fund had no capital commitments (2019: Nil).

Contingencies

There are no contingent liabilities as at 30 June 2020 (2019: Nil).

Note 18: Events subsequent to balance date

Subsequent to balance date the Fund settled five apartments at Gladesville. Post balance date the Fund purchased \$16.0 million of listed equities.

In the event there is a longer than expected impact from the COVID-19 pandemic, this could have unforeseen impacts to the consolidated entity post 30 June 2020.

No other circumstances have arisen since the end of the year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Other Information

This section of the notes includes information that must be disclosed to comply with prescribed accounting standards and other pronouncements, but that are not immediately related to individual line items in the financial statements.

Note 19: Auditors' remuneration

	30 June 2020 \$	30 June 2019 \$
<u>Audit services</u>		
Fees for auditing the statutory financial reports of the parent and its controlled entities	50,000	28,250 8,350
Fees for other assurance services under other legislation or contractual arrangements where there is discretion as to whether the service is provided by the auditor or another firm	4,000	
<u>Non-audit services</u>		
Taxation compliance services	8,000	2,800
Total Fees to Ernst & Young Australia	62,000	39,400

Note 20: Earnings per unit

	30 June 2020 ¢	30 June 2019 ¢
Basic and diluted earnings per unit	3.9	0.4
	\$'000	\$'000
Basic and diluted profit		
Profit attributable to unitholders of 360 Capital Total Return Active Fund used in calculating earnings per unit	4,238	295
	000's	000's
Weighted average number of units used as a denominator		
Weighted average number of units – basic and diluted	108,668	67,880

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 21: Related party transactions

Responsible Entity

The Responsible Entity of the Fund is 360 Capital FM Limited. The immediate parent entity of the Responsible Entity is 360 Capital Property Limited (ABN 46 146 484 433), and its ultimate parent entity is 360 Capital Group Limited (ABN 18 113 569 136).

The registered office and the principal place of business of the Responsible Entity is:

360 Capital FM Limited
 Level 8, 56 Pitt Street
 Sydney, NSW 2000

Responsible Entity's fees and other transactions

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.

	30 June 2020	30 June 2019
	\$	\$
Fees for the year paid/payable by the Fund:		
Management of the Fund	164,850	85,923
Acquisition and Disposal fees	231,750	-
Fund recoveries charged through administration expenses	8,976	3,434
	405,576	89,357

Management Fee: The Responsible Entity is entitled to a Management Fee of 0.65% p.a. of the gross value of the assets of the Fund during the relevant year for its role in managing and administering the Fund.

Performance Fee: The Responsible Entity is entitled to a Performance Fee of 20% of any total return in excess of 12% p.a. The calculation of total return is based on actual distributions paid to Stapled Unitholders during the relevant financial year plus any increase in the trading price of Stapled Units in the relevant financial year. The Performance Fee is payable yearly in arrears after the end of the relevant financial year.

Acquisition Fee: The Responsible Entity will be entitled to an acquisition fee of up to 1.0% of the total purchase price of an investment of the Fund. The acquisition fee is payable upon the completion of the relevant acquisition.

Disposal Fee: The Responsible Entity will be entitled to a disposal fee of up to 1.0% of the total sale price of an investment sold by the Fund. The disposal fee is payable upon the completion of the relevant sale.

During the year, the Responsible Entity was entitled acquisition fees of \$45,495 relating to the Funds investment in URB however no fees were charged.

Unitholdings

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held units in the Fund as follows:

	30 June 2020	30 June 2019
360 Capital Property Limited		
Number of units held	27,785,491	18,465,165
Interest % held	20.0%	26.3%
Distributions paid/payable by the Fund (\$)	-	-

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 21: Related party transactions (continued)

The following significant transactions occurred with related parties during the year:

Related Party Loans

The Fund has a loan with the Passive Fund which relates to the charging of shared costs between the two stapled entities. The balance of the loan at 30 June 2020 is \$9,027,369 (2019: \$421,861). This loan is non-interest bearing and at call.

Joint Venture

TGP TOT JV Pty Limited (formerly 360 Capital PERE Pty Ltd) is a joint venture between the Group and 360 Capital REIT (ASX: TOT). On 23 December 2019, TGP TOT JV Pty Ltd acquired 19.99% shares in Velocity Property Group (ASX: VP7)(Velocity) for a total of \$1.6 million or 2.0 cents per security. Velocity is an ASX listed boutique property development company that develops multi-unit apartment and mixed commercial developments in Queensland.

Investment from related entity

During the year, 360 Capital Group acquired 6,642,587 securities in the Fund on market and an addition of 2,677,739 securities from the conversion of existing Group's investment in URB Investments Limited through URB Scrip (scheme of arrangement).

Key management personnel

The Fund does not employ personnel in its own right. However, it has an incorporated Responsible Entity, 360 Capital FM Limited, to manage the activities of the Fund. The directors and key management personnel of the Responsible Entity are detailed below. No compensation is paid directly by the Fund to directors or to any of the key management personnel of the Responsible Entity.

Payments made by the Fund to the Responsible Entity do not specifically include any amounts attributable to the compensation of key management personnel.

Directors

David van Aanholt (Chairman)
 Tony Robert Pitt
 William John Ballhausen
 Graham Ephraim Lenzner
 Andrew Graeme Moffat

Management personnel unitholdings

The number of units held directly or indirectly by Directors, Key Management Personnel and their related parties as at 30 June 2020 are as follows:

Name	Position	30 June	Acquisitions	30 June
		Equity Holding		Equity Holding
David van Aanholt	Director	26,016	-	26,016
Tony Robert Pitt	Director	836,148	100,000	936,148
William John Ballhausen	Director	120,000	-	120,000
Graham Ephraim Lenzner	Director	153,907	-	153,907
Andrew Graeme Moffat	Director	430,956	-	430,956
Glenn Butterworth	KMP	29,642	17,843	47,485
James Storey	KMP	9,000	23,307	32,307

360 Capital Active REIT
Notes to the financial report
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Note 22: Parent entity disclosures

The following details information relating to the parent entity 360 Capital Active REIT. The information presented below has been prepared using the consistent accounting policies as presented in Note 23.

	30 June 2020 \$'000	30 June 2019 \$'000
Current assets	2,026	10,002
Non-current assets	98,440	5,267
Total assets	100,466	15,269
Current liabilities	1,746	2,178
Non-current liabilities	69,542	-
Total liabilities	71,288	2,178
Issued units	24,713	12,755
Retained earnings	4,465	336
Total equity	29,178	13,091
Net profit for the year	4,129	295
Total comprehensive profit for the year attributable to securityholders	4,129	295

Note 23: Statement of significant accounting policies

a) Changes in accounting policy

The Fund applied AASB 16 for the first time. The nature and effect of the changes as a result of adoption of this new accounting standards are described below.

AASB 16 Leases

AASB 16 *Leases* (AASB 16) introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard replaces AASB 117 *Leases* and is effective for annual periods beginning on or after 1 January 2019.

The Fund has adopted AASB 16 and related amendments from 1 July 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Fund does not currently have existing lease contracts and as a result no adjustments have been made to the financial statements.

There were no other changes to the Fund's accounting policies for the financial reporting year commencing 1 July 2019. The remaining policies of the Fund are consistent with the prior year.

360 Capital Active REIT
Notes to the financial report
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Note 23: Statement of significant accounting policies (continued)

b) Basis of consolidation

Stapling

On 21 April 2015, 360 Capital REIT was formed by stapling together the units of the 360 Capital Passive REIT, formerly 360 Capital Total Return Passive Fund, and the units of 360 Capital Active REIT, formerly 360 Capital Total Return Active Fund. Equity holders of the Stapled Fund are entitled to an equal interest in each stapled entity.

The Constitutions of the Passive Fund and the Active Fund ensure that, for so long as these entities remain jointly listed, the number of units in the Passive Fund and the number of units in the Active Fund shall be equal and that unitholders in both funds be identical. Both the Responsible Entity of the Passive Fund and the Active Fund must at all times act in the best interest of consolidated entity.

The stapling arrangement will cease upon the earlier of the winding up of any of the stapled entities, or any of the entities terminating the stapling arrangement.

Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Fund as at 30 June 2020 and the results of all controlled entities for the period then ended.

Controlled entities are entities controlled by the Fund. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of controlled entities are included in the financial report from the date that control commences until the date that control ceases.

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

Investments in controlled entities are accounted for at cost in the individual financial statements of the parent entity, less any impairment.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Fund's share of net assets of the associate or joint venture since the acquisition date.

The Fund's share of net profit or loss is recognised in the statement of profit or loss from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

c) Segment reporting

The Fund invests solely in the property sector within Australia.

The Chief Operating Decision Maker being, the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment.

Note 23: Statement of significant accounting policies (continued)

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of GST paid. Revenue is recognised for the major business activities as follows:

Distributions from property funds

Distribution income from investments is recognised when the unitholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the unitholder and the amount of income can be measured reliably.

Finance revenue

Interest income is recognised on a time proportion basis using the effective interest method. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Other income

Other income is recognised when the right to receive the revenue has been established.

e) Finance expenses

Finance expenses which include interest and amortised borrowing costs are recognised using the effective interest rate applicable to the financial liability.

f) Income tax

Under current Australian income tax legislation, the Funds are generally not liable for income tax provided their taxable income and taxable capital gains are fully distributed to unitholders each year. In the circumstances if a managed investment trust undertakes certain trading activities that trust may be liable to pay income tax.

Active Fund

Income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction and deferred tax expense calculated by reference to changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Fund has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Note 23: Statement of significant accounting policies (continued)

g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

i) Receivables

Receivables and Loans receivable are classified and measured as *Financial assets at amortised cost* under AASB 9 *Financial Instruments*. Receivables are recognised initially at fair value and subsequently at amortised cost. The payment terms are usually 30 days after the invoice is raised. They are classified as current assets except where the maturity is greater than 12 months after the reporting date in which case they are classified as non-current.

The Fund assesses expected credit losses upon initial recognition of the financial asset with a forward-looking expected credit loss (ECL) approach. For trade and other receivables, the Fund applies the simplified approach permitted by the standard, which requires expected lifetime losses to be recognized from initial recognition of the receivables. Any allowances for non-recoverable receivables were recognised in a separate allowance account. Any bad debts which had previously been provided for were eliminated against the allowance account. In all other cases bad debts were written off directly to the statement of profit or loss.

j) Financial instruments

Financial assets and financial liabilities are recognised when a Fund entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Fund measures a financial assets and financial liabilities (other than trade receivables, loan receivables and cash) at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Financial assets are classified into the following specified categories: "Financial assets at amortised cost" and "Financial assets at fair value through profit or loss". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss comprises investments in unlisted and listed funds. Upon initial recognition, the investments are designated at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*.

Financial assets measured at fair value through profit or loss at inception, are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 23: Statement of significant accounting policies (continued)

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risk and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of profit or loss within income or expenses in the period in which they arise. Dividend/distribution income from financial assets at fair value through profit and loss is recognised in the statement of profit or loss as part of revenue from continuing operations when the Fund's right to receive payments is established.

Financial assets at amortised cost

Refer to Note 23(i).

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Impairment

Under AASB 9, the Fund's accounting for impairment losses for financial assets has changed, by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Fund has applied the simplified approach and recorded lifetime expected losses on trade and other receivables. The ECL on trade and other receivables is immaterial.

k) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Fund prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

l) Provisions

A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

Distributions

A provision for distributions payable is recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial period, but not distributed at balance date.

m) Issued capital

Issued capital represents the amount of consideration received for stapled securities issued by the Fund. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

n) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

360 Capital Active REIT
Notes to the financial report
For the year ended 30 June 2020

Note 23: Statement of significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

o) Accounting standards issued but not yet effective

The following new accounting standards, amendments to standards and interpretations have been issued, but are not mandatory as at 30 June 2020. They are available for early adoption, but have not been applied in preparing these financial statements. The Fund plans to adopt these standards on the effective date. The impact of these new standards and interpretations are as follows:

- AASB 3 Amendments to AASB 3 *Definition of a Business* (application date 1 January 2020)
- AASB 101 Amendments to the definition of materiality (application date 1 January 2020)
- AASB 7 Interest rate benchmark reform on hedge accounting (application date 1 January 2020)

The recently issued amendments are not expected to have a significant impact on the amounts recognised in the financial statements at the effective date.

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360 Capital Active REIT
Directors' declaration
For the year ended 30 June 2020

In the opinion of the Directors of 360 Capital FM Limited, the Responsible Entity:

- 1) The financial statements and notes that are set out on pages 7 to 37, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- 2) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- 3) The Directors have given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2020.
- 4) The Directors draw attention to Note 12(b) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Directors.



David van Aanholt
Chairman

Sydney
31 August 2020



Tony Robert Pitt
Managing Director



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Independent Auditor's Report to the unitholders of 360 Capital Active REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of 360 Capital Active REIT (the Fund) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the declaration of directors of 360 Capital FM Limited, the Responsible Entity of the Group.

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

- a) giving a true and fair view of the financial position of the Group as at 30 June 2020 and of its financial performance for the year ended on that date; and
- b) 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 (including Independence Standards)* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.



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Acquisition of URB Investment Limited (URB)

Why significant

During the year the Group acquired 100% of the securities in the previously listed URB Investments Limited via a scheme of arrangement. Prior to the scheme of arrangement 360 Capital REIT (TOT) owned 11.66% of the shares of URB Investments Limited. Management has applied the principles of AASB 3 Business combinations and accounted for the above acquisition as business combination. The details of the business combination are disclosed in note 19.

The fair value of the net assets acquired was \$84.8m which exceeded the purchase consideration by \$5.6m. This was recognised as a gain on bargain purchase in the profit and loss.

Given the significance of the acquisition to the consolidated statement of financial position of the Group and the judgement involved in performing the purchase price allocation to the acquired assets and liabilities, we considered this to be a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ We have examined the scheme of arrangement agreements and related court and regulatory approvals.
- ▶ We have assessed whether the accounting treatment is in line with the relevant accounting principles of AASB 3 Business combinations.
- ▶ We have agreed the assets and liabilities acquired by TOT to the financials records of URB as at acquisition date and assessed the fair values allocated to the assets and liabilities.
- ▶ As this business combination was achieved in stages, we have verified that TOT has remeasured its previously held equity interest in URB at its acquisition-date to fair value and recorded the resulting gain in the income statement.
- ▶ We involved EY tax specialists to assess the tax implications of the transaction to determine whether they have been appropriately identified and recorded.
- ▶ We have assessed the adequacy of the disclosures in the financial statements as at 30 June 2020.

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

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Group's 2020 Annual Report, 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 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating 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 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment 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.



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- 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 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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young
Ernst & Young

Mark Conroy

Mark Conroy
Partner
Sydney

31 August 2020

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