

Pelathon Pub Group

Consolidated Annual Financial Report

Year Ended 30 June 2017

Pelathon Hotels Limited
ABN 80 117 204 225
Pelathon Hotels No 2 Limited
ABN 78 619 064 998
Pelathon Pub Fund
ARSN 123 286 304
Suite 1, 207 Ben Boyd Road
Neutral Bay NSW 2089
Phone: (02) 9098 9100

Pelathon Pub Group

CONTENTS

Annual Financial Report

Directors' Report	Page 3
Auditor's Independence Declaration	Page 8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	Page 9
Consolidated Statement of Financial Position	Page 10
Consolidated Statement of Changes in Equity	Page 11
Consolidated Statement of Cash Flows	Page 12
Notes to the Consolidated Financial Statements	Page 13
Directors' Declaration	Page 37
Independent Auditor's Report	Page 38

Pelathon Pub Group

Directors' Report

The Directors present their report together with the consolidated financial report of the Pelathon Pub Group (Group) for the year ended 30 June 2017. The Group is comprised of:

- (1) Two companies - Pelathon Hotels Limited (PHL) and its controlled entities and Pelathon Hotels No 2 Limited (PHL 2) and its controlled entities (together referred to as the 'Companies'); and
- (2) A trust - Pelathon Pub Fund and its controlled entities (Fund) (an Australian registered scheme for which Pelathon Funds Management Limited (PFML) acts as responsible entity).

Shares in both of the Companies are stapled to each other and to the units in the Fund. For the purposes of this financial report the Fund is identified as the parent entity of the Group.

The consolidated financial reports of the Group for the year ended 30 June 2017 comprise the consolidated financial reports of the Fund and the Companies.

Principal Activities & Result

The principal activity of the Group is the ownership and operation of hotel and pub businesses. Hotel and pub operations are undertaken by a specialist management company known as Pelathon Management Group Pty Limited (Pelathon) on behalf of PFML.

The net result for the Group was a profit after tax of \$8,242,431 (2016: \$1,661,237). The result includes a fair value adjustment to the carrying value of the funds hotel assets of \$7,313,846 (2016: \$500,148). The fair value adjustment is based on valuations of the Group's assets that were performed by registered independent valuers in April 2017.

For the financial year ended 30 June 2017 the Group generated operating cash flows of \$1,343,919 (2016: \$1,633,787) with after tax earnings from operations excluding property, plant and equipment depreciation and fair value adjustments of \$1,207,264 (2016: \$1,423,152).

Significant Changes in Affairs

Stapling and Consolidation

At a general meeting of the Pelathon Pub Fund on 19 June 2017, the following resolutions were passed:

- the issue of new shares in Pelathon Hotels No 2 Limited to existing holders of stapled securities in the Pub Fund Group and the stapling of those new shares to existing stapled securities in the Pub Fund Group.
- consolidation of both the share capital of Pelathon Hotels Limited and the issued units of Pelathon Pub Fund through the conversion of every 10 shares and units into one share and unit in each entity.

Acquisition of Motel and Pub Properties

In May and June 2017, the Group entered into sale contracts to acquire the freehold going concern interests of three new assets, namely:

- Diplomat Motel, Alice Springs NT
- Tandara Hotel Motel, Sarina QLD
- Queens Hotel Motel, Gladstone Qld

Pelathon Pub Group

Directors' Report (continued)

Significant Changes in Affairs (continued)

Settlement of these properties did not occur during the 2017 financial year and as a result the financial performance of the Fund during the 2017 financial year was not impacted by the acquisition of these new assets.

Other than the stapling and consolidation and the acquisition of new Motel and Pub properties, there were no significant changes to the state of affairs of the Group during the financial year.

Dividends / Distributions

The Fund commenced quarterly distributions from 1st October 2016. Distributions of \$894,672 (2016: Nil) were paid or declared during the 2017 financial year. The distribution was in the form of a return of capital to unitholders. No dividends were paid by the Companies for the year ended 30 June 2017 (2016: \$nil).

Likely Developments

Pelathon is continually assessing market opportunities to add new hotel assets to the Fund that will improve the fund's overall performance and level of gearing.

To the best knowledge of Directors, there are no other significant developments expected in respect of the Group. The performance of the Group in the future will be subject to the underlying investment markets over time.

Events Subsequent to Reporting Date

On 24 July 2017, the Fund issued an Information Memorandum as a supplementary offer document to the Offer Document dated 26th July 2016 which comprised a product disclosure statement and prospectus. The Information Memorandum is an offer to subscribe for Stapled Securities in the Fund at a price of 98c per unit. The purpose of the offer is primarily to assist in funding the acquisition of the three motel and pub property assets as outlined in the Significant Changes in Affairs section of this report.

On 14 September 2017, the Fund completed the acquisition of the Diplomat Motel in Alice Springs. The \$9.65m purchase price for the freehold going concern was funded by a combination of bank finance of \$7.0m, a vendor finance loan of \$2.0m and the issue of \$0.65m of units in the Fund to the vendors.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

Directors

The names of the Directors of the Companies and Pelathon Funds Management Limited at any time during or since the end of the year are set out below. The Directors of Pelathon Hotels Limited and Pelathon Pub Fund have been in office since the beginning of the financial year to the date of this financial report. The Directors of Pelathon Hotels No 2 Limited have been in office since the date of the entities incorporation on 12 May 2017 to the date of this financial report.

Darren Baker
James (Jaz) Mooney
David Horton

Pelathon Pub Group

Directors' Report (continued)

Information on Directors

Particulars of Directors' qualifications, experience and special responsibilities are as follows:

Darren Baker **Director and Company Secretary (Pelathon Hotels Limited)**
Director and Company Secretary (Pelathon Hotels No 2 Limited)
Director (Pelathon Funds Management Limited)

Darren has 25 years' experience owning and operating small businesses and hotels. He was the licensee (approved manager) of the Bald Rock Hotel for the seven years. He is experienced in all facets of hotel operation including cash handling and accounting, gross profit and stock control, gaming, TAB and Keno operations. His primary areas of responsibility are manager liaison, acquisition, due diligence and portfolio operations.

James (Jaz) Mooney **Director (Pelathon Hotels Limited)**
Director (Pelathon Hotels No 2 Limited)
Director (Pelathon Funds Management Limited)

Jaz has over thirty years' experience in the industry, building and developing Botanic Inns Limited in the United Kingdom before selling up and moving to Australia in 2006. He specialises in all aspects of the day to day running of hotels/pubs/restaurants with a particular focus on marketing the businesses and renovations without breaking the bank. Jaz has worked closely with businesses in trouble and has provided solutions, leading to a clear plan to go forward, whether corporately or at a single asset level.

David Horton **Director (Pelathon Hotels Limited)**
Director (Pelathon Hotels No 2 Limited)
Director and Company Secretary (Pelathon Funds Management Limited)

David is a Chartered Accountant with 25 years of accounting, business and tax experience. David operates his Chartered Accounting practice providing accounting, tax and consulting services to clients across a broad range of industries. In the ten years prior to establishing his practice, David held senior finance and corporate advisory roles in public and large private companies. David has significant experience in asset sales, acquisitions, business integrations, public listings and take-overs, particularly in the media and entertainment space. David has a Bachelor of Business, is a member of the Institute of Chartered Accountants of Australia and a Fellow of the Financial Services Institute of Australasia.

Meeting Attendances

Attendances at Board meetings held during the financial year are detailed below:

Director	PFML	PHL	PHL2
Meetings Held	12	12	2
Darren Baker	12	12	2
Jaz Mooney	12	12	2
David Horton	12	12	2

Pelathon Pub Group

Directors' Report (continued)

Proceedings on behalf of the Group

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the period.

Environmental Regulation and Performance

The Group's operations are not regulated by any significant environmental law or regulation under either Commonwealth or State legislation other than those that pertain to the ownership and development of real estate. The Directors of the Company and the Responsible Entity believe that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any instances of non-compliance of those environmental requirements as they apply to the Group.

Indemnities of Officers

During the financial period the Group has paid premiums to insure each of the Directors named in this report along with officers of the Company against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company or the Responsible Entity, other than conduct involving a willful breach of duty. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor to the Group.

Non-audit Services

Amounts paid to the auditor for non-audit services during the year are detailed at Note 15 of the financial statements. 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

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements.

Auditor

ESV Accounting and Business Advisors continues in office in accordance with section 327 of the Corporations Act 2001.

Pelathon Pub Group

Directors' Report (continued)

Signed in accordance with a resolution of the Board of Directors.



Darren Baker
Director
Sydney, 29 September 2017



David Horton
Director
Sydney, 29 September 2017



Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001 To the Directors of Pelathon Pub Group

As auditor of the financial report for Pelathon Pub Group for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

Dated at Sydney 28th of September 2017

A handwritten signature in black ink that reads 'ESV'.

ESV Accounting and Business Advisors

A handwritten signature in black ink that reads 'Tim Valtwies'.

Tim Valtwies
Partner

Pelathon Pub Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

	Notes	2017 \$	2016 \$
Revenue			
Hotel Operations Income		19,049,940	18,637,551
Other income		6,584	145
Total Revenue	3	19,056,524	18,637,696
Expenses			
Cost of sales		(8,467,605)	(8,341,307)
General and administrative expenses		(350,464)	(349,172)
Marketing expenses		(779,539)	(585,352)
Poker machine expenses		(458,393)	(347,568)
Operating expenses		(938,345)	(941,032)
Employment expenses		(4,991,728)	(4,841,601)
Occupancy costs		(852,142)	(777,973)
Other management expenses		(515,564)	(412,539)
Depreciation and amortisation		(278,679)	(262,063)
Finance costs		(495,480)	(618,000)
Fair value adjustment of property, plant & equipment		7,313,846	500,148
Profit Before Income Tax		8,242,431	1,661,237
Income tax expense	4	-	-
Profit After Income Tax for the year		8,242,431	1,661,237
Other Comprehensive Income		-	-
Total Comprehensive Profit for the year		8,242,431	1,661,237
Profit for the year is attributable to:			
Pelathon Pub Fund		7,365,211	958,632
Pelathon Hotels Limited		884,063	702,605
Pelathon Hotels No 2 Limited		(6,843)	-
		8,242,431	1,661,237
Total Comprehensive Income for the year is attributable to:			
Pelathon Pub Fund		7,365,211	958,632
Pelathon Hotels Limited		884,063	702,605
Pelathon Hotels No 2 Limited		(6,843)	-
		8,242,431	1,661,237

The accompanying notes form part of these consolidated financial statements.

Pelathon Pub Group

Consolidated Statement of Financial Position As at 30 June 2017

	Note	2017 \$	2016 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	941,981	817,716
Trade and other receivables	6	65,089	48,347
Inventories	7	461,808	602,159
Other assets	8	833,835	90,304
Total Current Assets		2,302,713	1,558,526
Non-Current Assets			
Property plant and equipment	9	31,800,000	23,900,000
Total Non-Current Assets		31,800,000	23,900,000
TOTAL ASSETS		34,102,713	25,458,526
LIABILITIES			
Current Liabilities			
Trade and other payables	10	1,874,739	1,615,068
Interest bearing liabilities	11	-	12,742,332
Provisions	12	129,057	96,958
Total Current Liabilities		2,003,796	14,454,358
Non-Current Liabilities			
Interest bearing liabilities	11	10,534,000	-
Provisions	12	86,717	90,046
Total Non-Current Liabilities		10,620,717	90,046
TOTAL LIABILITIES		12,624,513	14,544,404
NET ASSETS		21,478,200	10,914,122
EQUITY			
Contributed equity	13	27,876,102	25,554,455
Accumulated losses		(6,397,902)	(14,640,333)
TOTAL EQUITY		21,478,200	10,914,122
Equity attributable to members of Pelathon Pub Fund (Parent interest)			
Contributed equity		22,075,619	20,397,238
Accumulated losses		(2,595,663)	(9,960,874)
Total Equity attributable to members of Pelathon Pub Fund		19,479,956	10,436,364
Equity attributable to members of Pelathon Hotels Limited			
Contributed equity		5,800,482	5,157,217
Accumulated losses		(3,795,396)	(4,679,459)
Total Equity attributable to members of Pelathon Hotels Limited		2,005,086	477,758
Equity attributable to members of Pelathon Hotels No 2 Limited			
Contributed equity		1	-
Accumulated losses		(6,843)	-
Total Equity attributable to members of Pelathon Hotels No 2 Limited		(6,842)	-

The accompanying notes form part of these consolidated financial statements.

Pelathon Pub Group

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2017

	No. of securities	Contributed equity \$	Accumulated losses \$	Total \$
Balance at 1 July 2016	128,073,505	25,554,455	(14,640,333)	10,914,122
Issues of securities	47,351,094	3,216,319	-	3,216,319
Consolidation of Securities	(157,881,611)	-	-	-
Distributions Paid	-	(894,672)	-	(894,672)
Profit after income tax for the year	-	-	8,242,431	8,242,431
Other comprehensive income	-	-	-	-
Balance at 30 June 2017	17,542,988	27,876,102	(6,397,902)	21,478,200
Balance at 1 July 2015	121,647,097	25,021,064	(16,301,570)	8,719,494
Issues of securities	6,426,408	533,391	-	533,391
Profit after income tax for the year	-	-	1,661,237	1,661,237
Other comprehensive income	-	-	-	-
Balance at 30 June 2016	128,073,505	25,554,455	(14,640,333)	10,914,122

The accompanying notes form part of these consolidated financial statements.

Pelathon Pub Group

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

		2017	2016
		\$	\$
Cash Flows From Operating Activities			
Receipts from customers inclusive of GST		20,938,851	20,545,960
Payments to suppliers and employees inclusive of GST		(19,106,036)	(18,294,318)
Interest paid		(495,480)	(618,000)
Interest received		6,584	144
Net Cash Flows From Operating Activities	17	<u>1,343,919</u>	<u>1,633,787</u>
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(2,215,512)	(334,916)
Proceeds from sale of assets		581,483	-
Net Cash Flows Used in Investing Activities		<u>(1,634,029)</u>	<u>(334,916)</u>
Cash Flows From Financing Activities			
Proceeds from issue of securities		3,216,319	-
Payment of distributions		(593,612)	-
Repayment of borrowings		(2,208,332)	(1,685,008)
Net Cash Flows From/(Used in) Financing Activities		<u>414,375</u>	<u>(1,685,008)</u>
Net Increase/(Decrease) in Cash Held		124,265	(386,137)
Cash and cash equivalents at the beginning of the year		817,716	1,203,853
Cash and Cash Equivalents at End of the Year	5	<u>941,981</u>	<u>817,716</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies

The financial statements of Pelathon Pub Group comprise the financial statements of Pelathon Hotels Limited and its subsidiaries, Pelathon Hotels No 2 Limited and its subsidiaries and Pelathon Pub Fund and its controlled entities (the Fund). Pelathon Hotels Limited and Pelathon Hotels No 2 Limited are unlisted public companies, incorporated and domiciled in Australia. The Pelathon Pub Fund is a registered management scheme registered under the Corporations Act 2001 in Australia.

Pelathon Funds Management Limited (PFML), the Responsible Entity of the Fund, is incorporated and domiciled in Australia. Australian Executor Trustees Limited is the custodian of the Fund (the Custodian). The relationship of these parties with the Fund is governed by the terms and conditions specified in the Constitution.

The consolidated financial statements for Pelathon Pub Group for the year ended 30 June 2017 were authorised for issue in accordance with the resolution of the directors of the Company and of PFML on 25 September 2017.

Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Going Concern

This financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Change in Accounting Policies

There were no changes in accounting policies for the Group during the 2017 financial year.

Presentation of financial statements

Presentation currency

Both the functional and presentation currency of the Group is Australian dollars.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment refer to the Group's freehold going concern ownership of hotels, gaming machine entitlements and liquor licences together with any plant and equipment used in operating the hotels. Property, Plant, Equipment and Intangibles have been valued on a composite asset basis as each of the components of property, plant, equipment and intangibles are fundamental to the nature of being able to earn income from the integrated hotel property owning and operating business.

The basis of valuation of the property, plant, equipment and intangibles is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Depreciation

The depreciable amounts of all fixed assets are written off over the estimated life of each asset using either of the straight line/diminishing value methods.

Useful life

The estimated useful lives used for each class of depreciable assets are:

Plant and Equipment	over 2 to 40 years
---------------------	--------------------

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Disposal

An item of plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognised.

Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, either the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the income of the asset is capitalised at its relevant capitalisation rate.

An impairment loss is recognised if the carrying value of an asset exceeds its recoverable amount. Impairment losses are expensed to the statement of profit or loss and other comprehensive income.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Principles of Consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of Pelathon Pub Fund and its subsidiaries, Pelathon Hotels Limited and its controlled entities and Pelathon Hotels No 2 Limited and its controlled entities as at 30 June 2017. A list of controlled entities is contained in Note 20 to the financial statements. All controlled entities have a June financial year-end and use consistent accounting policies.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Where controlled entities have entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased. A controlled entity is an entity for which the Group has the ability to control and direct the activities that significantly influence returns.

Inter-company balances

All inter-company 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 consistencies with those policies applied by the parent entity.

Stapled Securities

The Pelathon Pub Group comprise the Pelathon Pub Fund, Pelathon Hotels Limited and Pelathon Hotels No 2 Limited. On a consolidated basis, stapled securities are issued by the Group. Each stapled security comprises one fully paid unit in the Fund to the value of 80% of the issue price of a stapled security, one share in Pelathon Hotels Limited to the value of 20% of the issue price of a stapled security and one share in Pelathon Hotels No 2 Limited which was issued to investors in the Fund for no consideration. The securities cannot be disposed of or traded independently of each other. The percentage apportionment of the value of a stapled security to the Fund can be varied subject to agreement by both the Directors of the Companies and the Directors of the Responsible Entity of the Fund. Any change to the percentage apportionment would not impact the issue price or value of a stapled security issued to potential investors.

Distributions

In accordance with the Fund Constitution, the Fund fully distributes its distributable income to unitholders. Such distributions are determined by reference to the taxable income of the Fund.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

Distributable income may include realised capital gains arising from the disposal of investments. Unrealised gains and losses on investments are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against future realised capital gains.

In accordance with the Fund Constitution, the Fund may distribute capital to unitholders.

Unit prices

Unit prices are determined in accordance with the Group's Constitution and Product Disclosure Statement and are calculated as net tangible assets attributable to securityholders of the Group, divided by the number of stapled securities on issue. Net tangible assets are arrived at by deducting bank and other borrowings from the fair value of all hotel and pub assets which include land and buildings, plant and equipment, gaming machine entitlements and liquor licences based on the latest valuations.

Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Recognition

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flow from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Loans and receivables

Loans and receivables including loans to related entities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities

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

Interest bearing borrowings

Interest bearing borrowings are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial instrument is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

An impairment loss in respect of a financial instrument measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial instruments are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial instruments measured at amortised cost, the reversal is recognised in profit and loss.

Employee benefits

Provision is made in respect of the entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year, together with benefits arising from salaries and annual leave which will be settled after one year have been measured at their nominal amount.

The provision for long service leave has been calculated at the nominal rate for employees with more than five years service with the Group as it is believed that this would not materially understate the provision.

Contributions are made by the Group to an employee superannuation fund and are charged as expenses when incurred. The Group has no legal obligation to provide benefits to employees on retirement.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Inventories

Inventories are measured at the lower of cost or net realisable value.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectible.

Trade and other payables

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

Revenue

Revenue from sale of goods is recognised upon the delivery of goods to customers. Interest revenue is recognised using the effective interest rate method. Revenue from the rendering of a service is recognised upon delivery of the service to the customers. Gaming revenue is recognised as net funds (cash invested less payments to players) net of government taxes and charges.

Income Tax

Current income tax expense

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted for any non-assessable or disallowed items and for any unused tax losses. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Accounting for deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax calculation

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

1. Statement of Significant Accounting Policies (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Benefit brought to account

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)

The Group does not expect the new standard to have any material effect on the Group's financial statements.

AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018)

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group does not expect the new standard to have any material effect on the Group's financial statements.

IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)

The new standard 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 also requires enhanced disclosure to be provided by lessors that will improve information disclosed about a lessor's risk exposure particularly to residual risk. When adopted, it will result in a right to use asset and corresponding lease liability being recorded in the Balance Sheet. The Group has not yet quantified the impact that the adoption of the new standard will have on the Group's financial statements.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

2. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments 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 Group.

Key estimates - Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. The Directors believed it appropriate to raise no impairment provisions for the year ended 30 June 2017.

Key estimates - Valuation of Hotel and Pub Properties

Further information relating to key Director estimates for hotel and pub properties is contained in Note 9.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

3. Revenue

	2017	2016
	\$	
Revenue from hotel operations:		
- Food and beverage sales	13,451,286	13,635,725
- Gaming revenue	4,835,272	4,322,971
- Rental income	16,022	24,761
- Other income	747,360	654,094
	<u>19,049,940</u>	<u>18,637,551</u>
Other income:		
- Interest income	6,584	145
Total revenue	<u>19,056,524</u>	<u>18,637,696</u>

4. Income Tax Expense

	2017	2016
	\$	\$
Current tax	-	-
Deferred tax	-	-
Total income tax expense	<u>-</u>	<u>-</u>
Profit before income tax	8,242,431	1,661,237
Prima facie tax on (profit) from ordinary activities before income tax at 30% (2016: 30%)	(2,472,729)	(498,371)
Adjustment for prior year losses	-	138,773
Fair value adjustment of property, plant & equipment	2,194,154	150,044
Add / (less) tax effect of:		
Tax losses not brought to account	278,575	209,554
Total income tax expense	<u>-</u>	<u>-</u>

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur:

Tax Effect of Tax Losses Carried Forward	1,083,835	1,389,419
--	-----------	-----------

5. Current Assets - Cash and Cash Equivalents

	2017	2016
	\$	\$
Cash on hand and at bank	941,981	817,716
Total cash and cash equivalents	<u>941,981</u>	<u>817,716</u>

(a) Effective interest rate

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

6. Current Assets - Trade and Other Receivables

	2017	2016
	\$	\$
Trade receivables:		
- Trade debtors	41,657	30,873
- Sundry debtors	23,432	17,474
Total trade and other receivables	65,089	48,347

None of the receivables were impaired as at 30 June 2017 (2016: \$nil).

7. Current Assets - Inventories

	2017	2016
	\$	\$
Food supplies and beverages	461,808	602,159
Total inventories	461,808	602,159

8. Current Assets - Other Assets

	2017	2016
	\$	\$
Prepaid expenses	134,015	84,324
Security and other deposits	10,980	5,980
Deposits paid for acquisition of new hotel/pub assets	688,840	-
Total other assets	833,835	90,304

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

9. Current and Non-Current Assets - Property, plant, equipment and intangibles

Property, plant, equipment and intangibles refers to the Group's freehold going concern ownership of hotels, gaming machine entitlements and liquor licences together with plant and equipment used in operating the hotels.

	2017 \$	2016 \$
Non-Current		
Hotel and pub properties at fair value	31,800,000	23,900,000
Total Property, plant, equipment and intangibles	31,800,000	23,900,000
Reconciliation		
Carrying amount at the beginning of the year	23,900,000	23,350,000
Hotel assets sold during the year	(528,621)	-
Additions to existing property	1,393,454	311,915
Depreciation	(278,679)	(262,063)
Net fair value adjustments	7,313,846	500,148
	31,800,000	23,900,000

The following table shows the cumulative fair value of the hotel and pub properties as at balance date.

Name	Fair value 30 June 2017 \$	Fair value 30 June 2016 \$
Amaroo Tavern, Moree, NSW	5,000,000	5,600,000
Victoria Hotel, Wagga Wagga, NSW	17,900,000	12,000,000
Mary G's Hotel, Lismore, NSW	8,900,000	6,300,000
Total hotel and pub properties	31,800,000	23,900,000

The Group's property, plant, equipment and intangible assets are valued on a composite basis using the revaluation model.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

9. Current and Non-Current Assets - Property, plant, equipment and intangibles (continued)

Directors' valuations as at 30 June 2017

Fair value represents the value apportioned to the freehold, gaming entitlements and liquor licences held by the Group as stated in the Directors' valuations.

Valuation information of the aggregate of the freehold interest in the hotel assets on a going concern basis including gaming entitlements, hotel licences held by the Fund, trade furniture, fixtures and fittings, plant and equipment and goodwill, subject to vacant possession but excluding stock in trade as stated in the Directors' valuation is as follows:

Name	Adopted yield	Directors' valuation	Adopted yield	Directors' valuation
	30 June 2017	30 June 2017 \$	30 June 2016	30 June 2016 \$
Amaroo Tavern, Moree, NSW ¹	14.01%	5,000,000	15.00%	5,600,000
Victoria Hotel, Wagga Wagga, NSW ¹	12.52%	17,900,000	13.00%	12,000,000
Mary G's Hotel, Lismore, NSW ¹	14.00%	8,900,000	14.10%	6,300,000
Total hotel and pub properties		31,800,000		23,900,000

Valuation of hotel and pub properties

The basis of valuation of hotel and pub properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition.

Valuations were performed by registered independent valuers in April 2017 by reference to recent market sales of similar properties and common valuation methodologies including capitalisation of income projections on a going concern basis. These values have been adjusted where appropriate to reflect market conditions (including consideration of appropriate market evidence where available) at year end and represent the best estimates of fair value at the balance sheet date.

¹ FY2016 - Directors valuation (FY2016 is Directors adopted valuation inputs from independent valuations performed in October 2015).

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

9. Current and Non-Current Assets - Property, plant, equipment and intangibles (continued)

Ownership

All hotel and pub properties are freehold and 100% owned by the Group and are comprised of land, buildings, fixed improvements, liquor licences and gaming entitlements, trade furniture and fixtures and fittings associated with the hotels.

Capital commitments

There were no capital expenditure commitments contracted in relation to the properties as at 30 June 2017.

Assets pledged as securities

The value of the Group's property, plant, equipment and intangibles is pledged as security for the Group's bill facilities with its financier.

10. Current Liabilities – Trade and Other Payables

	2017	2016
	\$	\$
Trade and Other Payables		
- Trade creditors	1,798,595	1,454,526
- Accrued expenses	76,144	160,542
Total trade and other payables	1,874,739	1,615,068

11. Current and Non-Current Liabilities – Interest Bearing Liabilities

	2017	2016
	\$	\$
Current		
Secured - bank borrowings	-	12,742,332
Total current borrowings	-	12,742,332
Non-Current		
Secured - bank borrowings	10,534,000	-
Total current borrowings	10,534,000	-

The fund's bank financing is provided by National Australia Bank. In January 2017, the Fund extended the term of its existing facilities with National Australia Bank and this new facility which covers all bank borrowings related to the Fund expires on 31 December 2019. The \$10.534 million of interest bearing liabilities at 30 June 2017 comprise a \$9.119 million fixed component at a rate of 4.73% per annum and a variable component of \$1.415 million. The interest rate payable on the loans had a weighted average rate of 4.58% per annum (2016: 4.51%). The facility had amortisation requirements which have been complied with throughout the financial year.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

11. Current and Non-Current Liabilities – Interest Bearing (continued)

Since the end of the financial year the Fund has secured an additional \$7.25m facility from National Australia Bank to assist in funding the acquisition of the Diplomat Motel. The term of this new facility is in line with the existing facilities with an expiry date of 31 December 2019.

In addition to the bank financing for the Diplomat Motel, the fund also secured a \$2.0m non amortising facility from the vendors of the Diplomat Motel with this loan having a term of two years from settlement of the property which occurred on 14 September 2017. An amount of \$325,000 has been repaid towards this facility and the value of this loan is \$1.675m at the date of this report.

A registered mortgage debenture over Pelathon Hotels Limited is held by the National Australia Bank as supporting security for the bank bill facility held by Pelathon Pub Fund in the name of Pelathon Funds Management Limited as responsible entity of the Fund.

12. Current and Non-Current Liabilities – Provisions

	2017	2016
	\$	\$
(a) Current		
Annual leave	129,057	96,958
Total current provisions	129,057	96,958
(b) Non-current		
Long service leave	86,717	90,046
Total non-current provisions	86,717	90,046

13. Contributed Equity

(a) Summary table

	2017	2016
	\$	\$
Ordinary Stapled Securities (“Stapled Securities”)		
17,542,988 (30 June 2016: 128,073,505)	27,876,102	25,554,455
Preferred Stapled Securities (“Preferred Securities”)		
Nil (30 June 2016: Nil)	-	-
Total securities: 17,542,988 (30 June 2016: 128,073,505)		
Total contributed equity	27,876,102	25,554,455

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

13. Contributed Equity (continued)

(b) Movement in stapled securities on issue

	2017 No.	2016 No.
Stapled Securities		
At the beginning of reporting period	128,073,505	74,330,430
Preferred Securities converted to ordinary stapled securities	-	47,316,667
Stapled Securities issued	47,351,094	6,426,408
Consolidation of Stapled Securities	(157,881,611)	
Stapled Securities at reporting date	17,542,988	128,073,505
Preferred Securities		
At the beginning of reporting period	-	47,316,667
Preferred Securities converted to ordinary stapled securities	-	(47,316,667)
Preferred Securities at reporting date	-	-
Total securities at reporting date	17,542,988	128,073,505

Stapled Securities

- Stapled securities participate in dividends and the proceeds on winding up of the Group in proportion to the number of stapled securities held.

Preferred Securities

- Preferred Securities comprised a preference B unit in the Fund stapled to a preference B share in the Pelathon Hotels Limited.
- All Preferred Securities were converted to ordinary stapled securities during the 2016 financial year and there are no Preferred Securities at year end.

At the securityholders meetings, each stapled security is entitled to one vote when a poll is called, otherwise each securityholder has one vote on a show of hands. In respect of votes attached to Stapled Securities, the voting power of any holder of ordinary Stapled Securities is capped at 10% of the total votes attached to all issued ordinary Stapled Securities, even if that member holds more than 10% of the issued Stapled Securities.

14. Dividends / Distributions

Distributions in the form of returns of capital of \$894,672 were declared for the year ended 30 June 2017 (2016: \$nil).

There were no dividends paid or declared for the year ended 30 June 2017 (2016: Nil).

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

15. Auditors' Remuneration

	2017	2016
	\$	\$
Remuneration of the auditor of the Group for:		
- Auditing of the financial statements	43,998	40,000
- Other services	2,300	-
	<u>46,298</u>	<u>40,000</u>

The Company is responsible for payment of the auditors' remuneration for the Pelathon Pub Group.

16. Commitments

	2017	2016
	\$	\$
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	466,009	529,280
One to five years	492,917	811,878
	<u>958,926</u>	<u>1,341,158</u>

Operating lease commitments includes contracted amounts for gaming machine software and hardware under non-cancellable operating leases expiring within three years.

17. Reconciliation of Profit After Income Tax to Operating Cash Flows

	2017	2016
	\$	\$
Profit for the year	8,242,431	1,661,237
Non-cash flows included in profit:		
Depreciation and amortisation	278,679	262,063
Fair value adjustments - property, plant and equipment	(7,313,846)	(500,148)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(16,742)	44,639
(Increase)/decrease in inventories	140,351	(27,843)
(Increase)/decrease in other assets	(33,285)	13,964
Increase/(decrease) in trade payables and accruals	105,828	(243,212)
Increase/(decrease) in other liabilities	(88,267)	(37,136)
Increase/(decrease) in provisions	28,770	(26,201)
Net cash flows from operating activities	<u>1,343,919</u>	<u>1,633,787</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

18. Contingent Assets and Contingent Liabilities

The Group had no contingent assets or contingent liabilities as at 30 June 2017 (2016: Nil).

19. Subsequent Events

See commentary under the heading Subsequent Events in the Director's report attached to this financial report.

20. Controlled Entities

Name of subsidiary	Country of incorporation	Percentage owned (%)	
		2017	2016
Pelathon Hotels Limited:			
Hotel Business Trust	Australia	100	100
Victoria Business Trust	Australia	100	100
Bridge Business Trust	Australia	100	100
Gilhooleys Business Trust	Australia	100	100
Pelathon Pub Fund:			
No 1 Trust	Australia	100	100
No 2 Trust	Australia	100	100
No 3 Trust	Australia	100	100
No 4 Trust	Australia	100	100
No 5 Trust	Australia	100	100
No 6 Trust	Australia	100	100
Hotel Property Trust	Australia	100	100
Victoria Realty Trust	Australia	100	100
Bridge Realty Trust	Australia	100	100
Gilhooleys Realty Trust	Australia	100	100
Victoria Property Trust	Australia	100	100
Bridge Property Trust	Australia	100	100
Gilhooleys Property Trust	Australia	100	100
Victoria Land Trust	Australia	100	100
Bridge Land Trust	Australia	100	100
Gilhooleys Land Trust	Australia	100	100
Pelathon Hotels No 2 Limited:	Australia	100	-

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

21. Related Party Transactions

(a) Related Entities and Managed Funds

The Group owns and operates hotel and pub businesses.

Fees and Transactions

Under the terms of the Fund Constitution, the Responsible Entity is entitled to an asset management fee of 1.5% per annum of the value of gross assets of the Group, payable monthly in arrears. For the year ended 30 June 2017 asset management fees amounted to \$261,533 (2016: \$239,688). Of these Asset management fees relating to the 2017 financial year, \$197,930 (2016: \$52,685) were paid, none were converted to equity (2016: \$109,995) and the balance of \$63,603 were outstanding at 30 June 2017.

In addition to the 2016 asset management fees detailed above, \$423,396 of unpaid asset management fees relating to the 2014 and 2015 financial years were converted to equity during the 2016 financial year.

Property management fees are paid to Pelathon Management Group Pty Ltd.

Accounting and tax return preparation fees are paid to Horton & Associates Pty Ltd, a related entity of David Horton.

(b) Transactions with Related Parties

The following represents the transactions that occurred during the financial year and the balances outstanding at year end between the Group and its related entities.

	2017	2016
	\$	\$
Expenses:		
- Asset Management fees		
BlackWall Fund Services Limited	-	39,583
Pelathon Management Group Pty Ltd	261,533	200,105
- Property Management fees		
Pelathon Management Group Pty Ltd	246,594	272,560
- Accounting and tax services fees		
Horton & Associates Pty Ltd	46,650	32,772

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

21. Related Party Transactions (continued)

(c) Interests Held By Related Parties

Transactions & holdings in equity instruments of the Group by directors or related entities:

Related party	Holdings at June 2016	Securities issued or purchased/ (sold)	10:1 Consolidation	Holdings at June 2017
Darren Baker Pty Ltd ⁽ⁱ⁾	192,591	(192,591)	-	-
Pelathon Funds Management Limited ⁽ⁱⁱ⁾	20,412,974	(20,256,018)	(141,260)	15,696
J & K Mooney Investments Pty Ltd ⁽ⁱⁱⁱ⁾	3,000,000	1,000,000	(3,600,000)	400,000
Middle Head Ventures Holdings Pty Ltd ^(iv)	-	31,882,683	(28,688,997)	3,193,686
Horton & Associates Pty Ltd ^(v)	-	8,233,557	(7,410,201)	823,356
Hirondelle Investments Pty Ltd ^(vi)	-	5,143,939	(4,629,545)	514,394
	<u>23,605,565</u>	<u>25,811,570</u>	<u>(44,470,003)</u>	<u>4,947,132</u>

⁽ⁱ⁾ Darren Baker, a director of the Companies and the Responsible Entity is the sole director of Darren Baker Pty Ltd.

⁽ⁱⁱ⁾ Pelathon Funds Management Limited, the Companies and the Responsible Entity have common directors.

⁽ⁱⁱⁱ⁾ Jaz Mooney, a director of the Companies and the Responsible Entity is a Director of J & K Mooney Investments Pty Ltd

^(iv) Jaz Mooney and Darren Baker, directors of the Companies and the Responsible Entity are directors of Middle Head Ventures Holdings Pty Ltd.

^(v) David Horton, a director of the Companies and the Responsible Entity is the sole director of Horton & Associates Pty Ltd.

^(vi) David Horton, a director of the Companies and the Responsible Entity is a director of Hirondelle Investments Pty Ltd

22. Directors and Key Management Personnel Disclosures

Key management personnel include the Directors of the Company and the Responsible Entity (refer Directors' Report). The Group does not provide any short term or post-employment benefits to its key management personnel.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

23. Financial Risk Management

(a) Financial risk management

The main risks the Group are exposed to through its financial instruments are market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's principal financial instruments are cash and loans. Additionally, the Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies, and processes for measuring and managing risk, and the management of capital.

Capital management is carried out at a Group basis for the Pelathon Pub Group. The Manager monitors the return on capital which the Manager defines as net operating income divided by total members' equity as well as net tangible assets per security and distribution levels to ensure the value provided to members is maintained. There were no changes to the Group's approach to capital management during the year. Neither the Fund nor the Company are subject to externally imposed capital requirements.

(b) Financial risk management (continued)

The Group holds the following financial instruments:

	2017	2016
	\$	\$
Financial assets		
Cash and cash equivalents	941,981	817,716
Trade and other receivables	65,089	48,347
	1,007,070	866,063
Financial liabilities		
Trade and other payables	1,874,739	1,615,068
Interest bearing liabilities	10,534,000	12,742,332
	12,408,739	14,357,400

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

23. Financial Risk Management (continued)

(c) Market risk

(i) Interest rate risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	30 June 2017		30 June 2016	
	Weighted average effective interest rate %	Balance \$	Weighted average effective interest rate %	Balance \$
Cash and cash equivalents	1.00	617,845	0.65	545,732
Financial assets				
Bank borrowings	4.70	(10,534,000)	4.30	(12,742,332)
Net exposure to cash flow interest rate risk		<u>9,916,155</u>		<u>12,196,600</u>

The Group has no interest bearing financial assets other than cash and cash equivalents and does not hold large cash balances. As such, any increase or decrease in variable interest rates of up to 2% would not have a significant impact on the Group's net results or securityholders' equity.

The Group has bank borrowings. The average interest rate payable on the facilities at 30 June 2017 was 4.70% (2016: 4.30%). The Group has interest rate swap contracts on \$9.119m (2016: Nil) of the funds debt which significantly limit its exposure to increasing variable interest rates from bank borrowings.

(ii) Interest rate risk (continued)

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in the profit or securityholders' equity while a positive amount reflects a potential net increase. The analysis is performed on the same basis for 30 June 2016.

Movement in interest rates	Net Profit Higher / (Lower)	
	2017 \$	2016 \$
+ 2.0%	(28,300)	(254,847)
- 2.0%	28,300	254,847

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

23. Financial Risk Management (continued)

(c) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, equitable securities, as well as credit exposures to customers, including outstanding receivables. For banks, only independently rated parties with a minimum rating of 'A' are accepted. For receivables, the credit quality of customers is individually assessed, taking into account its financial position, past experience and other factors. The majority of sales are settled in cash that mitigate the credit risk.

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	2017	2016
	\$	\$
Cash and cash equivalents	617,845	545,732
Trade and other receivables	65,089	48,347
	<u>682,934</u>	<u>594,079</u>

(d) Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cashflows and matching the maturity profiles of financial assets and liabilities.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

23. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	2017 \$	2016 \$
Bank loans	221,000	21,668

Financial arrangements at the reporting date:

	Maturing within 1 year \$	Maturing 1 - 5 years \$	Total \$
At 30 June 2017			
Financial assets			
Cash and cash equivalents	617,845	-	617,845
Trade and other receivables	65,089	-	65,089
	682,934		682,934
Financial liabilities			
Trade and other payables	1,874,739	-	1,874,739
Interest bearing liabilities	-	10,534,000	10,534,000
	1,874,739	10,534,000	12,408,739
At 30 June 2016			
Financial assets			
Cash and cash equivalents	545,732	-	545,732
Trade and other receivables	48,347	-	48,347
	594,079		594,079
Financial liabilities			
Trade and other payables	1,615,068	-	1,615,068
Interest bearing liabilities	12,742,332	-	12,742,332
	14,357,400	-	14,357,400

24. Segment Reporting

The Group currently operates in one business segment being operation of hotel and pub businesses in Australia.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2017

25. Parent Financial Information

Summary financial information about the Parent is:

	Pelathon Pub Fund	
	2017	2016
	\$	\$
Current assets	708,796	70,617
Non-current assets	29,776,835	21,852,494
Total assets	30,485,631	21,923,111
Current liabilities	455,232	10,295,536
Non-current liabilities	10,550,442	1,191,213
Total liabilities	11,005,674	11,486,749
Unitholders' equity		
Issued units	22,075,623	20,397,239
Accumulated losses	(2,595,666)	(9,960,877)
Total unitholders' equity	19,479,957	10,436,362
Net profit/(loss) attributable to unitholders of the Parent	7,365,211	958,629
Total revenue	986,584	1,333,004

26. Company Details

Principal place of business

The principal place of business of the Group is:

Pelathon Pub Fund
Suite 1, 207 Ben Boyd Road
Neutral Bay, NSW, 2089

Pelathon Pub Group

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 36 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Darren Baker
Director
Sydney, 29 September 2017



David Horton
Director
Sydney, 29 September 2017



Independent Audit Report to the Unitholders of Pelathon Pub Group

Opinion

We have audited the financial report of Pelathon Pub Group (the “Group”), which comprises the consolidated statement of financial position as at 30 June 2017, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement cash flow 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, the accompanying financial report of Pelathon Pub Group is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group’s financial position as at 30 June 2017 and of its performance for the year then ended; and
- complying with Australian Accounting Standards to the extent described in Note 1, and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, 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.

Responsibilities of the directors for the financial report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors’ responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a 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.



Independent Audit Report to the Unitholders of Pelathon Pub Group

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 at 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.

Dated at Sydney on the 29th of September 2017

ESV Accounting and Business Advisors

Tim Valtwies
Partner