FORT STREET
REAL ESTATE CAPITAL

(ARSN Fund I: 163 688 346 Fund II: 169 190 498 Fund III: 605 335 957)

ANNUAL REPORT JUNE 2021

E&P

(ACN 152 367 649) (AFSL 410 433)

DIRECTORY

FSREC PROPERTY FUND

Fort Street Real Estate Capital Fund I
ARSN 163 688 346

Fort Street Real Estate Capital Fund II
ARSN 169 190 498

Fort Street Real Estate Capital Fund III
ARSN 605 335 957

Level 15, 100 Pacific Highway
NORTH SYDNEY NSW 2060

T: 1300 454 801
F: 1300 883 159
E: info@fsrec.com.au

fsrec.com.au

RESPONSIBLE ENTITY

E&P Investments Limited
(ACN 152 367 649) (AFSL 410 433)

Level 15, 100 Pacific Highway
NORTH SYDNEY NSW 2060

T: 1300 454 801
F: 1300 883 159
E: info.funds@eap.com.au

eap.com.au

DIRECTORS

Stuart Nisbett
Mike Adams
Warwick Keneally
Peter Shear

SECRETARIES

Hannah Chan
Caroline Purtell

INVESTMENT MANAGER & PROPERTY MANAGER

Fort Street Real Estate Capital Pty Limited
(ACN 164 101 731)

Level 32, 1 O'Connell Street
SYDNEY NSW 2000

T: +61 2 8241 1300
F: +61 2 8241 1333
E: info@fsrec.com.au

fsrec.com.au

FUND MANAGER

E&P Funds Management Pty Limited
(ACN 159 902 708) (AFSL 450 257)

Level 15, 100 Pacific Highway
NORTH SYDNEY NSW 2060

T: 1300 454 801
F: 1300 883 159
E: info@fsrec.com.au

AUDITOR

Deloitte Touche Tohmatsu

Grosvenor Place, 225 George Street
SYDNEY NSW 2000

T: +61 2 9322 7000
F: +61 2 9322 7001

deloitte.com.au

UNIT REGISTRY

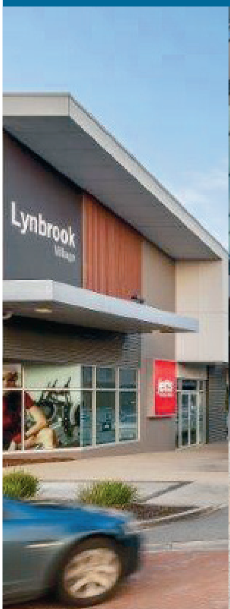
Boardroom Pty Limited

Level 12, 225 George Street
SYDNEY NSW 2000

T: 1300 737 760 (Australia)
T: +61 2 9290 9600 (International)
F: 1300 653 459

boardroomlimited.com.au

CONTENTS


Lynbrook
Village

Toormina
Gardens


entry

coles
northpoint

CHAIR'S LETTER

Dear Securityholders,

As Chair of the responsible entity for Fort Street Real Estate Capital Fund I, II and III, together, the FSREC Property Fund (**Group**), I am pleased to present the Annual Report for the financial year ending 30 June 2021. This is the first annual report for the Group following the merger of the then four funds in the FSREC Fund Series to create a single stapled fund that was implemented on 23 December 2020 (**Restructure**).

ECONOMIC OVERVIEW

The economic recovery in Australia over the year ending 30 June 2021 was stronger than expected. Fiscal and monetary policy has been accommodative in order to support the economic recovery, with interest rates remaining low throughout the year. Ongoing outbreaks of COVID-19, and implementation of state lockdowns have the potential to impact the economic recovery, however, experience to date has shown that once virus outbreaks are contained, the economy responds positively.

The low interest rate environment and cost of debt has meant that convenience-based retail assets have become highly sought after by investors, particularly after demonstrating their resilience through the COVID-19 pandemic. Recent transactions in the sector have provided evidence for capitalisation rate compression, underpinning the overall performance of the sector.

The Federal Government's JobKeeper subsidy program came to an end on 31 March 2021 with little effect on the portfolio, coinciding with the end of the National Cabinet's Commercial Leasing Code of Conduct (**Code**) which was introduced in April 2020 to govern tenant rent relief.

FINANCIAL PERFORMANCE & KEY ACHIEVEMENTS

I am pleased to report on several achievements for the Group which have occurred over the financial year, starting with the Fund merger which was formally implemented on 23 December 2020. The merger was a significant event for the Group and has resulted in the ability to pursue further strategic initiatives, including the divestment of 241 O'Riordan Street Mascot, the Group's office asset, to provide liquidity to investors. Settlement of the transaction occurred on 9 July 2021.

The aggregate value of the Group's retail investment properties as at 30 June 2021 was $666.1 million, with 241 O'Riordan Street, Mascot held for sale at $145.9 million[1]. Therefore, the total value of the portfolio increased by 3.3% to $811.9 million in comparison to the 30 June 2020 proforma financials. All assets were independently valued as at 30 June 2021 with the increase in portfolio value attributable to both income growth and a reduction in capitalisation rates due to a strong investment market.

Over the year to 30 June 2021, the Group generated underlying operating earnings, Funds from Operations (**FFO**), of $25.50 million, an increase of 7.69% on the prior year (2020 proforma FFO: $23.68 million). The increase in FFO is predominantly due to income growth, a reduction in COVID-19 related rent relief, and the reduction of Group expenses.

Following the merger, the Group's four debt facilities were restructured into a single facility secured against the assets of the merged Group. The term of the facility was extended by four years to April 2025, with an initial facility limit of $315 million reducing to $300 million following the sale of 241 O'Riordan Street, Mascot. The restructure of the debt facility has resulted in a reduction in the cost of debt for investors. The Group's gearing ratio as at 30 June 2021 is 36%.

1. Net sale cost after disposal costs and outstanding tenant incentives deducted. Gross contract price $151.5 million.

Distributions for the financial year were equivalent to 6.74 cents per stapled security, which includes the proforma distribution for the period prior to the merger, an increase of 23% on the prior year proforma distribution of 5.48 cents per unit.[2] The strong distribution growth is reflective of portfolio performance over the financial year, as well as the positive impacts of cost efficiencies from the merger and debt refinance. The Group's Net Asset Value (**NAV**) increased by 4.5% on the prior year proforma NAV, to $1.64 per stapled security, and together with the distributions, the Group delivered a total return of 8.8% for the year.

OUTLOOK

The divestment of 241 O'Riordan Street, Mascot was instrumental in being able to complete the recent $95 million withdrawal offer to investors, with proceeds paid in August and assisting some short-term liquidity requirements. The Group is now focused on its portfolio of high-quality convenience-based retail assets, which has been performing strongly in the current environment, and the team continues to maximise returns and implement value enhancement initiatives on each of the assets. We will continue to pursue further capital management initiatives to address liquidity requirements, including raising equity from institutional and high net worth investors.

Whilst the COVID-19 pandemic is posing some immediate risks to the portfolio, with New South Wales and Victoria currently in lockdown, most of the portfolio is still trading. We are confident that once the states allow businesses to reopen, the rebound will be positive, however, the Responsible Entity will maintain a cautious approach given that the duration of the lockdowns is currently unknown and Group returns could be impacted.

Overall, it has been a successful year for the Group, having delivered on the key strategic initiatives of the merger, debt refinance, the divestment of 241 O'Riordan Street, Mascot, and subsequent withdrawal offer. Convenience- based retail assets continue to perform strongly and provide resilient cash flows, and we believe that the Group is well positioned to provide a steady income stream, capital growth and attractive risk adjusted returns in the current environment.

On behalf of the Responsible Entity board, I would like to thank security holders for their continued support in the FSREC Property Fund.

Yours sincerely

Stuart Nisbett
Independent Chair of E&P Investments Limited

14 September 2021

2. FSREC Fund I - IV's FY20 distributions over the Group's stapled securities which has been calculated for comparative purposes.

PROPERTY MANAGER'S REPORT

We are pleased to report the following highlights for the Group for the financial year ending 30 June 2021 (**FY21**):

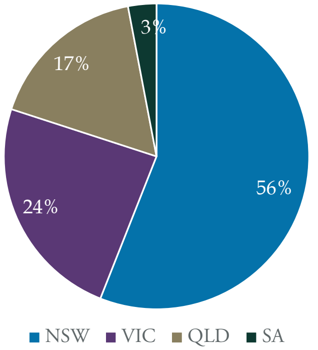
1. Weighted average lease expiry (**WALE**) of 4.8 years as at 30 June 2021
2. Retail portfolio occupancy increased to 98.6%
3. Supermarket annual turnover increased by 3.5%
4. Several value-add projects and sustainability upgrades completed during the year

PORTFOLIO OVERVIEW

Following the merger of the four FSREC Funds into the FSREC Property Fund, and the divestment of 241 O'Riordan Street, Mascot post year end, the portfolio comprises 12 high-quality convenience-based retail assets with a high weighting to non-discretionary tenants. Occupancy at 30 June 2021 was strong at 98.6%.

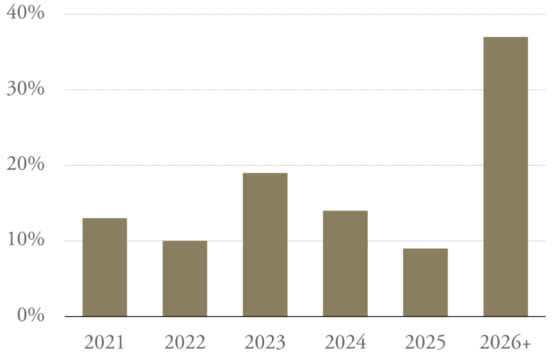
ASSET	OCCUPANCY (%)	WALE BY INCOME (YRS)	VALUATION ($M)	CAP RATE 30- JUN-21	LOCATION	GLA	VALUE (%)
Oxford Village	100.0%	4.7	110,000,000	6.00%	NSW	12,048	17%
Toormina Gardens	97.5%	3.8	90,000,000	6.60%	NSW	21,141	14%
Windsor Riverview	100.0%	3.5	55,500,000	5.75%	NSW	7,915	8%
Marketfair	100.0%	3.8	49,300,000	5.75%	NSW	9,097	7%
Lake Innes Village	99.9%	9.0	35,000,000	6.00%	NSW	4,695	5%
Newtown Central	99.9%	4.9	30,250,000	5.75%	NSW	3,375	5%
Keilor Central	98.3%	4.4	117,500,000	6.00%	VIC	19,811	18%
Lynbrook Village	96.8%	6.6	43,000,000	6.00%	VIC	7,666	6%
Northpoint	99.3%	6.7	47,000,000	6.00%	QLD	6,899	7%
Noosa Village	94.0%	3.4	34,000,000	6.00%	QLD	4,788	5%
Birkdale Fair	99.7%	5.2	31,750,000	5.75%	QLD	5,426	5%
Hilton Plaza	93.6%	5.2	22,750,000	5.75%	SA	4,453	3%
Total	**98.6%**	**4.8**	**666,050,000**			**107,313**	**100%**

Geographic Diversification by Value at 30 June 2021



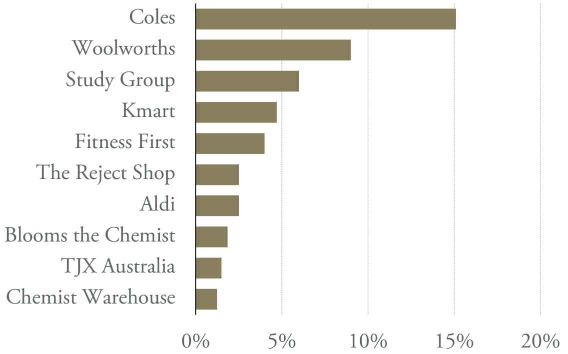
Geographically the retail portfolio is diversified across the east coast of Australia, however 80% of the portfolio is weighted to the major economies of New South Wales and Victoria.

Lease Expiries (by Income)



The portfolio has a strong income profile with lease expiries spread over many years, and a weighted average lease expiry of 4.8 years as at 30 June 2021.

Top 10 Tenants (by Income)



The top ten tenants in the portfolio is made up of national retailers with strong covenants, including the major supermarkets, Coles and Woolworths.

PORTFOLIO HIGHLIGHTS

Operationally, the portfolio has delivered strong results during the financial year. Leasing volumes reached unprecedented levels for the Group, increasing by 27% on the prior year. A total of 83 new leases and renewals were agreed during the year. A positive leasing spread of 2% was achieved on new leases over the prior rent, and tenant retention was strong at 70%.

The management team negotiated three major lease extensions during the year. Prior to the disposal of 241 O'Riordan Street, Mascot, a five-year extension was negotiated with AbbVie with a rental increase, a key lease to negotiate prior to the sale of the asset. At Oxford Village, five-year lease extensions were also agreed with Study Group and Fitness First and have contributed to the increase in asset valuation seen over the year.

The total moving annual turnover (**MAT**) of the retail portfolio increased by 3.6% to $892 million as at 30 June 2021. After an exceptionally strong year in FY20 as a result of COVID-19, supermarkets have continued to deliver good growth with annual sales increasing 3.5% and 58% of supermarkets in the portfolio also paying additional turnover rent, reflecting strong sales performance.

Specialty tenant performance has been strong during the financial year despite the lockdown in Victoria across the first two quarters. Specialty productivity at 30 June 2021 was strong at $10,337 per sqm, and the average occupancy cost 10.1%[3]. Affordability and productivity are key to overall specialty tenant performance, as well as presentation and retail offer. Over the year we have worked collaboratively with tenants to improve their businesses and have delivered over 20 tenancy upgrades across the portfolio as a result.

One major project highlight for the year was the grant of a development approval for the construction of a padsite at Birkdale Fair. A pre-lease has been agreed with McDonalds to occupy the site with construction underway and a completion scheduled for December 2021.

The team have also continued to work towards the sustainability objectives of the portfolio. A major portfolio upgrade of air conditioning and lighting was completed during the year which has resulted in operational cost savings for securityholders. The installation of a 200kW roof-top solar system was completed at Keilor Central and will be shortly followed by an embedded network allowing the Group to charge electricity to tenants. These projects and upgrades have collectively resulted in a 15.3% reduction in common area electricity usage across the assets, a positive result in terms of improving the overall energy efficiency of the portfolio.

COVID-19 UPDATE

Post year end, the recent lockdowns in New South Wales and Victoria have impacted portfolio operations, with non-essential retail mandated to close by State governments. Regulations and legislation have been introduced as a response to the ongoing effects of the COVID-19 pandemic and are designed to govern rent relief for a prescribed period between July 2021 and January 2022. Under the regulations, the landlord is obliged to provide rent relief to any tenant that can verify themselves as being an impacted lessee and eligible for government support packages. Landlords are eligible for land tax refunds comparative to any rent relief provided.

Impacts to portfolio income depend on the duration of the lockdowns which are still unknown. There is a risk that fund returns could be impacted if lockdowns are extended for a prolonged period.

3. Specialty productivity and occupancy cost unadjusted for any periods of closure due to COVID-19 lockdowns.

STRATEGY

Looking to the year ahead, our strategy will be focused on the following:

Active portfolio management:

- Improving tenant quality and tenant mix
- Maximise renewal rates and leasing terms
- Increasing income and maintaining low levels of tenant arrears

Growth opportunities:

- Continue to identify and deliver value-add projects
- Focus on sustainability initiatives and reducing operating costs

Capital management:

- Pursue further liquidity initiatives, including raising equity from institutional and high net worth investors.

Investor demand for convenience-based retail assets, such as those in the portfolio, remains strong and we maintain confidence in our strategy to focus on non-discretionary retail given its resilience over the past financial year. We will continue to manage the portfolio to provide investors with a secure and steady income stream as well as future capital growth.

LYNBROOK VILLAGE

WINDSOR RIVERVIEW

KEY MANAGEMENT PERSONNEL OF FORT STREET REAL ESTATE CAPITAL

David Rogers | Director, Investments

David Rogers is responsible for sourcing and executing all real estate transactions for the Fund. He has extensive experience across commercial office, retail and industrial markets. David joined FSREC at its inception in 2013 and has executed on all acquisitions and divestments for the Funds.

Prior to joining Fort Street Real Estate, David was Capital Transactions Manager with Charter Hall, where he was involved across 16 listed and unlisted funds, with a total exposure of $10 billion in commercial real estate funds under management. David also previously served as Capital Transactions Manager with Macquarie Real Estate, executing several transactions across Japan, Italy, Germany and Australia, and held other roles within Macquarie Group including the Macquarie Office Trust, a $6 billion global REIT, and the Securitisation division.

David has a Masters in Chemical Engineering from Imperial College, London, an Associateship of the City and Guilds of London Institute and is a licensed real estate agent.

Jason Hay | Director, Asset Management

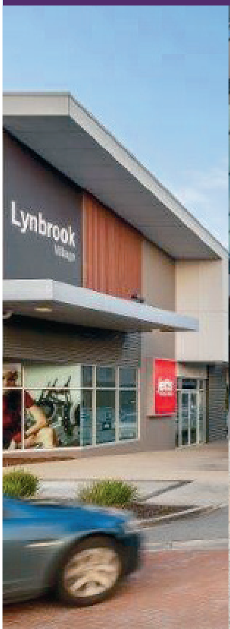
Jason is responsible for the strategy and performance of the assets under management by Fort Street Real Estate Capital.

Prior to joining Fort Street Real Estate, Jason was the National Property Manager for Coles Express, responsible for developing and executing the business' growth strategy, along with overseeing the management of the 680+ store fleet. Previously Jason had been a Portfolio Manager for the Coles Group, responsible for the performance of seventeen shopping centre assets. Jason has also managed iconic retail and office assets such as the Carnaby Street precinct and the Charing Cross Road bookshops, both in London's West End.

Jason holds a Masters of Business Administration (Executive) and is a licensed estate agent.

LAKE INNES VILLAGE

NOOSA VILLAGE


Lynbrook

Toormina
Gardens


entry

coles
northpoint

UNAUDITED COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The unaudited combined statement of profit or loss and other comprehensive income of the Group set out below is presented in accordance with the requirements of an ASIC Order 21-0740 issued on 14 September 2021 (relief instrument) referred to on page 5 of the Director's report and does not form part of the consolidated financial statements of FSREC Property Fund.

The unaudited combined statement of profit or loss and other comprehensive income of the Group is an aggregation of the financial results of FSREC Fund I, FSREC Fund II and FSREC Fund III for the full reporting period. This differs from the Group's consolidated statement of profit or loss and other comprehensive income, wherein FSREC Fund I consolidates the financial results FSREC Fund II and FSREC Fund III from the effective date of 31 December 2020, following the implementation of the Restructure on 23 December 2020

	COMBINED 30 JUNE 2021 $	COMBINED 30 JUNE 2020 $
Revenue		
Rental income	**55,467,936**	55,352,395
Other property income	**11,429,708**	12,804,101
Finance income	**3,504**	21,597
Fair value movement of investment properties	**18,983,822**	(9,833,611)
Gains on derivative financial instruments	-	163,456
	85,884,970	58,507,938
Expenses		
Finance expense	**(11,599,331)**	(11,703,427)
Investment property expenses	**(24,171,925)**	(24,888,564)
Responsible entity and trustee fees	**(1,738,427)**	(1,472,349)
Management fees	**(6,936,196)**	(8,107,715)
Accounting and audit fees	**(425,209)**	(469,144)
Other expenses	**(3,486,338)**	(2,403,508)
Total expenses	**(48,357,426)**	(49,044,707)
Profit before income tax expense	**37,527,544**	9,463,231
Income tax expense	-	-
Profit after income tax expense	**37,527,544**	9,463,231
Other comprehensive income/(loss)		
Effective portion of changes in fair value of cash flow hedge	**4,794,600**	(900,475)
Other comprehensive income/(loss)	**4,794,600**	(900,475)
Total comprehensive income for the year	**42,322,144**	8,562,756
	CENTS	CENTS
Basic earnings per stapled security	**12.00**	3.03
Diluted earnings per stapled security	**12.00**	3.03

Earnings per stapled security is calculated by dividing net profit of $37,527,544 (2020: $9,463,231) by the number of stapled securities of 312,632,131.


Lynbrook
Toormina
Gardens
entry
coles
northpoint

PRO FORMA FUNDS FROM OPERATIONS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

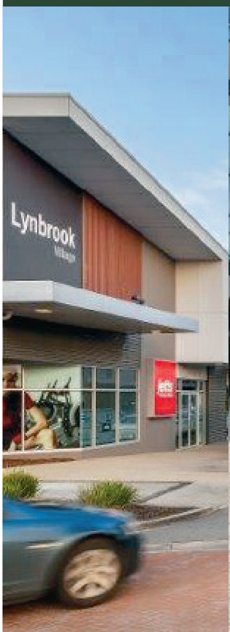
Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Group.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Group's current year FFO.

The table below sets out the aggregated FFO for the full-year to 30 June 2021 had the Restructure occurred on 1 July 2020.

	30 JUNE 2021 $
Profit after tax for the year	**37,527,544**
Adjustments:	
Fair value movement of investment properties	**(18,983,822)**
Straight-lining of rental revenue and incentive amortisation	**2,896,578**
Other items and amortisation of capitalised lease costs	**1,391,378**
One-off professional fees	**2,634,873**
FFO	**25,466,551**
Distributions for the year	**21,191,272**
	CENTS PER STAPLED SECURITY
FFO	**8.15**
Distributions	**6.78**

Distributions for the year represented a payout ratio of 83% of FFO.


Lynbrook

Toormina
Gardens


entry

coles
northpoint

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

INTRODUCTION

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Fund II and Fort Street Real Estate Fund III (together, **Funds**), present their report on the Funds and their respective controlled entities (collectively referred to as **FSREC Property Fund** or **Group**), together with the annual financial report for the financial year ended 30 June 2021.

The annual financial report of FSREC Property Fund comprises Fort Street Real Estate Capital Fund I and its controlled entities (**FSREC Fund I**). The controlled entities of FSREC Fund I include other members of the stapled group, being Fort Street Real Estate Capital Fund II and its controlled entities (**FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (**FSREC Fund III**).

DIRECTORS OF THE RESPONSIBLE ENTITY

The directors of the Responsible Entity at any time during or since the end of the financial year are listed below:

Stuart Nisbett

Mike Adams

Warwick Keneally

Peter Shear

Directors have been in office from the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Stuart Nisbett
Chair

Stuart is currently Executive Director and Principal at Archerfield Capital Partners, a boutique corporate advisory firm specialising in real estate, which he established in 2008. He has more than 30 years' experience in property development, property funds management, equity and debt raising, corporate advisory and project finance.

Previously, Stuart was Executive Director, Head of Property Funds at ANZ Investment Bank. He was also the Managing Director, Head of Property Banking & Property Investment Banking at N M Rothschild & Sons (Australia) Limited. Stuart has also held senior roles at director level at Macquarie Bank Property Investment Banking Division and at Lendlease Corporation in its development and commercial asset management divisions.

Stuart is a Chartered Accountant and holds a Bachelor of Commerce with Merit and a Masters of Commerce from the University of NSW, and in 2005 was appointed a Fellow of the Australian Property Institute.

Mike Adams

Mike has extensive experience across a broad range of corporate, commercial and private client sectors. His core practice areas involve the provision of advice and transactional expertise in relation to new and existing retail and wholesale financial products and the regulatory framework within which they operate, as well as debt and equity financing, intellectual property, and general corporate law among others. Mike has previously worked in private practice, public sector and in-house roles in Australia, New Zealand and the United Kingdom, acting across multiple industries for a variety of clients, including high net worth individuals, banks and financial institutions, as well as numerous listed and unlisted corporate entities.

Mike is also a director of MA Law, a Sydney-based financial services law firm, and is admitted as a solicitor of the Supreme Court of NSW. He has a Bachelor of Laws from the University of Otago.

Warwick Keneally

Warwick is Head of Finance at E&P Funds, the Funds Management division of E&P Financial Group Limited and Chief Financial Officer of New Energy Solar Manager. Before joining E&P Funds, Warwick worked in chartered accounting firms specialising in turnaround and restructuring. Warwick started his career with KPMG, working in their Canberra, Sydney and London offices and has undertaken a range of complex restructuring and insolvency engagements across Europe, UK and Australia, for a range of Australian, UK, European and US banks. Warwick has worked with companies and lenders to develop and implement strategic business options, provide advice in relation to continuous disclosure requirements, develop cash forecasting training for national firms, and lectured on cash management.

Warwick has a Bachelor of Economics and Bachelor of Commerce from Australian National University and is a Member of the Institute of Chartered Accountants in Australia and New Zealand.

Peter Shear

Peter has significant expertise in funds management, financial advisory and complex lending arrangements including leveraged finance, property development and debt workout situations. Peter is currently a Managing Partner of Archibald Capital which specialises in Opportunistic Credit and Special Situations. Before that Peter was Co-Managing Partner of Opportunistic Lending and Special Situations at LIM Advisors. Prior to this role, Peter held the positions of Chief Risk Officer and Managing Director & Head of Corporate and Structured Finance at Lloyds Banking Group (and its predecessor HBOS plc) in Australia. Peter was also previously a Partner in Corporate Finance & Restructuring at Ernst & Young.

Peter has a Bachelor of Business from the University of Technology Sydney, an Executive MBA from AGSM, is a member of Chartered Accountants Australia and New Zealand, a Fellow of FINSIA and a Graduate Member of the Australian Institute of Company Directors.

PRINCIPAL ACTIVITIES

Fort Street Real Estate Fund I, Fort Street Real Estate Fund II, and Fort Street Real Estate Fund III (together, **Funds**) are unlisted managed investment schemes registered in Australia. E&P Investments Limited, the responsible entity of the Funds, is incorporated and domiciled in Australia. The registered office and principal place of business of the responsible entity is located at Level 15, 100 Pacific Highway, North Sydney, New South Wales 2060.

The principal activity of the Group, during the financial year, was investing in Australian commercial properties for the purposes of deriving rental income and capital growth. There has been no significant change in the nature of this activity during the year.

REVIEW OF FINANCIAL RESULTS AND OPERATIONS

On 23 December 2020, the Responsible Entity implemented the Proposal for FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020 (**Explanatory Memorandum**).

The implementation involved the acquisition of all units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Fund I, FSREC Fund II and FSREC Fund III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

As a result of the restructure discussed above, FSREC Fund I issued new units totalling 45,483,257 to acquire FSREC Fund IV and new units totalling 166,642,836 in connection with the stapling of FSREC Fund II and FSREC Fund III.

In accounting for the restructure described above, FSREC Fund I was determined to be the accounting acquirer and therefore deemed to be the parent in the consolidated financial statements. The accounting for the restructure has been effective from 31 December 2020 and therefore the consolidated balance sheet incorporates the consolidated balance sheets of FSREC Fund I, FSREC Fund II and FSREC Fund III as at 30 June 2021. The financial results for the period reflected in the consolidated profit or loss represent the consolidated profit or loss of FSREC Fund I for the full-year ended 30 June 2021, whereas the results for FSREC Fund II, FSREC Fund III and FSREC Fund IV for the 6 months from the effective date of 31 December 2020 to 30 June 2021.

The Group's net asset value (**NAV**) at 30 June 2021 is $1.64 per unit and represents an increase of 4.5% on the 30 June 2020 proforma NAV stated in the Explanatory Memorandum.

a) Financial results for the year

The performance of the Group, as represented by the results of its operations for the years ended 30 June, was as follows:

	2021	2020
Results		
Total income ($)	**65,746,124**	22,294,912
Total expense ($)	**(32,277,704)**	(17,638,540)
Net operating profit	**33,468,420**	4,656,372

The operating profit for the year ended 30 June 2021 includes the full year financial results for FSREC Fund I, and the results of FSREC Fund II, FSREC Fund III and FSREC Fund IV for the period from the effective date of 31 December 2020 to 30 June 2021, following the implementation of the Restructure.

	2021	2020
Distributions		
Cash distributions FSREC Fund I pre stapling (cents per unit)	**1.29**	5.24
Cash distributions post stapling (cents per stapled security)	**5.58**	-
	6.87	5.24
Net asset value		
Net asset value ($ per stapled security/unit)	**1.64**	1.57

	2021 %	2020 %
b) Performance returns		
Growth return (a)	**4.46**	(0.63)
Distribution return (b)	**4.32**	3.32
Total return (c)	**8.78**	2.69

(a) The Growth return is calculated as a percentage by dividing the end of period stapled net asset value per stapled security by the net asset value per unit in at the start of the period minus 1.

(b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(c) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cumulative-distribution) by the net asset value per unit at the start of the period minus 1.

DISTRIBUTIONS

A distribution of 2.00 cents per stapled security was paid for the three months ended 30 June 2021 on 2 August 2021. This takes the total distribution to 5.58 cents per stapled security for the year. Prior to the restructure, FSREC Fund I, FSREC Fund II and FSREC Fund III paid 1.29 cents per unit, 1.26 cents per unit, 1.33 cents per unit for the September 2020 distribution, respectively. Further details of the distributions for the year are provided in Note 18 of the consolidated financial statements of FSREC Fund I and Note 16 to the consolidated financial statements of FSREC Fund II and FSREC Fund III.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

FUTURE DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The investment strategy of the Group will be maintained in accordance with the Fund's constitution and investment objectives as detailed in the most recent Product Disclosure Statement.

Likely developments in and expected results of the Group in subsequent years are referred to in the Chair's letter and the Property Manager's report.

OPTIONS

There were no issued or unissued ordinary units of the Group under option outstanding at the date of this report.

INDEMNITIES AND INSURANCE

Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

Insurance premiums have been paid, during or since the end of, the financial year for all directors of the Responsible Entity of the Fund. The contract prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for the auditor of the Group.

ENVIRONMENTAL REGULATION

The Directors of the Responsible Entity are satisfied that adequate systems are in place for management of the Group's environmental responsibility and compliance with various requirements and regulations.

The Directors are not aware of any material breaches to these requirements, and to the best of their knowledge, all activities have been undertaken in compliance with environmental requirements.

FUND ASSETS

The value of the Fund's assets is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

INTERESTS HELD BY THE RESPONSIBLE ENTITY AND DIRECTORS

The number of units in the Fund held by the Responsible Entity, their related parties and Directors at the date of this report are disclosed in Note 24 to the financial statements.

INTERESTS IN THE FUND

The movement in units on issue in the Fund during the financial year is disclosed in Note 15 of the financial statements.

FEES PAID TO THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity and its associates out of the Groups assets during the financial year are disclosed in Note 24 to the financial statements.

No fees were paid out of Group assets to the Directors of the Responsible Entity during the financial year.

APPLICATION OF ASIC ORDER

The financial report of FSREC Property Fund is presented in accordance with an ASIC Order 21-0740 issued on 14 September 2021 (**relief instrument**). The relief instrument allows the Group to present the consolidated financial statements of the relevant entity, FSREC Fund I and its controlled entities, in one section and all other reporting group members (FSREC Fund II and FSREC Fund III) in a separate section in adjacent columns. The relief instrument granted is subject to a condition to present combined statement of profit or loss and other comprehensive income of the Group, which aggregate the financial results of FSREC Fund I, FSREC Fund II and FSREC Fund III for the full reporting period. This differs from the Group's consolidated statement of profit or loss and other comprehensive income, wherein FSREC Fund I consolidates the financial results of FSREC Fund II and FSREC Fund III from the effective date of 31 December 2020, following the implementation of the restructure on 23 December 2020.

The combined statement of profit or loss and other comprehensive income is set out on page ix.

MATTERS SUBSEQUENT TO REPORTING PERIOD

On 9 July 2021, the Group settled on the sale of 241 O'Riordan Street, Mascot at net proceeds of $145.9 million.

Part of the sale proceeds were used to provide liquidity to stapled securityholders. On 25 June 2021, a Withdrawal Offer of $95 million was announced for stapled securityholders to redeem their securities for a redemption price of $1.59. 59,850,196 stapled securities were redeemed on 4 August 2021 and the redemptions were paid on 6 August 2021.

The remainder of the sale proceeds were used to repay debt of $47.5 million on the Group's loan facility with NAB and, in accordance with the loan agreement the unused $15 million facility was cancelled following the settlement of the Mascot property sale.

The COVID-19 pandemic continues to cause significant disruption to businesses and economic activities. Post year end, the recent lockdowns in New South Wales and Victoria have impacted portfolio operations, with non-essential retail mandated to close by State governments. Regulations and legislation have been introduced as a response to the ongoing effects of the COVID-19 pandemic and are designed to govern rent relief for a prescribed period between July 2021 and January 2022. There remains significant uncertainty as to the financial impact of the lockdowns on the Group's performance should they be extended for a prolonged period.

The Group considers this to be a non-adjusting post balance date event and accordingly the financial effects of these lockdowns have not been reflected in the Group's consolidated financial statements as at 30 June 2021.

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

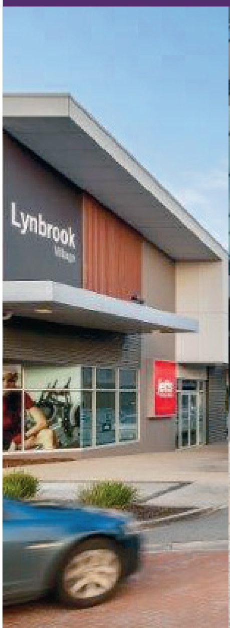
AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this Directors' Report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Stuart Nisbett
Independent Chair of E&P Investments Limited
14 September 2021


Lynbrook

Toormina
Gardens


entry

coles
northpoint

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

The Board of Directors
E&P Investments Limited as Responsible Entity for:
Fort Street Real Estate Capital Fund I
Fort Street Real Estate Capital Fund II and
Fort Street Real Estate Capital Fund III
Level 15, 100 Pacific Highway
NORTH SYDNEY NSW 2060

14 September 2021

Dear Board Members

Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III.

As lead audit partner for the audit of the financial statements of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

FSREC PROPERTY FUND FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	NOTE	2021 $	2020 $
Revenue			
Rental income		**38,147,965**	19,586,206
Other property income		**6,887,260**	3,677,806
Finance income	4	**1,575**	8,197
Fair value movement of investment properties	12	**20,709,324**	(1,140,753)
Gains on derivative financial instruments		**-**	163,456
Expenses			
Finance expense	5	**(7,923,726)**	(4,182,062)
Investment property expenses		**(16,206,290)**	(9,152,457)
Responsible entity and trustee fees	24	**(1,238,260)**	(474,894)
Management fees	24	**(4,414,207)**	(2,976,048)
Accounting and audit fees		**(264,470)**	(127,223)
Other expenses	6	**(2,230,751)**	(725,856)
Total expenses		**(32,277,704)**	(17,638,540)
Profit before income tax expense		**33,468,420**	4,656,372
Income tax expense		**-**	-
Profit after income tax expense for the year		**33,468,420**	4,656,372
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedge	5	**3,930,941**	(365,989)
Other comprehensive income/(loss) for the year, net of tax		**3,930,941**	(365,989)
Total comprehensive income for the year		**37,399,361**	4,290,383
Profit for the year is attributable to:			
Ordinary securityholders of the stapled group			
- Unitholders of FSREC Fund I		**26,190,840**	4,656,372
- Unitholders of FSREC Fund II and FSREC Fund III		**7,276,874**	-
Other non-controlling interest		**706**	-
		33,468,420	4,656,372
Total comprehensive income for the year is attributable to:			
Ordinary securityholders of the stapled group			
- Unitholders of FSREC Fund I		**28,489,138**	4,290,383
- Unitholders of FSREC Fund II and FSREC Fund III		**8,909,517**	-
Other non-controlling interest		**706**	-
		37,399,361	4,290,383
		CENTS	CENTS
Basic earnings per stapled security	7	**15.90**	4.63
Diluted earnings per stapled security	7	**15.90**	4.63

Total comprehensive income for FSREC Fund I for the year ended 30 June 2021 consolidates the financial results of FSREC Fund II, FSREC Fund III and FSREC Fund IV from the effective date of 31 December 2020, following the implementation of the restructure on 23 December 2020. Refer to Note 2.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTE	2021 $	2020 $
Assets			
Current assets			
Cash and cash equivalents	8	**5,225,226**	2,592,429
Trade and other receivables	10	**2,334,250**	1,628,835
Investment properties held for sale	11	**145,850,000**	-
Prepayments		**1,341,521**	533,207
Total current assets		**154,750,997**	4,754,471
Non-current assets			
Investment properties	12	**666,050,000**	256,250,000
Total non-current assets		**666,050,000**	256,250,000
Total assets		**820,800,997**	261,004,471
Liabilities			
Current liabilities			
Trade and other payables	13	**9,813,389**	2,753,295
Derivative financial instruments		**2,603,259**	1,916,165
Distribution payable		**6,282,671**	1,111,705
Total current liabilities		**18,699,319**	5,781,165
Non-current liabilities			
Borrowings	14	**288,445,892**	93,941,923
Derivative financial instruments		**1,738,229**	3,058,555
Total non-current liabilities		**290,184,121**	97,000,478
Total liabilities		**308,883,440**	102,781,643
Net assets		**511,917,557**	158,222,828
Equity			
Issued capital	15	**224,950,867**	154,216,469
Cash flow hedge reserve	16	**(1,043,779)**	(4,974,720)
Retained profits		**23,707,392**	8,981,079
Equity attributable to unitholders of FSREC Fund I		**247,614,480**	158,222,828
Equity attributable to other members of the stapled group – FSREC Fund II and FSREC Fund III	2,20	**264,279,951**	-
Other non-controlling interest	17	**23,126**	-
Total equity		**511,917,557**	158,222,828

The financial position of FSREC Fund I as at 30 June 2021 consolidates the net assets of FSREC Fund II, FSREC Fund III and FSREC Fund IV from the effective date of 31 December 2020, following the implementation of the restructure on 23 December 2020. Refer to Note 2.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	TOTAL EQUITY $
Balance at 1 July 2019	154,216,469	(4,608,731)	9,591,228	159,198,966
Profit after income tax expense for the year	-	-	4,656,372	4,656,372
Other comprehensive loss for the year, net of tax	-	(365,989)	-	(365,989)
Total comprehensive income/(loss) for the year	-	(365,989)	4,656,372	4,290,383
Transactions with unitholders in their capacity as unitholders:				
Distributions paid/declared	-	-	(5,266,521)	(5,266,521)
Balance at 30 June 2020	**154,216,469**	**(4,974,720)**	**8,981,079**	**158,222,828**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	EQUITY ATTRIBUTABLE TO OTHER MEMBERS - FSREC FUND II AND FSREC FUND III $	OTHER NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2020	154,216,469	(4,974,720)	8,981,079	-	-	158,222,828
Profit after income tax expense for the year	-	-	33,467,714	-	706	33,468,420
Other comprehensive loss for the year, net of tax	-	3,930,941	-	-	-	3,930,941
Total comprehensive income for the year	-	3,930,941	33,467,714	-	706	37,399,361
Other non-controlling interest arising in the period	-	-	-	-	39,758	39,758
Issue of units in relation to the acquisition of FSREC Fund IV (Note 20)	70,734,398	-	-	-	-	70,734,398
Stapling with FSREC Fund II (Note 20)	-	-	-	107,120,664	-	107,120,664
Stapling with FSREC Fund III (Note 20)	-	-	-	157,159,287	-	157,159,287
Distributions paid to NCI	-	-	-	-	(17,338)	(17,338)
Transactions with securityholders in their capacity as securityholders:						
Distributions paid/ declared	-	-	(18,741,401)	-	-	(18,741,401)
Balance at 30 June 2021	**224,950,867**	**(1,043,779)**	**23,707,392**	**264,279,951**	**23,126**	**511,917,557**

The changes in equity of FSREC Fund I for the year ended 30 June 2021 consolidates the changes in equity of FSREC Fund II, FSREC Fund III and FSREC Fund IV from the effective date of 31 December 2020, following the implementation of the restructure on 23 December 2020. Refer to Note 2.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

	NOTE	2021 $	2020 $
Cash flows from operating activities			
Rental and other income received		**49,992,369**	25,140,276
Interest income received		**1,599**	8,424
Payments to suppliers		**(29,142,196)**	(15,367,624)
Finance costs		**(7,836,659)**	(3,958,670)
Net cash from operating activities	9	**13,015,113**	5,822,406
Cash flows from investing activities			
Payments for capital expenditure		**(2,882,448)**	(1,731,117)
Acquisition of units in FSREC Fund IV, net of cash acquired	20	**1,578,888**	-
Cash acquired on stapling with FSREC Fund II	20	**2,316,301**	-
Cash acquired on stapling with FSREC Fund III	20	**3,092,192**	-
Net cash from/(used in) investing activities		**4,104,933**	(1,731,117)
Cash flows from financing activities			
Proceeds from borrowings		**1,350,000**	-
Payments of transaction costs relating to loans and borrowings		**(2,255,091)**	(263,044)
Distributions paid		**(13,582,158)**	(5,909,964)
Net cash used in financing activities		**(14,487,249)**	(6,173,008)
Net increase/(decrease) in cash and cash equivalents		**2,632,797**	(2,081,719)
Cash and cash equivalents at the beginning of the financial year		**2,592,429**	4,674,148
Cash and cash equivalents at the end of the financial year	8	**5,225,226**	2,592,429

The cash flows of FSREC Fund I for the year ended 30 June 2021 consolidates the cash flows of FSREC Fund II, FSREC Fund III and FSREC Fund IV from the effective date of 31 December, following the implementation of the restructure on 23 December 2020. Refer to Note 2.

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


Lynbrook
Toormina
Gardens
entry
coles
northpoint

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

1. GENERAL INFORMATION

Fort Street Real Estate Capital Fund I (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **FSREC Property Fund** or **Group**). The controlled entities of the Fund include the other members of the stapled group being FSREC Fund II and FSREC Fund III, following the stapling of the issued units of FSREC Fund I, FSREC Fund II and FSREC Fund III on 23 December 2020. The principal activity of the Group is to invest in Australian commercial property.

The responsible entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (**Schemes**) is E&P Investments Limited (formerly known as Walsh & Company Investments Limited) (**Responsible Entity**). Only the Responsible Entity of the Schemes take responsibility for the financial reports of the Schemes. The financial statements were authorised for issue by the board of directors of the Responsible Entity on 14 September 2021. Directors have the power to amend and reissue the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards (**IFRS**).

For the purposes of preparing the consolidated financial statements, the Group is a for-profit entity.

The comparative period is the year from 1 July 2019 to 30 June 2020.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to their operations and effective for the current year. The impact of the adoption is not material to the Fund's financial report in the current or future reporting periods and on foreseeable future transactions.

Restructure of the Funds

Background

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020 (**Explanatory Memorandum**). The Restructure was approved by FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement. Refer to Note 20 for further information.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

Consolidated accounts and stapling arrangements for the FSREC Property Fund

FSREC Property Fund was established through the Restructure as outlined above.

In accordance with the Australian Accounting Standards, the stapling of the issued units of FSREC Fund I with FSREC Fund II and FSREC Fund III is accounted for as a business combination. FSREC Fund I has been determined as the accounting acquirer and is therefore deemed to be the parent in the consolidated financial statements. In accounting for this business combination, the assets and liabilities of FSREC Fund II and FSREC Fund III have been recognised at their fair values at the date of acquisition with the corresponding recognition of the unitholders' equity in FSREC Fund II and FSREC Fund III in "Equity attributable to other members" in the consolidated statement of changes in equity. "Equity attributable to other members" in the consolidated statement of changes in equity represents the interest of the unitholders of FSREC Fund II and FSREC Fund III in FSREC Property Fund by virtue of the stapling arrangement.

The acquisition of issued units in FSREC Fund IV by FSREC Fund I and the simultaneous stapling with FSREC Fund II and FSREC Fund III has been accounted for as effective from 31 December 2020 as the impact of consolidating the results between 23 December 2020 until 31 December 2020 would not be material.

Refer to Note 20 for further details regarding the above business combinations.

Basis of preparation

The financial statements of the Group have been prepared in accordance with an ASIC Order 21-0740 issued on 14 September 2021 (**relief instrument**). The relief instrument allows the Group to present the consolidated financial statements of the relevant entity (FSREC Fund I) in one section and all other reporting group members (FSREC Fund II and FSREC Fund III) in a separate section in adjacent columns.

As a result of the stapling arrangements described above, the consolidated financial statements and accompanying notes for the financial year ended 30 June 2021 incorporates the consolidated financial statements of FSREC Fund I and its consolidation of the assets and liabilities and the results of FSREC Fund II and FSREC Fund III from the effective date of 31 December 2020.

The consolidated financial statements and accompanying notes for the comparative period ended 30 June 2020 is comprised of the consolidated financial statements of FSREC Fund I excluding FSREC Fund II and FSREC Fund III and their controlled entities.

The financial statements have been prepared on an accruals basis and are based on historical cost except for investment properties and certain financial instruments which are measured at fair value.

Functional and presentation currency

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

All amounts are presented in Australian dollars and are rounded to the nearest whole dollar unless otherwise noted.

Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act 2001 that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 23.

Basis of consolidation

Subsidiaries are those entities in which the Fund has power over the investee, it is exposed, or has rights, to variable returns from its involvement in the investee, and has the ability to use its power to affect its returns.

All inter-entity balances and transactions, incomes and expenses, and profits and losses resulting from intra-group transactions are eliminated in full on consolidation.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2021 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Judgement is used when assessing an entity for control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Revenue

Interest income

Interest income is recognised in profit or loss using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income

Rental income from operating leases is recognised as income over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. When the Group provides lease incentives to tenants, the cost of the incentives are initially capitalised and then recognised over the lease term on a straight-line basis, as a reduction in rental income.

Rent concessions were provided to tenants that have been impacted by the COVID-19 pandemic. Where agreements for waiver of future rents were finalised before year end, such modifications are recognised as lease modifications in accordance with AASB 16 on a straight-line basis over the non-cancellable term of the modified lease. Where agreements for waiver of future rents were not finalised before year end, rental income recognised for the year but which remain unpaid at balance date are assessed for recoverability in accordance with AASB 9 (refer to Note 10).

Costs that are directly associated with negotiating and executing ongoing renewal of tenant lease agreements (including commissions, legal fees and costs of preparing and processing documentation for new leases) are expensed over the lease term on the same basis as the rental income.

Taxes

i. Income tax

Under current Australian income tax laws, the Group is not liable to pay income tax provided it is not a public trading trust and its distributable income for each income year is fully distributed to unitholders, by way of cash or reinvestment.

*ii. Goods and Services Tax (**GST**)*

Revenues, expenses and assets are recognised net of the amount of GST, except to the extent the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the unrecoverable GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Where fees are stated to be exclusive of GST and GST is payable on any fee, the fee will be increased by an amount equal to the GST payable.

Cash flows are presented in the statement of cash flows on a gross basis.

Earnings per unit

Basic earnings per unit is calculated by dividing the profit or loss attributable to unitholders by the weighted average number of units outstanding during the financial period. Diluted earnings per unit is the same as there are no potential dilutive ordinary units.

Financial instruments

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Group becomes a party to the contractual provisions of the instrument.

i. Financial assets

When financial assets are recognised initially, they are measured at fair value (other than for financial assets at fair value through profit or loss), plus directly attributable transaction costs. Financial assets are subsequently measured at amortised cost using the effective interest rate method only if the following conditions are met, otherwise they are measured at fair value:

– where a financial asset is held within a business model for the objective to collect contractual cash flows; and
– contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest rate method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

ii. Financial liabilities

Financial liabilities are classified as derivative and non-derivative instruments as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value. Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method. Derivative instruments are recorded at fair value, with gains arising on changes in fair value recognised in profit or loss to the extent they are not part of a designated hedge relationship.

iii. Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged or cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

iv. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arm's length transactions, and reference to similar instruments and valuation techniques commonly used by market participants. At 30 June 2021, the fair value of financial assets and financial liabilities approximates their carrying value.

v. Derivative financial instruments

The Group enters into derivative financial instruments in the form of interest rate swap agreements, which are used to convert the variable interest rate of its borrowings to fixed interest rates. For the purposes of hedge accounting, these hedges are cash flow hedges. The swaps are entered into with the objective of reducing the risk associated with interest rate fluctuations. At inception the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives.

Derivative financial instruments are stated at fair value.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and any inefficient portion is considered a finance cost and is recognised in profit or loss in the statement of profit or loss and other comprehensive income. The cumulative gain or loss previously recognised in other comprehensive income and presented in the cash flow hedge reserve in equity remains there until the forecast transaction affects profit or loss, at which point it is transferred to profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

Investment properties

Investment properties are commercial real estate investments held to earn long-term rental income and for capital appreciation.

Investment properties are measured at fair value with gains and losses arising from changes in the fair value included in profit or loss in the period in which they arise. Refer to Note 3 for details regarding valuation basis adopted including methodology and significant assumptions.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the property. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised. Refer to Notes 11 and 12 for further details.

Land and buildings are considered as having the function of an investment and therefore are regarded as a composite asset, the overall value of which is influenced by many factors, the most prominent being income yield, rather than by the reduction in value of the building content due to the passing of time. Accordingly, the buildings and all components thereof, including integral plant and equipment for the building, are not depreciated.

Incentives such as cash, rent-free periods, lessee or lessor owned fit outs may be provided to lessees to enter into an operating lease. Leasing fees may also be paid for the negotiation of leases. These incentives and lease fees are capitalised to the investment property and are amortised on a straight-line basis over the lesser of the term of the lease and the useful life of the fit out, as a reduction of rental income. The carrying amounts of the lease incentives and leasing fees are reflected in the fair value of investment properties.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables

Receivables are non-derivative financial assets with a contractual right to receive fixed or determinable payments. Receivables are recorded at amortised cost using the effective interest rate method, less any loss allowance for trade receivables at an amount equal to lifetime expected credit loss (**ECL**). Refer to Note 10 for COVID-19 impact on ECL.

Impairment of assets

The directors of the Responsible Entity assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount through profit or loss.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Trade and other payables

Trade and other payables are recognised when the Group becomes obliged to make payments resulting from the purchase of goods or services. The balance is unsecured and is recognised as a current liability with the amount being normally paid within 30 days of the recognition of the liability.

Provisions

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

Fair value measurement

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Unit capital

i. Ordinary units

Ordinary units are classified as equity. Issued capital is recognised at the fair value of consideration received by the Group. Incremental costs directly attributable to the issue of ordinary units are recognised as a deduction from equity.

ii. Distribution to securityholders

Distributions are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the board of the Responsible Entity.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Accounting Standards and Interpretations issued but not yet effective

New standards, amendments to standards and interpretations that are effective for annual reporting periods beginning on or after 1 January 2021 have not been early adopted in preparing these financial statements. There are no standards that are not yet effective and that are expected to have a material impact on the Group.

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Accounting policies which are subject to significant accounting estimates and judgements include:

a) Fair value assessment of investment properties

Investment properties are carried at fair value. Refer to Note 12 for further details.

An independent valuer, having an appropriate professional qualification and recent experience in the location and category of property being valued, values properties at least every two years on a rotation basis. Properties that have not been independently valued as at balance date are carried at fair value by way of directors' internal valuation.

The independent valuer determines the most appropriate valuation method for each property. Methods used during the year were discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates applied in the DCF method.

b) Expected credit losses

The Group has recognised a loss allowance for lifetime ECL on trade receivables based on management estimates of probability of recoverability of rental income invoiced. Refer to Note 10 for further details. The allowance for expected credit losses is calculated based on the information available at the time of calculation. The actual credit losses in future periods maybe higher or lower.

4. FINANCE INCOME

	2021 $	2020 $
Finance income - interest income from bank deposits	**1,575**	8,197

5. FINANCE EXPENSE

	2021 $	2020 $
Recognised directly in profit or loss		
Interest expense on financial liabilities measured at amortised cost	**1,653,851**	1,428,021
Interest expense on cash flow hedge	**3,906,125**	1,693,046
Other finance costs - including facility line fees and amortisation of loan establishment costs	**2,363,750**	1,060,995
Finance expense recognised directly in profit or loss	**7,923,726**	4,182,062

	2021 $	2020 $
Recognised in other comprehensive income		
Net loss on cash flow hedge for the year:		
- Realised losses transferred to profit or loss	**3,906,125**	1,693,046
- Unrealised gains/(losses) on cash flow hedge	**24,816**	(2,153,110)
- Losses on derivative financial instruments	**-**	94,075
Finance income/(expense) recognised in other comprehensive income	**3,930,941**	(365,989)

6. OTHER EXPENSES

	2021 $	2020 $
Legal and compliance costs	**195,356**	157,867
Due diligence expense	**6,404**	2,655
Other operating expenses	**375,780**	157,238
Professional fees	**1,653,211**	408,096
	2,230,751	725,856

7. EARNINGS PER STAPLED SECURITY

	2021 $	2020 $
Profit after income tax	**33,468,420**	4,656,372
Other non-controlling interest	**(706)**	-
Profit after income tax attributable to the securityholders of FSREC Property Fund	**33,467,714**	4,656,372
	NUMBER	**NUMBER**
Weighted average number of securities used in calculating basic earnings per stapled security	**210,471,284**	100,506,038
Weighted average number of securities used in calculating diluted earnings per stapled security	**210,471,284**	100,506,038
	CENTS	**CENTS**
Basic earnings per stapled security	**15.90**	4.63
Diluted earnings per stapled security	**15.90**	4.63

8. CASH AND CASH EQUIVALENTS

	2021 $	2020 $
Current assets		
Cash at bank	**5,225,226**	2,592,429

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

On 19 April 2021, management completed a debt refinance to combine the Group's four loan facilities into a single facility totalling $315 million. At 30 June 2021, the Group had available $23,884,000 (2020: $8,774,425) of an undrawn committed borrowing facility. Details of the borrowing facility are set out in Note 14.

9. CASH FLOW INFORMATION

a) Reconciliation of profit after income tax to net cash from/(used in) operating activities

	2021 $	2020 $
Profit after income tax expense for the year	**33,468,420**	4,656,372
Adjustments for:		
Fair value movement of properties	**(20,709,324)**	1,140,753
Rental straight-lining, tenant incentives and other adjustments	**(999,260)**	451,656
Amortisation of borrowing costs	**470,935**	198,653
Gains on derivative financial instruments	**-**	(163,456)
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	**1,118,289**	(993,071)
(Increase) in prepayments	**(110,729)**	(27,542)
(Decrease)/increase in payables	**(223,218)**	559,041
Net cash from operating activities	**13,015,113**	5,822,406

b) Net debt reconciliation

	2021 $	2020 $
Reconciliation of net debt movements		
Secured bank loan at the beginning of the year	**93,941,923**	94,006,314
Changes from financing cash flows:		
Proceeds from borrowings	**1,350,000**	-
Payment of transaction costs	**(2,255,091)**	(263,044)
Non-cash changes:		
Amortisation of borrowing costs	**470,935**	198,653
Additions to borrowings through the acquisition of FSREC Fund IV and stapling with FSREC Fund II and FSREC Fund III	**194,938,125**	-
Secured bank loan as at the end of the year	**288,445,892**	93,941,923

10. TRADE AND OTHER RECEIVABLES

	2021 $	2020 $
Current assets		
Rental and outgoing receivables	**4,340,760**	2,882,729
Less: allowance for expected credit losses	**(2,006,552)**	(1,254,020)
	2,334,208	1,628,709
Interest receivable	**42**	126
	2,334,250	1,628,835

Rental and outgoing receivables are non-interest bearing and are due in advance on the first day of each month.

	2021 $	2020 $
Ageing of rental and outgoing receivables		
Current (0 - 30 days)	**2,459,773**	1,393,734
31 - 60 days	**482,805**	538,121
61 - 90 days	**239,173**	510,155
90 + days	**1,159,009**	440,719
	4,340,760	2,882,729

As at 30 June 2021, the total unpaid rental and outgoings balance of $4,340,760 was recognised as rental income and a corresponding rental and outgoings receivable was also recognised. An equivalent ECL provision of $2,006,552 (2020: $1,254,020) has been recognised in relation to the balance of the rental and outgoings receivable that is not expected to be recovered.

11. INVESTMENT PROPERTIES HELD FOR SALE

	2021 $	2020 $
Current assets		
Investment properties held for sale	**145,850,000**	-

The investment property held for sale relates to the commercial property at 241 O'Riordan Street, Mascot, which was subject to a sale contract which settled on 9 July 2021. Refer to Note 28 for details relating the completion of the sale post year end.

At 30 June 2021, the investment property was valued with reference to the contracted sale value with adjustments made to reflect circumstances existing at balance date.

12. INVESTMENT PROPERTIES

	2021 $	2020 $
Non-current assets		
Investment properties - at fair value	**666,050,000**	256,250,000
Movement in investment properties		
Carrying amount of investment properties at beginning of year	**256,050,000**	256,050,000
Additions through acquisition of FSREC Fund IV (Note 20)	**117,300,000**	-
Additions through stapling with FSREC Fund II (Note 20)	**178,100,000**	-
Additions through stapling with FSREC Fund III (Note 20)	**235,000,000**	-
Capital expenditure	**3,361,812**	1,792,408
Rental straight-lining, tenant incentives and other adjustments	**1,178,864**	(451,655)
Fair value movement	**20,709,324**	(1,140,753)
Classified as held for sale (Note 11)	**(145,850,000)**	-
Carrying amount of investment properties at end of year	**666,050,000**	256,250,000

Fair value

At reporting date, the Group's investment properties consist of twelve commercial properties in Australia which are carried at fair value.

The 30 June 2021 fair value amounts were determined by way of independent valuation on all investment properties using a combination of DCF and capitalisation rate methods. In determining the fair value of investment property, assumptions related to the impacts of COVID-19 have been taken into account.

Some independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation or mean the valuation cannot be relied upon. It is intended to highlight the current extraordinary circumstances.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.75% - 6.60%) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50%-7.00%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair value adopted at 30 June 2021, based on a range of potential capitalisation rate movements on the Group's investment property as compared to the capitalisation rate adopted at 30 June 2021. Capitalisation rate is considered to be one of the key unobservable inputs that would have a material impact on the fair value adopted if they moved. An increase or decrease of 0.25% to the capitalisation rate adopted at 30 June 2021 would result in a change in the portfolio valuation, by a decrease of $26.6 million or an increase of $28.9 million.

A sensitivity analysis has also been performed by adjusting net operating income by 5%. An increase in net operating income by 5% is expected to have a $34.4 million increase in fair value of the investment property, while a 5% decrease is expected to have a $34.4 million decrease in value.

Refer to Note 19 for further information on fair value measurement.

As disclosed in Note 28, the subsequent lockdowns in New South Wales and Victoria imposed by the state governments are considered to be non- adjusting post balance date events and, accordingly, the valuation of the Group's properties in New South Wales and Victoria at 30 June 2021 has not been adjusted.

Leasing arrangements

Investment properties are leased to tenants under operating leases for a term of generally 20 years for major tenants and five to seven years for all other tenants. Rental income is payable monthly in advance. The minimum lease payments receivable on investment property leases are as follows:

Minimum lease payments

	2021 $	2020 $
Minimum lease payments receivable but not recognised in the financial statements:		
Within one year	**52,602,193**	19,873,114
One to five years	**149,814,447**	47,663,351
More than five years	**65,144,399**	28,406,671
	267,561,039	95,943,136

13. TRADE AND OTHER PAYABLES

	2021 $	2020 $
Current liabilities		
Trade payables	**3,466,807**	211,426
Accrued liabilities	**3,359,122**	1,064,681
Contract liabilities (deferred income)	**2,243,158**	712,991
GST payable	**699,753**	282,827
Other liabilities (including accrued investment manager performance fees)	**44,549**	481,370
	9,813,389	2,753,295

The average credit period for trade payables is generally 30 days. No interest is charged on trade payables from the date of the invoice. The Group has risk management policies to ensure payables are paid within credit terms.

Refer to Note 21 for further information on financial instruments.

14. BORROWINGS

	2021 $	2020 $
Non-current liabilities		
Secured bank loan - net of borrowing costs	**288,445,892**	93,941,923

Refer to Note 21 for further information on financial instruments.

Financing arrangements

On 19 April 2021, management completed a debt refinance with National Australia Bank Limited to combine the Group's four loan facilities into a single facility totalling $315 million, at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**). Of that facility, $300 million is repayable on 19 April 2025 and the remaining unused facility totalling $15 million is cancellable on the earlier of 19 April 2022 or the settlement of 241 O'Riordan Street, Mascot sale.

As at 30 June 2021, the Group's facility is as follows:

	2021 $	2020 $
Total facilities		
Secured bank loan facilities	**315,000,000**	103,000,000
Used at the reporting date		
Bank loans	**291,116,000**	94,225,575
Unused at the reporting date		
Bank loans	**23,884,000**	8,774,425

To take advantage of the low interest rate environment, the Group has entered into a series of interest rate swap contracts with a notional amount of $134.73 million (2020: $77.23 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (1 and 3 month) on the notional amount. Additionally on 28 June 2021, the Group terminated a $25 million interest rate swap contract. At 30 June 2021, after taking into account the remaining interest rate swaps, 46.4% (2020: 82%) of the Group's borrowings are hedged. The Group's average cost of drawn debt is approximately 3.97% (2020: 4.57%) (excluding costs relating to undrawn debt).

The drawdown amount is secured against investment properties held by the Group with a carrying value of $811.9 million at balance date and is subject to compliance with specified covenants and other requirements. Details of financing costs recognised in the financial year are disclosed in Note 5.

There were no defaults or covenant breaches with respect to the loan during the financial year.

15. ISSUED CAPITAL

	2021 UNITS	2020 UNITS	2021 $	2020 $
Balance at 1 July 2020	**100,506,038**	100,506,038	**154,216,469**	154,216,469
Issue of units in relation to the acquisition of FSREC Fund IV	**45,483,257**	-	**70,734,398**	-
Issue of units to equalise with FSREC Fund II upon stapling	**68,326,036**	-	**-**	-
Issue of units to equalise with FSREC Fund III upon stapling	**98,316,800**	-	**-**	-
Balance at 30 June 2021	**312,632,131**	100,506,038	**224,950,867**	154,216,469

As disclosed in Note 2, as a result of the Restructure of the Funds during the period, the issued units of FSREC Fund are stapled with the issued units of FSREC Fund II and FSREC Fund III. The total number of stapled securities at 30 June 2021 was 312,632,131 and are fully paid. The holders of stapled securities are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per security at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FRSEC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

The contributed equity of FSREC Fund II and FSREC Fund III are included in "Equity attributable to other members" in the consolidated statement of changes in equity.

Capital risk management

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of the Group consists of issued capital net of issue costs amounting to $224,950,867 (2020: $154,216,469).

The Group is not subject to any externally imposed capital requirements.

The debt to equity ratio at 30 June 2021 was 56.35% (2020: 59.37%).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2021, the gearing ratio of total amount drawn of $291,116,000 (2020: $94,225,575) to the total value of investment properties of $811,900,000 (2020: $256,250,000) was 35.86% (2020: 36.77%).

16. CASH FLOW HEDGE RESERVE

	2021 $	2020 $
Cash flow hedge reserve	**(1,043,779)**	(4,974,720)

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Total $
Balance at 1 July 2019	**(4,608,731)**
Unrealised losses on cash flow hedge reserve	(2,153,110)
Realised losses transferred to profit or loss as finance expense	1,693,046
Losses on derivative financial instruments	94,075
Balance at 30 June 2020	**(4,974,720)**
Unrealised gains on cash flow hedge reserve	24,816
Realised losses transferred to profit or loss as finance expense	3,906,125
Balance at 30 June 2021	**(1,043,779)**

17. OTHER NON-CONTROLLING INTEREST

	2021 $
Issued capital	50,000
Distribution paid to NCI	(17,338)
Retained profis	(9,536)
	23,126

18. DISTRIBUTIONS

Distributions paid/declared during the financial year were as follows:

	2021 $
1.29 cents per FSREC Fund I unit for the period ended 30 September 2020 paid on 3 November 2020	1,296,530
1.67 cents per stapled security for the period ended 31 December 2020 paid on 10 February 2021	5,220,957
1.91 cents per stapled security for the period ended 31 March 2021 paid on 7 May 2021	5,971,271
2.00 cents per stapled security for the period ended 30 June 2021 paid on 2 August 2021	6,252,643
	18,741,401

19. FAIR VALUE MEASUREMENT

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

– **Level 1**: quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

– **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices)

– **Level 3**: unobservable inputs for the financial asset or liability

2021	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	145,850,000	666,050,000	811,900,000
Total assets	**-**	**145,850,000**	**666,050,000**	**811,900,000**
Liabilities carried at fair value				
Cash flow hedge	-	4,341,488	-	4,341,488
Total liabilities	**-**	**4,341,488**	**-**	**4,341,488**

2020	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	-	256,250,000	256,250,000
Total assets	**-**	**-**	**256,250,000**	**256,250,000**
Liabilities carried at fair value				
Cash flow hedge	-	4,974,720	-	4,974,720
Total liabilities	**-**	**4,974,720**	**-**	**4,974,720**

A series of interest rate swap contracts have been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured loan (refer to Note 14 for details). The loan and interest rate swaps have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swaps at the reporting date was a liability of $4,341,488 (2020: $4,974,720).

The valuation technique applied to fair value the swap derivatives is determined by discounting the future cash flows using the forward market interest rate curve at reporting date.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial year.

Fair value of the Group's financial assets and liabilities that are not measured at fair value on a recurring basis

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

20. BUSINESS COMBINATIONS

As a result of the Restructure on 23 December 2020, FSREC Fund I acquired all of FSREC Fund IV's units followed by the subsequent stapling of its units with the units of FSREC Fund II and FSREC Fund III. The stapling transaction between FSREC Fund I, FSREC Fund II and FSREC Fund III has been accounted for as a business combination. The parent entity, being FSREC Fund I, has been identified as the acquirer. No purchase consideration was transferred for the acquisitions. Refer to Note 2 for further details.

FSREC Fund IV

The fair value of the identifiable assets and liabilities of FSREC Fund IV as at the date of acquisition were:

	2021 $
Assets	
Cash and cash equivalents	1,578,888
Trade and other receivables	317,699
Prepayments	344,126
Investment properties	117,300,000
	119,540,713
Liabilities	
Trade and other payables	(1,685,625)
Derivative financial liability	(1,554,102)
Borrowings	(45,551,856)
	(48,791,583)
Total identifiable net assets at fair value	**70,749,130**

The net assets at fair value of FSREC Fund IV is inclusive of the non-controlling interest portion at acquisition date of $14,732. The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund IV prior to the acquisition date.

For the year ended 30 June 2021, revenue for FSREC Fund IV is $8.8 million and profit after tax is $0.3 million.

FSREC Fund II

The fair value of the identifiable assets and liabilities of FSREC Fund II as at the date of stapling were:

	2021 $
Assets	
Cash and cash equivalents	2,316,301
Trade and other receivables	691,326
Prepayments	213,760
Investment properties	178,100,000
	181,321,387
Liabilities	
Trade and other payables	(2,395,838)
Derivative financial liability	(372,706)
Borrowings	(71,432,179)
	(74,200,723)
Total identifiable net assets at fair value	**107,120,664**

The unitholders of FSREC Fund II's equity interest in the net assets of FSREC Property Fund is included in the consolidated statement of changes in equity as "Equity attributable to other members".

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund II prior to the stapling date.

FSREC Fund II reported $15.8 million of revenue and $5.5 million of profit after tax for the year ended 30 June 2021.

FSREC Fund III

The fair value of the identifiable assets and liabilities of FSREC Fund III as at the date of stapling were:

	2021 $
Assets	
Cash and cash equivalents	3,092,192
Trade and other receivables	814,679
Prepayments	139,700
Investment properties	235,000,000
	239,046,571
Liabilities	
Trade and other payables	(2,537,267)
Derivative financial liability	(1,370,901)
Borrowings	(77,954,090)
	(81,862,258)
Total identifiable net assets at fair value	**157,184,313**

The net assets at fair value of FSREC Fund III at the date of stapling consist of $157,159,287 and $25,026 attributable to unitholders of FSREC Fund III and to non-controlling interest, respectively. The unitholders of FSREC Fund III's equity interest in the net assets of FSREC Property Fund is included in the consolidated statement of changes in equity as "Equity attributable to other members".

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund III prior to the stapling date.

FSREC Fund III reported $19.0 million of revenue and $6.4 million of profit after tax for the year ended 30 June 2021.

21. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework, including developing and monitoring risk management policies. Financial risk and capital management is carried out by the Investment Committee which provides advice in relation to commercial matters regarding the Group.

The Group's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the Group's loans and borrowings is to finance the acquisition of the Group's property portfolio including subsequent capital expenditure. The Group also has rent and other receivables, trade and other payables, and cash that arise directly from its operations.

The Group is exposed to the following risks from its use of financial instruments:

– market risk (interest rate risk and real estate risk)

– credit risk

– liquidity risk.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its financial instruments. The Group has entered into derivative financial instrument to manage its exposure to interest rate risk in respect of its borrowings.

Interest rate risk

Interest rate risk is the risk that cash flows associated with financial instruments will fluctuate due to changes in market interest rates. The Group's exposure to interest rate risk arises from its long-term floating rate borrowings and cash at bank.

To manage its interest rate risk, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations and therefore remove profit or loss sensitivity to interest rate movements.

	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $	2020 WEIGHTED AVERAGE INTEREST RATE	2020 BALANCE $
Cash and cash equivalents	**0.02%**	**5,225,226**	0.08%	2,592,429
Exposed debt not covered by swap instruments	**1.00%**	**(156,891,000)**	1.54%	(17,000,575)
Net exposure to cash flow interest rate risk		**(151,665,774)**		(14,408,146)

Sensitivity analysis

The following sensitivity analysis shows the effect on the Group's profit or loss, and equity and has been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 50 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant. As shown in Note 14, the interest rate exposure in respect of all the Group's borrowings is hedged and borrowings are therefore not sensitive to interest rate volatility.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
2021	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**
Cash and cash equivalents	50	26,126	26,126	(50)	(26,126)	(26,126)
Cash flow hedge	50	-	877,094	(50)	-	(887,508)
Exposed debt not covered by swap instruments	50	(784,455)	(784,455)	(50)	784,455	784,455
2020		**(758,329)**	**118,765**		**758,329**	**(129,179)**
Cash and cash equivalents	50	12,962	12,962	(50)	(12,962)	(12,962)
Cash flow hedge	50	-	964,555	(50)	-	(979,686)
Exposed debt not covered by swap instruments	50	(85,003)	(85,003)	(50)	85,003	85,003
		(72,041)	**892,514**		**72,041**	**(907,645)**

Credit risk

The Group has adopted a lifetime expected loss allowance in estimating ECL to trade receivables. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than six months.

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instrument.

	2021 $	**2020 $**
Summary of exposure		
Cash and cash equivalents	**5,225,226**	2,592,429
Trade and other receivables	**2,334,250**	1,628,835
	7,559,476	4,221,264

Cash and cash equivalents

The Group manages credit risk on cash and cash equivalents by ensuring deposits are made with reputable financial institutions with investment grade credit ratings.

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of $2,006,552 (2020: $1,254,020) has been recognised in respect of outstanding amounts at balance date.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

Financing arrangements

Unused borrowing facilities at the reporting date:

	2021 $	2020 $
Secured bank loan facilities	**23,884,000**	8,774,425

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity (including undrawn borrowing facilities) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The cash flow forecasts are regularly updated and reviewed to assist in managing the Group's liquidity.

The following is the contractual maturity of financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

2021	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	3,466,807	-	-	3,466,807
Accrued liabilities	3,359,122	-	-	3,359,122
Contract liabilities (deferred income)	2,243,158	-	-	2,243,158
Other liabilities	44,549	-	-	44,549
Distribution payable	6,268,710	-	-	6,268,710
Borrowings	1,841,692	300,615,932	-	302,457,624
Total non-derivatives	**17,224,038**	**300,615,932**	**-**	**317,839,970**
Derivative financial liabilities				
Cash flow hedge	4,187,427	1,831,120	-	6,018,547
Total derivatives	**4,187,427**	**1,831,120**	**-**	**6,018,547**

2020	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	211,426	-	-	211,426
Accrued liabilities	1,064,681	-	-	1,064,681
Contract liabilities (deferred income)	712,991	-	-	712,991
Other liabilities (including accrued investment manager performance fees)	481,370	-	-	481,370
Distribution payable	1,111,705	-	-	1,111,705
Borrowings	812,381	94,693,483	-	95,505,864
Total non-derivatives	**4,394,554**	**94,693,483**	**-**	**99,088,037**
Derivative financial liabilities				
Cash flow hedge	2,000,068	3,126,704	-	5,126,772
Total derivatives	**2,000,068**	**3,126,704**	**-**	**5,126,772**

The disclosed amounts for financial derivative in the above table are the net undiscounted cash flows.

22. CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 2:

		OWNERSHIP INTEREST	
NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	2021 %	2020 %
Controlled entities of Fort Street Real Estate Capital Fund I			
Australian Property Opportunities Trust	Australia	**100.00%**	100.00%
Fort Street Real Estate Capital Fund IV	Australia	**100.00%**	-
Fort Street Real Estate Capital Trust IV	Australia	**99.97%**	-
FSREC IV No.1 Trust	Australia	**100.00%**	-
Controlled entities of Fort Street Real Estate Capital Fund II			
Australian Property Opportunities Trust II	Australia	**-**	-
APOT II No.1	Australia	**-**	-
Controlled entities of Fort Street Real Estate Capital Fund III			
Australian Property Opportunities Trust III	Australia	**-**	-
APOT III No.1 Trust	Australia	**-**	-

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III and their controlled entities (as disclosed above) are considered, for financial reporting purposes, controlled entities of Fort Street Real Estate Capital Fund I due to the stapling arrangements described in Note 2 even though there are no ownership interests.

23. PARENT ENTITY INFORMATION

During the year ended 30 June 2021, the parent entity of the Group was Fort Street Real Estate Capital Fund I.

Summarised financial information

	2021 $	2020 $
Summarised statement of financial position		
Current assets	**499,433**	1,908,653
Non-current assets	**218,107,188**	147,723,468
Total assets	**218,606,621**	149,632,121
Current liabilities	**175,518**	1,633,357
Total liabilities	**175,518**	1,633,357
Net assets	**218,431,103**	147,998,764
Summarised statement of profit or loss and other comprehensive income		
Revenue	**8,839,233**	6,612,574
Expenses	**(2,618,347)**	(1,373,366)
Profit after income tax	**6,220,886**	5,239,208
Other comprehensive income	**-**	-
Total comprehensive income	**6,220,886**	5,239,208
Unitholders' equity in the parent entity		
Issued capital	**224,950,867**	154,216,469
Accumulated losses	**(6,519,764)**	(6,217,705)
Total equity	**218,431,103**	147,998,764

The parent entity does not have any contingent liabilities, contractual commitments and has not entered into any guarantees during or since the end of the financial year (2020: nil).

24. RELATED PARTY TRANSACTIONS

Key management personnel

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund and of the other members of the stapled group, E&P Investments Limited, and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of Australian Property Opportunities Trust (**Trust**), Australian Property Opportunities Trust II, APOT II No.1, APOT III No. 1 Trust and FSREC IV No.1 Trust (**Trusts**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Group or by the Responsible Entity directly for the management function provided to the Group.

As at 30 June 2021, details of directors who hold stapled securities in the FSREC Property Fund for their own benefit or who have an interest in holdings through a third party and the total number of such stapled securities held are listed below:

	2021 STAPLED SECURITIES	2020 FSREC FUND I UNITS
Stuart Nisbett	**10,000**	10,000
Warwick Keneally	**20,897**	6,097
	30,897	16,097

Mike Adams and Peter Shear do not hold stapled securities in the Group as at 30 June 2021.

Related party investments in the Group

As at 30 June 2021, the Responsible Entity or its associates held 873,842 stapled securities (2020: 625,000 FSREC Fund I units), representing 0.28% interest (2020: 0.62%) in the Group.

Distributions paid or payable by the Group to the Responsible Entity or its associates in the year ended 30 June 2021 was $59,973 (2020: $32,750).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as Responsible Entity of the Group, receives a fee for the performance of its duties under the constitution of the Fund and other members of the stapled group. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum, while the Trustee fee and Fund Administration fees were removed (as below), resulting in an overall reduction of 0.09%.

For the year ended 30 June 2021, $1,060,648 (2020: $206,968), exclusive of GST, was paid or payable to the Responsible Entity. Total Responsible Entity fee included in trade and other payables at 30 June 2021 was nil (2020: nil).

Trustee fee

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust, a wholly owned subsidiary of the Fund, receives 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the year ended 30 June 2021, $122,405 (2020: $258,512), exclusive of GST, was paid or payable to the Trustee. Total Trustee fee included in trade and other payables at 30 June 2021 was nil (2020: $21,363).

Fund Administration fee

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited), as Fund Manager of the Fund, receives a fee of 0.15% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund Management Agreement was amended to remove the Fund Administration fee.

For the year ended 30 June 2021, $183,739 (2020: $388,163), exclusive of GST, was paid or payable to the Fund Manager. Total Fund Administration fee included in trade and other payables at 30 June 2021 was nil (2020: nil).

Investment Manager fees

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.54% per annum (exclusive of GST) calculated on the gross assets of the Group being payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended and the Investment Management fee remained unchanged at 0.54% per annum.

For the year ended 30 June 2021, $2,841,781 (2020: $1,397,459) was paid or payable to the Investment Manager. Total Investment Manager fee included in trade and other payables at 30 June 2021 was $389,163 (2020: nil).

Fort Street receives Investment Management Fees of 1.25% of the value of the property for acquisitions (exclusive of GST), and 1% of the sale value (as long as the net proceeds exceed the aggregate of the acquisition costs and capital costs for the relevant asset) of the property for disposals (exclusive of GST). For the year ended 30 June 2021, a liability was recognised for the disposal fee of $1,497,676 (exclusive of GST) in relation to the sale of 241 O'Riordan Street, Mascot.

The Investment Manager receives a performance fee of 10% (exclusive of GST) on the Fund's outperformance against the AREIT Accumulation Index. The calculation of the Performance Fee occurred annually, and was paid following the release of the Fund's audited financial statements.

Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in a change to the performance fee to 10% (exclusive of GST) of the Stapled Group's Group's outperformance against an 8% cumulative, non- compounded annual return (calculated annually on a three-year rolling basis), subject to the High Watermark. For further information, refer to the Explanatory Memorandum dated 29 September 2020.

There were no accrued performance fees for the year ended 30 June 2021 (2020: $475,042).

Property Manager fee

Fort Street, as Property Manager of the Trusts, is responsible for managing and maintaining the property portfolios of the Trusts, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income of the Trusts.

For the year ended 30 June 2021, $1,384,066 (2020: $704,861), exclusive of GST, was paid or payable to the Property Manager. Total Property Manager fee included in trade and other payables at 30 June 2021 was $158,580 (2020: $44,161).

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the year ended 30 June 2021, $37,505 exclusive of GST (2020: $55,098), was paid or payable to the Development Manager. Total Development Manager fee included in trade and other payables at 30 June 2021 was $34,560 (2020: $8,966).

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the year ended 30 June 2021, $656,243 (2020: $102,963), exclusive of GST, was paid or payable to the Leasing Agent. Total Leasing Services fee included in trade and other payables at 30 June 2021 was $315,127 (2020: $97,113).

Debt Advisory fee

Fort Street Capital Pty Ltd, a related party of the Responsible Entity, receives a debt arranging fee for assistance in arranging a new debt facility for the Group. For the Group's recent refinance of the four debt facilities to a single facility with a longer tenure totalling $315 million, Fort Street Capital Pty Ltd received a fee of 0.3% of the total facility limit.

For the year ended 30 June 2021, $945,000 (2020: $103,000), exclusive of GST, was paid or payable by the Group. The fee has been capitalised to the costs of borrowings and amortised over the life of the loan.

Legal and Consulting services

MDA1 Pty Limited, trading as MA Law, provides legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited.

For the year ended 30 June 2021, $47,738 (2020: $13,994), exclusive of GST, was paid or payable by the Group, and are included in the other expenses in the statement of profit or loss and other comprehensive income. Total Legal and consulting services fee to MDA1 Pty Limited included in trade and other payables at 30 June 2021 was $26,368 (2020: $6,069).

Financial Advisory fee

Evans and Partners Pty Ltd (**Financial Advisor**), a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the year ended 30 June 2021, $323,193 (2020: nil), exclusive of GST, was paid or payable to the Financial Advisor.

Signage

E&P Financial Group Limited, E&P Funds Group Pty Limited and New Energy Solar Fund, related parties of the Group, have a contractual agreement with the trustee of APOT III No.1 Trust, E&P Investment Services Pty Limited, to receive a non-exclusive licence for the use of the signage at the Mascot property as provided under the terms of the signage license agreement.

For the year ended 30 June 2021, $27,879 (2020: nil), exclusive of GST, was paid or payable to the Group.

25. REMUNERATION OF AUDITOR

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Group:

	2021 $	2020 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	**187,125**	66,400
Other services - Deloitte Touche Tohmatsu		
Taxation services	**79,700**	16,800
Other services	**109,071**	52,287
	188,771	69,087
	375,896	135,487

26. CAPITAL COMMITMENTS

As at reporting date, the Group committed $3,858,300 (2020: nil) in capital commitments for improvements to its existing properties. In addition, $1,098,300 (2020: $545,442) was committed for lease incentives arising from lease agreements entered into during the year.

27. CONTINGENT LIABILITIES

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

28. EVENTS AFTER THE REPORTING PERIOD

On 9 July 2021, the Group settled on the sale of 241 O'Riordan Street, Mascot at net proceeds of $145.9 million.

Part of the sale proceeds were used to provide liquidity to stapled securityholders. On 25 June 2021, a Withdrawal Offer of $95 million was announced for stapled securityholders to redeem their securities for a redemption price of $1.59. 59,850,196 stapled securities were redeemed on 4 August 2021 and the redemptions were paid on 6 August 2021.

The remainder of the sale proceeds were used to repay debt of $47.5 million on the Group's loan facility with NAB and, in accordance with the loan agreement the unused $15 million facility was cancelled following the settlement of the Mascot property sale.

The COVID-19 pandemic continues to cause significant disruption to businesses and economic activities. Post year end, the recent lockdowns in New South Wales and Victoria have impacted portfolio operations, with non-essential retail mandated to close by State governments. Regulations and legislation have been introduced as a response to the ongoing effects of the COVID-19 pandemic and are designed to govern rent relief for a prescribed period between July 2021 and January 2022. There remains significant uncertainty as to the financial impact of the lockdowns on the Group's performance should they be extended for a prolonged period.

The Group considers this to be a non-adjusting post balance date event and accordingly the financial effects of these lockdowns have not been reflected in the Group's consolidated financial statements as at 30 June 2021.

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

FSREC FUND II AND FSREC FUND III FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

		FSREC FUND II		FSREC FUND III	
	NOTE	2021 $	2020 $	2021 $	2020 $
Revenue					
Rental income		**13,007,076**	13,410,874	**14,912,796**	13,887,285
Other property income		**2,195,536**	2,021,119	**2,833,466**	3,929,646
Finance income	2	**724**	3,572	**1,485**	3,569
Fair value movement of investment properties	10	**570,793**	(3,130,112)	**1,240,560**	(5,123,965)
Expenses					
Finance expense	3	**(1,970,056)**	(2,269,842)	**(4,107,378)**	(3,396,312)
Investment property expenses		**(5,580,957)**	(6,199,311)	**(4,959,251)**	(4,988,467)
Responsible entity and trustee fees	21	**(394,822)**	(337,434)	**(514,453)**	(438,421)
Management fees	21	**(1,597,744)**	(1,762,989)	**(2,016,727)**	(2,215,652)
Accounting and audit fees		**(120,015)**	(127,267)	**(103,687)**	(117,900)
Other expenses	4	**(613,798)**	(545,702)	**(931,375)**	(777,218)
Total expenses		**(10,277,392)**	(11,242,545)	**(12,632,871)**	(11,933,970)
Profit before income tax expense		**5,496,737**	1,062,908	**6,355,436**	762,565
Income tax expense		-	-	-	-
Profit after income tax expense for the year		**5,496,737**	1,062,908	**6,355,436**	762,565
Other comprehensive income/(loss)					
Items that may be reclassified subsequently to profit or loss					
Effective portion of changes in fair value of cash flow hedge	3	**476,255**	(85,575)	**1,869,492**	8,569
Other comprehensive income/(loss) for the year, net of tax		**476,255**	(85,575)	**1,869,492**	8,569
Total comprehensive income for the year		**5,972,992**	977,333	**8,224,928**	771,134
Profit for the year is attributable to:					
Non-controlling interest		-	-	**1,208**	272
Unitholders of FSREC Fund II and FSREC Fund III		**5,496,737**	1,062,908	**6,354,228**	762,293
		5,496,737	1,062,908	**6,355,436**	762,565
Total comprehensive income for the year is attributable to:					
Non-controlling interest		-	-	**1,208**	272
Unitholders of FSREC Fund II and FSREC Fund III		**5,972,992**	977,333	**8,223,720**	770,862
		5,972,992	977,333	**8,224,928**	771,134
		CENTS	CENTS	CENTS	CENTS
Basic earnings per unit	5	**2.82**	1.56	**3.04**	0.78
Diluted earnings per unit	5	**2.82**	1.56	**3.04**	0.78

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	NOTE	FSREC FUND II 2021 $	FSREC FUND II 2020 $	FSREC FUND III 2021 $	FSREC FUND III 2020 $
Assets					
Current assets					
Cash and cash equivalents	6	**2,180,768**	2,064,790	**949,670**	2,672,269
Trade and other receivables	8	**614,185**	1,007,345	**336,722**	510,690
Investment properties held for sale	9	**-**	-	**145,850,000**	-
Prepayments		**249,469**	233,905	**238,360**	249,968
Total current assets		**3,044,422**	3,306,040	**147,374,752**	3,432,927
Non-current assets					
Investment properties	10	**181,050,000**	178,600,000	**90,000,000**	233,750,000
Total non-current assets		**181,050,000**	178,600,000	**90,000,000**	233,750,000
Total assets		**184,094,422**	181,906,040	**237,374,752**	237,182,927
Liabilities					
Current liabilities					
Trade and other payables	11	**2,663,764**	2,124,560	**2,544,509**	2,139,284
Derivative financial instruments		**110,964**	468,366	**-**	839,548
Distribution payable		**8,247**	729,020	**6,268,710**	1,190,803
Total current liabilities		**2,782,975**	3,321,946	**8,813,219**	4,169,635
Non-current liabilities					
Borrowings	12	**71,524,228**	71,340,017	**77,369,061**	77,837,388
Derivative financial instruments		**-**	118,853	**-**	1,029,944
Total non-current liabilities		**71,524,228**	71,458,870	**77,369,061**	78,867,332
Total liabilities		**74,307,203**	74,780,816	**86,182,280**	83,036,967
Net assets		**109,787,219**	107,125,224	**151,192,472**	154,145,960
Equity					
Issued capital	13	**106,200,663**	106,200,663	**161,130,403**	161,130,403
Cash flow hedge reserve	14	**(110,964)**	(587,219)	**-**	(1,869,492)
Retained profits/(accumulated losses)		**3,697,520**	1,511,780	**(9,946,604)**	(5,139,417)
Equity attributable to unitholders of FSREC Fund II and FSREC Fund III		**109,787,219**	107,125,224	**151,183,799**	154,121,494
Non-controlling interest	15	**-**	-	**8,673**	24,466
Total equity		**109,787,219**	107,125,224	**151,192,472**	154,145,960

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

FSREC FUND II	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2019	106,200,663	(501,644)	4,416,546	-	110,115,565
Profit after income tax expense for the year	-	-	1,062,908	-	1,062,908
Other comprehensive loss for the year, net of tax	-	(85,575)	-	-	(85,575)
Total comprehensive income/(loss) for the year	-	(85,575)	1,062,908	-	977,333
Transactions with unitholders in their capacity as unitholders:					
Distributions paid/declared	-	-	(3,967,674)	-	(3,967,674)
Balance at 30 June 2020	**106,200,663**	**(587,219)**	**1,511,780**	**-**	**107,125,224**

FSREC FUND II	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2020	106,200,663	(587,219)	1,511,780	-	107,125,224
Profit after income tax expense for the year	-	-	5,496,737	-	5,496,737
Other comprehensive income for the year, net of tax	-	476,255	-	-	476,255
Total comprehensive income for the year	-	476,255	5,496,737	-	5,972,992
Transactions with unitholders in their capacity as unitholders:					
Distributions paid/declared	-	-	(3,310,997)	-	(3,310,997)
Balance at 30 June 2021	**106,200,663**	**(110,964)**	**3,697,520**	**-**	**109,787,219**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

FSREC FUND III	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	ACCUMULATED LOSSES $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2019	161,130,403	(1,878,061)	(241,144)	25,231	159,036,429
Profit after income tax expense for the year	-	-	762,293	272	762,565
Other comprehensive loss for the year, net of tax	-	8,569	-	-	8,569
Total comprehensive income/(loss) for the year	-	8,569	762,293	272	771,134
Distributions paid to NCI	-	-	-	(1,037)	(1,037)
Transactions with unitholders in their capacity as unitholders:					
Distributions paid/declared	-	-	(5,660,566)	-	(5,660,566)
Balance at 30 June 2020	**161,130,403**	**(1,869,492)**	**(5,139,417)**	**24,466**	**154,145,960**

FSREC FUND III	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	ACCUMULATED LOSSES $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2020	161,130,403	(1,869,492)	(5,139,417)	24,466	154,145,960
Profit after income tax expense for the year	-	-	6,354,228	1,208	6,355,436
Other comprehensive income for the year, net of tax	-	1,869,492	-	-	1,869,492
Total comprehensive income for the year	-	1,869,492	6,354,228	1,208	8,224,928
Distributions paid to NCI	-	-	-	(17,001)	(17,001)
Transactions with unitholders in their capacity as unitholders:					
Distributions paid/declared	-	-	(11,161,415)	-	(11,161,415)
Balance at 30 June 2021	**161,130,403**	**-**	**(9,946,604)**	**8,673**	**151,192,472**

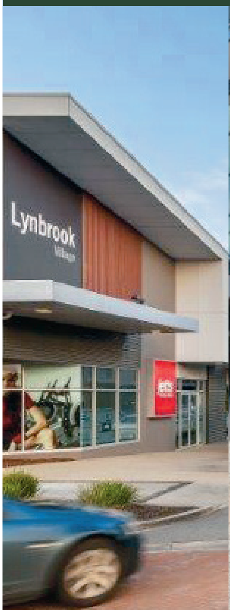
The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

		FSREC FUND II		FSREC FUND III	
	NOTE	2021 $	2020 $	2021 $	2020 $
Cash flows from operating activities					
Rental and other income received		**17,036,402**	16,337,630	**20,746,510**	20,824,501
Interest income received		**778**	3,925	**1,711**	3,823
Payments to suppliers		**(9,913,151)**	(10,680,426)	**(10,787,758)**	(10,648,491)
Finance costs		**(1,733,917)**	(2,110,419)	**(3,924,135)**	(2,915,594)
Net cash from operating activities	7	**5,390,112**	3,550,710	**6,036,328**	7,264,239
Cash flows from investing activities					
Payments for capital expenditure		**(1,253,802)**	(1,307,004)	**(936,354)**	(947,228)
Net cash used in investing activities		**(1,253,802)**	(1,307,004)	**(936,354)**	(947,228)
Cash flows from financing activities					
Payments of transaction costs relating to loans and borrowings		**(488,562)**	(183,336)	**(722,064)**	(248,225)
Proceeds from borrowings		**500,000**	2,500,000	**-**	2,000,000
Distributions paid		**(4,031,770)**	(4,688,442)	**(6,100,509)**	(6,455,480)
Net cash used in financing activities		**(4,020,332)**	(2,371,778)	**(6,822,573)**	(4,703,705)
Net increase/(decrease) in cash and cash equivalents		**115,978**	(128,072)	**(1,722,599)**	1,613,306
Cash and cash equivalents at the beginning of the financial year		**2,064,790**	2,192,862	**2,672,269**	1,058,963
Cash and cash equivalents at the end of the financial year	6	**2,180,768**	2,064,790	**949,670**	2,672,269

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


Lynbrook

Toormina
Gardens


entry

coles
northpoint

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

1. GENERAL INFORMATION

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III are unlisted managed investment schemes registered and domiciled in Australia.

The financial statements comprise:

– Fort Street Real Estate Capital Fund II and its subsidiaries (**FSREC Fund II**), and

– Fort Street Real Estate Capital Fund III and its subsidiaries (**FSREC Fund III**).

FSREC Fund II and FSREC Fund III form part of the stapled group, FSREC Property Fund (**Group**). The principal activity of the FSREC Fund II and FSREC Fund III is to invest in Australian commercial property.

Restructure of the Funds

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV (**the Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV unitholders on 30 October 2020.

The Restructure comprised:

– FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement.

– A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

2. FINANCE INCOME

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Finance income - interest income from bank deposits	**724**	3,572	**1,485**	3,569

3. FINANCE EXPENSE

	FSREC FUND II		FSREC FUN III	
	2021 $	2020 $	2021 $	2020 $
Recognised directly in profit or loss				
Interest expense on financial liabilities measured at amortised cost	**657,508**	1,193,693	**884,940**	1,365,121
Interest expense on cash flow hedge	**518,299**	290,352	**1,931,878**	795,837
Other finance costs - including facility line fees and amortisation of loan establishment costs	**794,249**	785,797	**1,290,560**	1,235,354
Finance expense recognised directly in profit or loss	**1,970,056**	2,269,842	**4,107,378**	3,396,312
Recognised in other comprehensive income				
Net loss on cash flow hedge for the year:				
- Realised losses transferred to profit or loss	**518,299**	290,352	**1,931,878**	795,837
- Unrealised losses on cash flow hedge	**(42,044)**	(375,927)	**(62,386)**	(787,268)
Finance income/(expense) recognised in other comprehensive income	**476,255**	(85,575)	**1,869,492**	8,569

4. OTHER EXPENSES

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Legal and compliance costs	**65,406**	87,751	**75,000**	82,102
Due diligence expense	**3,118**	2,655	**3,118**	-
Other operating expenses	**113,189**	177,889	**234,700**	296,025
Professional fees	**432,085**	277,407	**618,557**	399,091
	613,798	545,702	**931,375**	777,218

5. EARNINGS PER UNIT

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Profit after income tax	**5,496,737**	1,062,908	**6,355,436**	762,565
Non-controlling interest	**-**	-	**(1,208)**	(272)
Profit after income tax attributable to the unitholders	**5,496,737**	1,062,908	**6,354,228**	762,293
	NUMBER	NUMBER	NUMBER	NUMBER
Weighted average number of securities used in calculating basic earnings per unit*	**194,829,740**	68,326,036	**209,291,040**	98,316,800
Weighted average number of securities used in calculating diluted earnings per unit	**194,829,740**	68,326,036	**209,291,040**	98,316,800
	CENTS	CENTS	CENTS	CENTS
Basic earnings per unit	**2.82**	1.56	**3.04**	0.78
Diluted earnings per unit	**2.82**	1.56	**3.04**	0.78

* The calculation of basic and diluted earnings per unit for all periods presented have been adjusted retrospectively for the conversion of units on issue from the Restructure. Refer to Note 13 for details. The weighted average number of securities without the retrospective adjustment as required by AASB 133: Earnings Per Share is 194,983,387 for FSREC Fund II and 212,242,898 for FSREC Fund III (2020: 68,644,678 for FSREC Fund II and 104,438,552 for FSREC Fund III).

6. CASH AND CASH EQUIVALENTS

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Current assets				
Cash at bank	**2,180,768**	2,064,790	**949,670**	2,672,269

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

On 19 April 2021, management completed a debt refinance to combine FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV's four loan facilities into a single facility totalling $315 million. At 30 June 2021, FSREC Fund II and FSREC Fund III had $23,884,000 available to be borrowed from the new facility of the Group through the Australian Property Opportunities Trust (2020: $4,000,000 for FSREC Fund II and $21,773,838 for FSREC Fund III from their individual borrowing facilities before the debt refinance). Details of the borrowing facility are set out in Note 12.

7. CASH FLOW INFORMATION

a) Reconciliation of profit after income tax to net cash from operating activities

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Profit after income tax expense for the year	**5,496,737**	1,062,908	**6,355,436**	762,565
Adjustments for:				
Fair value movement of investment properties	**(570,793)**	3,130,112	**(1,240,560)**	5,123,965
Rental straight-lining, tenant incentives and other adjustments	**(381,280)**	(1,144,543)	**376,233**	374,003
Amortisation of borrowing costs	**172,773**	158,428	**253,737**	291,437
Change in operating assets and liabilities:				
Decrease/(increase) in receivables	**393,160**	(43,816)	**173,968**	(11,012)
(Increase)/decrease in prepayments	**(15,564)**	(16,347)	**11,608**	20,058
Increase in payables	**295,079**	403,968	**105,906**	703,223
Net cash from operating activities	**5,390,112**	3,550,710	**6,036,328**	7,264,239

b) Net debt reconciliation

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Reconciliation of net debt movements				
Secured bank loan at the beginning of the year	**71,340,017**	68,864,925	**77,837,388**	75,794,177
Changes from financing cash flows:				
Proceeds from borrowings	**500,000**	2,500,000	**-**	2,000,000
Payment of transaction costs	**(488,562)**	(183,336)	**(722,064)**	(248,225)
Non-cash changes:				
Amortisation of borrowing costs	**172,773**	158,428	**253,737**	291,437
Secured bank loan as at the end of the year	**71,524,228**	71,340,017	**77,369,061**	77,837,389

8. TRADE AND OTHER RECEIVABLES

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Current assets				
Rental and outgoing receivables	**816,402**	2,016,440	**564,769**	976,331
Less: allowance for expected credit losses	**(202,229)**	(1,009,161)	**(228,056)**	(465,876)
	614,173	1,007,279	**336,713**	510,455
Interest receivable	**12**	66	**9**	235
	614,185	1,007,345	**336,722**	510,690

Rental and outgoing receivables are non-interest bearing and are due in advance on the first day of each month.

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Ageing of rental and outgoing receivables				
Current (0 - 30 days)	**466,079**	959,105	**500,886**	449,929
31 - 60 days	**165,800**	371,132	**27,486**	294,711
61 - 90 days	**21,528**	274,173	**16,210**	169,006
90 + days	**162,995**	412,030	**20,187**	62,685
	816,402	2,016,440	**564,769**	976,331

As at 30 June 2021, total unpaid rental and outgoings balance of $816,402 for FSREC Fund II and $564,769 for FSREC Fund III was recognised. An equivalent ECL provision of $202,229 for FSREC Fund II and $228,056 for FSREC Fund III (2020: $1,009,161 for FSREC Fund II and $465,876 for FSREC Fund III) has been recognised in relation to the balance of the rental and outgoings receivable that is not expected to be recovered.

9. INVESTMENT PROPERTIES HELD FOR SALE

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Current assets				
Investment properties as held for sale	-	-	**145,850,000**	-

The investment property held for sale relates to the commercial property at 241 O'Riordan Street, Mascot, which was subject to a sale contract which settled on 9 July 2021. Refer to Note 25 for details relating to the completion of the sale post year end.

At 30 June 2021, the investment property was valued with reference to the contracted sale value with adjustments made to reflect circumstances existing at balance date.

10. INVESTMENT PROPERTIES

		FSREC FUND II		FSREC FUND III	
	NOTE	2021 $	2020 $	2021 $	2020 $
Non-current assets					
Investment properties - at fair value		**181,050,000**	178,600,000	**90,000,000**	233,750,000
Movement in investment properties					
Carrying amount of investment properties at beginning of year		**178,600,000**	179,000,000	**233,750,000**	238,500,000
Capital expenditure		**1,497,927**	1,585,568	**1,235,673**	747,969
Rental straight-lining, tenant incentives and other adjustments		**381,280**	1,144,544	**(376,233)**	(374,004)
Fair value movement		**570,793**	(3,130,112)	**1,240,560**	(5,123,965)
Classified as held for sale	9	**-**	-	**(145,850,000)**	-
Carrying amount of investment properties at end of year		**181,050,000**	178,600,000	**90,000,000**	233,750,000

Fair value

At reporting date, FSREC Fund II has five commercial properties and FSREC Fund III has one commercial property in Australia which are carried at fair value.

The 30 June 2021 fair value amounts were determined by way of independent valuation on all investment properties using a combination of DCF and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of investment properties, assumptions related to the impacts of COVID-19 have been taken into account.

Some independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation or mean the valuation cannot be relied upon. It is intended to highlight the current extraordinary circumstances.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.75% - 6.00% for FSREC Fund II and 6.60% for FSREC Fund III) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50% - 7.00% for FSREC Fund II and 7.00% for FSREC Fund III) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair value adopted at 30 June 2021, based on a range of potential capitalisation rate movements on the FSREC Fund II's and FSREC Fund III's investment property as compared to the capitalisation rate adopted at 30 June 2021. Capitalisation rate is considered to be one of the key unobservable inputs that would have a material impact on the fair value adopted if they moved. An increase or decrease of 0.25% to the capitalisation rate adopted at 30 June 2021 would result in a change in the portfolio valuation, by a decrease of $7.5 million or an increase of $8.1 million for FSREC Fund II and a decrease of $3.3 million or an increase of $3.5 million for FSREC Fund III. A sensitivity analysis has also been performed by adjusting net operating income by 5%. An increase in net operating income by 5% is expected to have a $9.5 million for FSREC Fund II and $4.6 million for FSREC Fund III increase in fair value of the investment property, while a 5% decrease is expected to have a $9.5 million for FSREC Fund II and $4.6 million for FSREC Fund III decrease in value.

Refer to Note 17 for further information on fair value measurement.

As disclosed in Note 25, the lockdowns in New South Wales and Victoria imposed by the state governments are considered to be non-adjusting post balance date events and, accordingly, the valuation of the FSREC Fund II's and FSREC Fund III's properties in New South Wales and Victoria at 30 June 2021 has not been adjusted.

Leasing arrangements

Investment properties are leased to tenants under operating leases for a term of generally 20 years for major tenants and five to seven years for all other tenants. Rental income is payable monthly in advance. The minimum lease payments receivable on investment property leases are as follows:

Minimum lease payments

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Minimum lease payments receivable but not recognised in the financial statements:				
Within one year	**14,194,492**	13,646,902	**7,399,571**	18,090,114
One to five years	**39,925,077**	37,947,887	**17,893,231**	38,741,112
More than five years	**22,970,049**	24,983,235	**3,800,794**	4,981,961
	77,089,618	76,578,024	**29,093,596**	61,813,187

11. TRADE AND OTHER PAYABLES

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Current liabilities				
Trade payables	**996,136**	322,253	**698,685**	288,537
Accrued liabilities	**782,754**	930,024	**1,103,170**	1,025,459
Contract liabilities (deferred income)	**723,497**	711,286	**505,179**	547,995
GST payable	**161,377**	160,997	**237,475**	277,293
	2,663,764	2,124,560	**2,544,509**	2,139,284

The average credit period for trade payables is generally 30 days. No interest is charged on trade payables from the date of the invoice. FSREC Fund II and FSREC Fund III have risk management policies to ensure payables are paid within credit terms.

Refer to Note 18 for further information on financial instruments.

12. BORROWINGS

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Non-current liabilities				
Secured bank loan - net of borrowing costs	**71,524,228**	71,340,017	**77,369,061**	77,837,388

Refer to Note 18 for further information on financial instruments.

Financing arrangements

On 19 April 2021, management completed a debt refinance with National Australia Bank Limited to combine FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV's four loan facilities into a single facility totalling $315 million, at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**). Of that facility, $300 million is repayable on 19 April 2025 and the remaining unused facility totalling $15 million is cancellable on the earlier of 19 April 2022 or the settlement of 241 O'Riordan Street, Mascot sale.

As at 30 June 2021, FSREC Fund II and FSREC Fund III's portion of that facility is as follows:

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Total facilities				
Secured bank loan facility	**72,115,000**	75,615,000	**78,226,000**	100,000,000
Used at the reporting date				
Secured bank loan facility	**72,115,000**	75,615,000	**78,226,000**	78,226,162
Unused at the reporting date				
Secured bank loan facility	**-**	4,000,000	-	21,773,838

The Group had $23.9 million available to be borrowed from the single facility through the Australian Property Opportunities Trust.

To take advantage of the low interest rate environment, the FSREC Fund II has entered into an interest rate swap contract with a notional amount of $32 million (2020: $32 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (1 month) on the notional amount. At 30 June 2021, after taking into account the interest rate swap, 44% of FSREC Fund II's borrowings are fully hedged (2020: 45%).

On 28 June 2021, FSREC Fund III terminated its $25 million interest rate swap contract, therefore at 30 June 2021, FSREC Fund III's borrowings are currently not hedged (2020: 64%).

The Group's average cost of drawn debt is approximately 2.75% for FSREC Fund II and 5.25% for FSREC Fund III (excluding costs relating to undrawn debt) (2020: 3.18% for FSREC Fund II and 4.04% for FSREC Fund III).

The drawdown amount is secured against investment properties held by FSREC Fund II and FSREC Fund III with a carrying value at balance date of $181.1 million and $235.9 million, respectively, and is subject to compliance with specified covenants and other requirements. Details of financing costs recognised in the financial year are disclosed in Note 3.

There were no defaults or covenant breaches with respect to the loan during the financial year.

13. ISSUED CAPITAL

	FSREC FUND II			
	2021 UNITS	2020 UNITS	2021 $	2020 $
Balance at the beginning of the year	**68,644,678**	68,644,678	**106,200,663**	106,200,663
Conversion of units on issue on a 0.9954 for 1 basis	**(318,642)**	-	-	-
Issue of units to equalise with FSREC Fund I upon stapling	**145,989,295**	-	-	-
Issue of units to equalise with FSREC Fund III upon stapling	**98,316,800**	-	-	-
Balance at the end of the year	**312,632,131**	68,644,678	**106,200,663**	106,200,663

	FSREC FUND III			
	2021 UNITS	2020 UNITS	2021 $	2020 $
Balance at the beginning of the year	**104,438,552**	104,438,552	**161,130,403**	161,130,403
Conversion of units on issue on a 0.9414 for 1 basis	**(6,121,752)**	-	-	-
Issue of units to equalise with FSREC Fund I upon stapling	**145,989,295**	-	-	-
Issue of units to equalise with FSREC Fund II upon stapling	**68,326,036**	-	-	-
Balance at the end of the year	**312,632,131**	104,438,552	**161,130,403**	161,130,403

As disclosed in Note 1, as a result of the restructure of the Funds during the period, the issued units of FSREC Fund I are stapled with the issued units of FSREC Fund II and FSREC Fund III. The total number of stapled units at 30 June 2021 was 312,632,131 and are fully paid. The holders of stapled units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FRSEC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

Capital risk management

FSREC Fund II and FSREC Fund III manage its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of FSREC Fund II and FSREC Fund III consist of issued capital net of issue costs amounting to $106,200,663 and $161,130,403, respectively (2020: $106,200,663 for FSREC Fund II and $161,130,403 for FSREC Fund III).

FSREC Fund II and FSREC Fund III are not subject to any externally imposed capital requirements.

The debt to equity ratio at 30 June 2021 was 65.15% for FSREC Fund II and 51.17% for FSREC Fund III (2020: 66.59% for FSREC Fund II and 50.50% for FSREC Fund III).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2021, the FSREC Fund II gearing ratio of total amount drawn of $72,115,000 (2020: $71,615,000) to the total value of investment properties of $181,050,000 (2020: $178,600,000) was 39.83% (2020: 40.10%). At 30 June 2021, the FSREC Fund III gearing ratio of total amount drawn of $78,226,000 (2020: $78,226,162) to the total value of investment properties of $235,850,000 (2020: $233,750,000) was 33.17% (2020: 33.47%).

14. CASH FLOW HEDGE RESERVE

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Cash flow hedge reserve	**(110,964)**	(587,219)	-	(1,869,492)

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by FSREC Fund II and FSREC Fund III.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

FSREC FUND II	Total $
Balance at 1 July 2019	**(501,644)**
Unrealised losses on cash flow hedge reserve	(375,927)
Realised losses transferred to profit or loss as finance expense	290,352
Balance at 30 June 2020	**(587,219)**
Unrealised gains on cash flow hedge reserve	(42,044)
Realised losses transferred to profit or loss as finance expense	518,299
Balance at 30 June 2021	**(110,964)**

FSREC FUND III	Total $
Balance at 1 July 2019	**(1,878,061)**
Unrealised losses on cash flow hedge reserve	(787,268)
Realised losses transferred to profit or loss as finance expense	795,837
Balance at 30 June 2020	**(1,869,492)**
Unrealised gains on cash flow hedge reserve	(62,386)
Realised losses transferred to profit or loss as finance expense	1,931,878
Balance at 30 June 2021	**-**

15. NON-CONTROLLING INTEREST

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Issued capital	-	-	**25,000**	25,000
Distribution paid to NCI	-	-	**(17,001)**	(1,037)
Retained profits	-	-	**674**	503
	-	-	**8,673**	24,466

The non-controlling interest had a 0.02% (2020: 0.02%) equity holding in Australian Property Opportunities Trust III at year end.

16. DISTRIBUTIONS

Distributions paid/declared during the financial year were as follows:

FSREC FUND II	2021 $
1.33 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	864,926
0.36 cents per unit for the period ended 31 December 2020 paid on 10 February 2021	1,141,045
0.42 cents per unit for the period ended 31 March 2021 paid on 7 May 2021	1,305,026
	3,310,997

FSREC FUND III	2021 $
1.33 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	1,389,031
0.53 cents per unit for the period ended 31 December 2020 paid on 10 February 2021	1,641,891
0.60 cents per unit for the period ended 31 March 2021 paid on 7 May 2021	1,877,850
2.00 cents per unit for the period ended 30 June 2021 paid on 2 August 2021	6,252,643
	11,161,415

17. FAIR VALUE MEASUREMENT

Fair value of FSREC Fund II's and FSREC Fund III's financial assets and liabilities that are measured at fair value on a recurring basis

FSREC Fund II and FSREC Fund III measure fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

- **Level 1**: quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date
- **Level 2**: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices)
- **Level 3**: unobservable inputs for the financial asset or liability

FSREC FUND II – 2021	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	-	181,050,000	181,050,000
Total assets	**-**	**-**	**181,050,000**	**181,050,000**
Liabilities carried at fair value				
Cash flow hedge	-	110,964	-	110,964
Total liabilities	**-**	**110,964**	**-**	**110,964**

FSREC FUND II – 2020	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	-	178,600,000	178,600,000
Total assets	**-**	**-**	**178,600,000**	**178,600,000**
Liabilities carried at fair value				
Cash flow hedge	-	587,219	-	587,219
Total liabilities	**-**	**587,219**	**-**	**587,219**

FSREC FUND III – 2021	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	145,850,000	90,000,000	235,850,000
Total assets	**-**	**145,850,000**	**90,000,000**	**235,850,000**
Liabilities carried at fair value				
Cash flow hedge	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**

FSREC FUND III – 2020	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets carried at fair value				
Investment properties	-	-	233,750,000	233,750,000
Total assets	**-**	**-**	**233,750,000**	**233,750,000**
Liabilities carried at fair value				
Cash flow hedge	-	1,869,492	-	1,869,492
Total liabilities	**-**	**1,869,492**	**-**	**1,869,492**

An interest rate swap contract has been entered into by the FSREC Fund II to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to Note 12 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of $110,964 (2020: $587,219) for FSREC Fund II and nil (2020: $1,869,492) for FSREC Fund III.

The valuation technique applied to fair value the swap derivatives is determined by discounting the future cash flows using the forward market interest rate curve at reporting date.

FSREC Fund II and FSREC Fund III recognise transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial year.

Fair value of the FSREC Fund II's and FSREC Fund III's financial assets and liabilities that are not measured at fair value on a recurring basis

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

18. FINANCIAL INSTRUMENTS

Financial risk management objectives

The Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework, including developing and monitoring risk management policies. Financial risk and capital management is carried out by the Investment Manager which provides advice in relation to commercial matters regarding FSREC Fund II and FSREC Fund III.

FSREC Fund II's and FSREC Fund III's principal financial liabilities, other than derivatives, are loans and borrowings. The main purpose of the FSREC Fund II's and FSREC Fund III's loans and borrowings is to finance the acquisition of FSREC Fund II's and FSREC Fund III's property portfolio including subsequent capital expenditure. FSREC Fund II and FSREC Fund III also have rent and other receivables, trade and other payables, and cash that arise directly from its operations.

FSREC Fund II and FSREC Fund III are exposed to the following risks from its use of financial instruments:

– market risk (interest rate risk and real estate risk)

– credit risk

– liquidity risk.

Market risk

Market risk is the risk of changes in market prices, such as interest rates, will affect FSREC Fund II's and FSREC Fund III's income or the value of their financial instruments. FSREC Fund II and FSREC Fund III have entered into derivative financial instruments to manage their exposure to interest rate risk in respect of the borrowings.

Interest rate risk

Interest rate risk is the risk that cash flows associated with financial instruments will fluctuate due to changes in market interest rates. FSREC Fund II's and FSREC Fund III's exposure to interest rate risk arises from their long-term floating rate borrowings and cash at bank.

To manage their interest rate risk, FSREC Fund II and FSREC Fund III enter into an interest rate swap, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The swap is designated to hedge underlying debt obligations and therefore remove profit or loss sensitivity to interest rate movements.

FSREC FUND II	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $	2020 WEIGHTED AVERAGE INTEREST RATE	2020 BALANCE $
Cash and cash equivalents	**0.03%**	**2,180,768**	0.01%	2,064,790
Exposed debt not covered by swap instruments	**0.98%**	**(40,115,000)**	1.71%	(39,615,000)
Net exposure to cash flow interest rate risk		**(37,934,232)**		(37,550,210)

FSREC FUND III	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $	2020 WEIGHTED AVERAGE INTEREST RATE	2020 BALANCE $
Cash and cash equivalents	**0.01%**	**949,670**	0.10%	2,672,269
Exposed debt not covered by swap instruments	**1.13%**	**(78,226,000)**	2.81%	(28,226,162)
Net exposure to cash flow interest rate risk		**(77,276,330)**		(25,553,893)

Sensitivity analysis

The following sensitivity analysis shows the effect on FSREC Fund II's and FSREC Fund III's profit or loss, and equity and have been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 50 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant. As shown in Note 12, the interest rate exposure in respect of 44% for FSREC Fund II and 0% for FSREC Fund III (2020: 45% for FSREC Fund II and 64% for FSREC Fund III) of their respective borrowings are hedged and are therefore not sensitive to interest rate volatility.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
FSREC FUND II – 2021	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**
Cash and cash equivalents	50	10,904	10,904	(50)	(10,904)	(10,904)
Cash flow hedge	50	-	27,264	(50)	-	(27,334)
Exposed debt not covered by swap instruments	50	(200,575)	(200,575)	(50)	200,575	200,575
		(189,671)	**(162,407)**		**189,671**	**162,407**
FSREC FUND II – 2020						
Cash and cash equivalents	50	10,324	10,324	(50)	(10,324)	(10,324)
Cash flow hedge	50	-	188,208	(50)	-	(189,634)
Exposed debt not covered by swap instruments	50	(198,075)	(198,075)	(50)	198,075	198,075
		(187,751)	**457**		**187,751**	**(1,883)**

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
FSREC FUND III – 2021	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**
Cash and cash equivalents	50	4,748	4,748	(50)	(4,748)	(4,748)
Cash flow hedge	50	-	-	(50)	-	-
Exposed debt not covered by swap instruments	50	(391,130)	(391,130)	(50)	391,130	391,130
		(386,382)	**(386,382)**		**386,382**	**386,382**
FSREC FUND III – 2020						
Cash and cash equivalents	50	13,361	13,361	(50)	(13,361)	(13,361)
Cash flow hedge	50	-	383,186	(50)	-	(383,186)
Exposed debt not covered by swap instruments	50	(141,131)	(141,131)	(50)	141,131	141,131
		(127,770)	**255,416**		**127,770**	**(255,416)**

Credit risk

FSREC Fund II and FSREC Fund III have adopted a lifetime expected loss allowance in estimating ECL to trade receivables. These provisions are considered representative across all customers of FSREC Fund II and FSREC Fund III based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 6 months.

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. FSREC Fund II and FSREC Fund III are exposed to credit risk from its operating activities (primarily trade receivables) and from their financing activities, including deposits with banks and financial institutions and other financial instruments.

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Summary of exposure				
Cash and cash equivalents	**2,180,768**	2,064,790	**949,670**	2,672,269
Trade and other receivables	**614,185**	1,007,345	**336,722**	510,690
	2,794,953	3,072,135	**1,286,392**	3,182,959

Cash and cash equivalents

FSREC Fund II and FSREC Fund III manage credit risk on cash and cash equivalents by ensuring deposits are made with reputable financial institutions with investment grade credit ratings.

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of $202,229 for FSREC Fund II and $228,056 for FSREC Fund III (2020: $1,009,161 for FSREC Fund II and $465,876 for FSREC Fund III) have been recognised in respect of outstanding amounts at balance date.

Liquidity risk

Liquidity risk is the risk that FSREC Fund II and FSREC Fund III will encounter difficulty in meeting their financial obligations as they fall due.

Financing arrangements

Unused borrowing facilities at the reporting date:

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Secured bank loan facilities	-	4,000,000	-	21,773,838

FSREC Fund II's and FSREC Fund III's approach to managing liquidity is to ensure, as far as possible, that they will always have sufficient liquidity (including undrawn borrowing facilities) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to FSREC Fund II's and FSREC Fund III's reputation. The cash flow forecasts are regularly updated and reviewed to assist in managing FSREC Fund II's and FSREC Fund III's liquidity.

The Group had $23.9 million available to be borrowed from the single facility through the Australian Property Opportunities Trust.

The following is the contractual maturity of financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which FSREC Fund II and FSREC Fund III can be required to pay. The table includes both interest and principal cash flows.

FSREC FUND II – 2021	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	996,136	-	-	996,136
Accrued liabilities	782,754	-	-	782,754
Contract liabilities (deferred income)	723,497	-	-	723,497
Distribution payable	8,247	-	-	8,247
Borrowings	528,204	74,881,627	-	75,409,831
Total non-derivatives	**3,038,838**	**74,881,627**	**-**	**77,920,465**
Derivative financial liabilities				
Cash flow hedge	111,327	-	-	111,327
Total derivatives	**111,327**	**-**	**-**	**111,327**

FSREC FUND II – 2020	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	322,253	-	-	322,253
Accrued liabilities	930,024	-	-	930,024
Contract liabilities (deferred income)	711,286	-	-	711,286
Distribution payable	729,020	-	-	729,020
Borrowings	432,173	71,669,525	-	72,101,698
Total non-derivatives	**3,124,756**	**71,669,525**	**-**	**74,794,281**
Derivative financial liabilities				
Cash flow hedge	504,114	124,538	-	628,652
Total derivatives	**504,114**	**124,538**	**-**	**628,652**

FSREC FUND III – 2021	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	698,685	-	-	698,685
Accrued liabilities	1,103,170	-	-	1,103,170
Contract liabilities (deferred income)	505,179	-	-	505,179
Distribution payable	6,268,710	-	-	6,268,710
Borrowings	247,949	79,404,775	-	79,652,724
Total non-derivatives	**8,823,693**	**79,404,775**	**-**	**88,228,468**
Derivative financial liabilities				
Cash flow hedge	-	-	-	-
Total derivatives	**-**	**-**	**-**	**-**

FSREC FUND III – 2020	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	288,537	-	-	288,537
Accrued liabilities	1,025,459	-	-	1,025,459
Contract liabilities (deferred income)	547,995	-	-	547,995
Distribution payable	1,190,803	-	-	1,190,803
Borrowings	970,365	78,729,482	-	79,699,847
Total non-derivatives	**4,023,159**	**78,729,482**	**-**	**82,752,641**
Derivative financial liabilities				
Cash flow hedge	962,002	987,788	-	1,949,790
Total derivatives	**962,002**	**987,788**	**-**	**1,949,790**

The disclosed amounts for financial derivative in the above table are the net undiscounted cash flows.

19. CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 2 of the FSREC Property Fund Annual report:

		OWNERSHIP INTEREST	
NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	2021 %	2020 %
Controlled entities of Fort Street Real Estate Capital Fund II			
Australian Property Opportunities Trust II	Australia	**100.00%**	100.00%
APOT II No. 1	Australia	**100.00%**	100.00%
Controlled entities of Fort Street Real Estate Capital Fund III			
Australian Property Opportunities Trust III	Australia	**99.98%**	99.98%
APOT III No.1 Trust	Australia	**100.00%**	100.00%

20. PARENT ENTITY INFORMATION

During the year ended 30 June 2021, the parent entity of FSREC Fund II and FSREC Fund III was Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital III, respectively.

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Summarised statement of financial position				
Current assets	**602,098**	1,857,487	**101,509,277**	1,841,540
Non-current assets	**97,084,842**	97,084,842	**56,042,232**	153,954,562
Total assets	**97,686,940**	98,942,329	**157,551,509**	155,796,102
Current liabilities	**121,121**	1,079,405	**6,359,037**	1,650,141
Total liabilities	**121,121**	1,079,405	**6,359,037**	1,650,141
Net assets	**97,565,819**	97,862,924	**151,192,472**	154,145,961
Summarised statement of profit or loss and other comprehensive income				
Revenue	**4,600,787**	6,111,744	**107,383,979**	6,557,363
Expenses	**(1,586,896)**	(2,050,311)	**(103,126,727)**	(4,830,819)
Profit before income tax	**3,013,891**	4,061,433	**4,257,252**	1,726,544
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**3,013,891**	4,061,433	**4,257,252**	1,726,544
Unitholders' equity in the parent entity				
Issued capital	**106,200,663**	106,200,663	**161,130,403**	161,130,403
(Accumulated losses)/retained profits	**(8,634,844)**	(8,337,739)	**(9,937,931)**	(6,984,442)
Total equity	**97,565,819**	97,862,924	**151,192,472**	154,145,961

The parent entity does not have any contingent liabilities, contractual commitments and has not entered into any guarantees during or since the end of the financial year (2020: nil).

21. RELATED PARTY TRANSACTIONS

Key management personnel

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of FSREC Fund II and of FSREC Fund III, E&P Investments Limited and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of the Australian Property Opportunities Trust II (**Trust**) and APOT III No. 1 Trust (**Sub-Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

As at 30 June 2021, following the restructure, Stuart Nisbett holds 10,000 stapled securities in the FSREC Property Fund (2020: 10,000 units in FSREC Fund I). Warwick Keneally holds 20,897 stapled securities (2020: 6,097 units in FSREC Fund I and 15,722 units in FSREC Fund III).

Mike Adams and Peter Shear do not hold stapled securities in the Fund as at 30 June 2021 (2020: nil).

Related party investments in the Fund

As at 30 June 2021, the Responsible Entity or is associates held 248,842 stapled securities (2020: 250,000 units) representing 0.08% interest in the FSREC Property Fund (2020: 0.36%).

Distributions paid or payable by the Fund to the Responsible Entity or its associates in the year ended 30 June 2021 was $17,035 (2020: $14,450).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as Responsible Entity of the Funds, receives a fee for the performance of its duties under the constitution of the Funds. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Funds and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum, while the Trustee fee and Fund Administration fees were removed (as below), resulting in an overall reduction of 0.09%.

For the year ended 30 June 2021, $295,236 (2020: $146,667), was paid or payable from FSREC Fund II to the Responsible Entity and $385,412 (2020: $191,111) was paid or payable from FSREC Fund III to the Responsible Entity. These amounts are exclusive of GST. Total Responsible Entity fees included in trade and other payables at 30 June 2021 was nil (2020: nil).

Trustee fee

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust II, a wholly owned subsidiary of FSREC Fund II and E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited) in its capacity as Trustee of Australian Property Opportunities Trust III, a majority owned subsidiary of FSREC Fund III, receives a fee of 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the year ended 30 June 2021, $86,792 (2020: $183,617), was paid or payable from FSREC Fund II to the Trustee and $112,298 (2020: $240,211) was paid or payable from FSREC Fund III to the Trustee. These amounts are exclusive of GST. Total Trustee fees included in trade and other payables at 30 June 2021 was nil (2020: $15,353 for FSREC Fund II and $19,827 for FSREC Fund III).

Investment Manager fee

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.69% per annum (exclusive of GST) calculated on the gross asset value of the Funds and payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.

For the year ended 30 June 2021, $508,088 (2020: nil), was paid or payable from FSREC Fund II to the Investment Manager and $1,440,769 (2020: $1,648,644) was paid or payable from FSREC Fund III to the Investment Manager. These amounts are exclusive of GST. Total Investment Manager fees included in trade and other payables at 30 June 2021 was $87,983 for FSREC Fund II and $114,771 for FSREC Fund III (2020: nil).

Fort Street receives Investment Management Fees of 1.25% of the value of the property for acquisitions (exclusive of GST), and 1% of the sale value (as long as the net proceeds exceed the aggregate of the acquisition costs and capital costs for the relevant asset) of the property for disposals (exclusive of GST). For the year ended 30 June 2021, a liability was recognised for the disposal fee of $1,497,676 (exclusive of GST) in relation to the sale of 241 O'Riordan Street, Mascot.

Fund Manager fee

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited), as Fund Manager of FSREC Fund II receives a fee of 0.69% per annum (exclusive of GST) calculated on the gross asset value of FSREC Fund II and payable monthly. Effective upon implementation of the Restructure, the Fund Management Agreement was amended to remove the Fund Manager fee.

As at 30 June 2021, $598,883 (2020: $1,265,734), exclusive of GST, was paid or payable from FSREC Fund II to the Fund Manager. Total Fund Manager fee included in trade and other payables at 30 June 2021 was nil (2020: nil).

Property Manager fee

Fort Street acts as Property Manager of the Trusts and is responsible for managing and maintaining the property portfolios of the Trusts, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income value of the Trusts.

For the year ended 30 June 2021, $475,801 (2020: $462,724), was paid or payable from FSREC Fund II to the Property Manager and $575,958 (2020: $572,354) was paid or payable from FSREC Fund III to the Property Manager. These amounts are exclusive of GST. Total Property Manager fees included in trade and other payables at 30 June 2021 was $43,947 for FSREC Fund II and $49,817 for FSREC Fund III (2020: $45,666 for FSREC Fund II and nil for FSREC Fund III).

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the year ended 30 June 2021, $33,617 (2020: $41,848), was paid or payable from FSREC Fund II to the Development Manager and $15,505 (2020: $24,473) was paid or payable from FSREC Fund III to the Development Manager. These amounts are exclusive of GST. Total Development Manager fees included in trade and other payables at 30 June 2021 was $9,738 for FSREC Fund II and $9,845 for FSREC Fund III (2020: $13,556 for FSREC Fund II and $4,918 for FSREC Fund III).

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the year ended 30 June 2021, $122,166 (2020: $82,926), was paid or payable from FSREC Fund II to the Leasing Agent and $159,823 (2020: $23,250) was paid or payable from FSREC Fund III to the Leasing Agent. These amounts are exclusive of GST. Total Leasing Services fees included in trade and other payables at 30 June 2021 was $50,667 for FSREC Fund II and $131,967 for FSREC Fund III (2020: $50,264 for FSREC Fund II and $23,250 for FSREC Fund III).

Legal and Consulting services

MDA1 Pty Limited, trading as MA Law, provides legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited.

For the year ended 30 June 2021, $18,263 (2020: $10,477), was paid or payable from FSREC Fund II and $18,591 (2020: $13,747) was paid or payable from FSREC Fund III. These amounts are exclusive of GST, and included in the statement of profit or loss and other comprehensive income. Total Leasing Services fees included in trade and other payables at 30 June 2021 was $6,592 for FSREC Fund II and $6,592 for FSREC Fund III (2020: $2,863 for FSREC Fund II and $5,848 for FSREC Fund III).

Debt Advisory fee

Fort Street Capital Pty Ltd, a related party of the Responsible Entity, receives a debt arranging fee for assistance in arranging new debt facilities for the Group. For the Group's recent refinance of the four debt facilities to a single facility with a longer tenure totalling $315 million, Fort Street Capital Pty Ltd received a fee of 0.3% of the total facility limit.

For the year ended 30 June 2021, $206,531 (2020: $75,600), was paid or payable from FSREC Fund II and $297,184 (2020: $78,226) was paid or payable from FSREC Fund III. These amounts are exclusive of GST and have been capitalised to the costs of borrowings and amortised over the life of the loan.

Financial Advisory fee

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the year ended 30 June 2021, $218,819 (2020: nil), was paid or payable from FSREC Fund II to the Financial Advisor and $314,866 (2020: nil) was paid or payable from FSREC Fund III to the Financial Advisor. These amounts are exclusive of GST. Total Financial Advisory fees included in trade and other payables at 30 June 2021 was nil (2020: nil).

Signage

E&P Financial Group Limited, E&P Funds Group Pty Limited and New Energy Solar Fund, related parties of the Group, have a contractual agreement with the trustee of APOT III No.1 Trust, E&P Investment Services Pty Limited, to receive a non-exclusive licence for the use of the signage at the Mascot property as provided under the terms of the signage license agreement.

For the year ended 30 June 2021, $55,442 (2020: $52,929), exclusive of GST, was paid or payable to the Group.

22. REMUNERATION OF AUDITOR

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of FSREC Fund II and FSREC Fund III:

	FSREC FUND II		FSREC FUND III	
	2021 $	2020 $	2021 $	2020 $
Audit services - Deloitte Touche Tohmatsu				
Audit or review of the financial statements	**69,235**	66,400	**45,325**	56,500
Other services - Deloitte Touche Tohmatsu				
Taxation services	**22,100**	22,100	**22,100**	22,100
Other services	**51,782**	35,707	**80,899**	51,145
	73,882	57,807	**102,999**	73,245
	143,117	124,207	**148,324**	129,745

23. CAPITAL COMMITMENTS

As at reporting date, FSREC Fund II committed $1,964,500 (2020: nil) and FSREC Fund III committed $100,000 (2020: nil) in capital commitments for improvements to its existing properties. In addition, $200,000 (2020: $342,562) for FSREC Fund II and $206,000 (2020: $366,817) for FSREC Fund III were committed as lease incentives arising from lease arrangements.

24. CONTINGENT LIABILITIES

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

25. EVENTS AFTER THE REPORTING PERIOD

On 9 July 2021, FSREC settled on the sale of 241 O'Riordan Street, Mascot at net proceeds of $145.9 million.

Part of the sale proceeds were used to provide liquidity to stapled securityholders. FSREC announced a Withdrawal Offer of $95 million was announced on 25 June 2021 for stapled securityholders to redeem their securities for a redemption price of $1.59. 59,850,196 stapled securities were redeemed on 4 August 2021 and the redemptions were paid on 6 August 2021.

The remainder of the sale proceeds were used to repay debt of $47.5 million on the Group's loan facility with NAB and, in accordance with the loan agreement, the $15 million facility was cancelled following the settlement of the Mascot property.

The COVID-19 pandemic continues to cause significant disruption to businesses and economic activities. Post year end, the recent lockdowns in New South Wales and Victoria have impacted portfolio operations, with non-essential retail mandated to close by State governments. Regulations and legislation have been introduced as a response to the ongoing effects of the COVID-19 pandemic and are designed to govern rent relief for a prescribed period between July 2021 and January 2022. There remains significant uncertainty as to the financial impact of the lockdowns on the Group's performance should they be extended for a prolonged period.

The Group considers this to be a non-adjusting post balance date event and accordingly the financial effects of these lockdowns have not been reflected in the Group's consolidated financial statements as at 30 June 2021.

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.


Lynbrook
Toormina
Gardens
entry
coles
northpoint

DIRECTORS' DECLARATION

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

The directors of the Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III declare that, in the directors' opinion:

– the attached financial statements and notes of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III set out on pages 9 to 72, comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

– the attached financial statements and notes of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III set out on pages 9 to 72, comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;

– the attached financial statements and notes give a true and fair view of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and

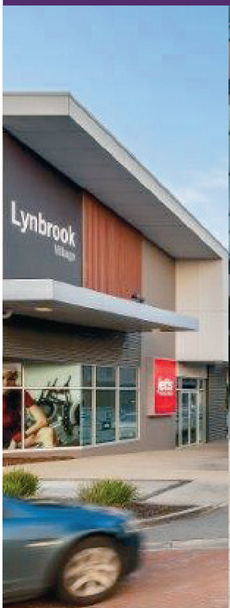
– there are reasonable grounds to believe that Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors of the Responsible Entity, E&P Investments Limited

Stuart Nisbett
Independent Chair of E&P Investments Limited

14 September 2021


Lynbrook

Toormina
Gardens


entry

coles
northpoint

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

Independent Auditor's Report to the Stapled Security Holders of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

Opinion

We have audited the financial report of Fort Street Real Estate Capital Fund I ('FSREC I") and its subsidiaries ('FSREC Property Fund' or the 'Group'), Fort Street Real Estate Capital Fund II and its subsidiaries ('FSREC Fund II') and Fort Street Real Estate Capital Fund III and its subsidiaries ('FSREC Fund III'), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information and the directors' declaration.

In our opinion, the accompanying financial report of FSREC Property Fund, FSREC Fund II and FSREC Fund III are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 30 June 2021 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the FSREC Property Fund, FSREC Fund II and FSREC Fund III 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors of the Responsible Entity (the 'directors') are responsible for the other information. The other information comprises the information included in the FSREC Property Fund, FSREC Fund II and FSREC Fund III's annual financial report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSREC Property Fund, FSREC Fund II and FSREC Fund III's ability to continue as going concerns. 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III to cease to continue as going concerns.

- 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's audit. We remain solely responsible for our audit opinion.

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants
Sydney, 14 September 2021

RESPONSIBLE ENTITY

E&P Investments Limited
(ACN 152 367 649) (AFSL 410 433)




E&P