

FORT STREET REAL ESTATE CAPITAL

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



HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2021



**FSREC Property Fund
Directory
31 December 2021**

FSREC Property Fund

Level 15, 100 Pacific Highway
NORTH SYDNEY NSW 2060
T: 1300 454 801
F: 1300 883 159
E: info@fsrec.com.au
W: 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
W: eap.com.au

Directors

Stuart Nisbett
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
W: 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
W: deloitte.com.au

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
W: boardroomlimited.com.au

FSREC Property Fund

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FSREC Property Fund
Chair's letter
31 December 2021

Dear Securityholders,

As Chair of the 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, together, FSREC Property Fund (or the **Stapled Group**), I provide the report for the half-year period ended 31 December 2021.

Overview & Financial Performance

I am pleased to report on several achievements for the Stapled Group which occurred over the half-year, starting with the \$330 million placement and withdrawal offer which was announced to investors on 17 December 2021. In combination with the first withdrawal offer of \$95 million completed in August 2021, this larger placement and withdrawal offer was a significant event for the Stapled Group, as providing stapled securityholders with liquidity has been a key focus for the Board since the Stapled Group merger in December 2020. Further, the acquisition of 75% interest in the Stapled Group's Investment and Property Manager, Fort Street Real Estate Capital (**FSREC**), by ISPT Pty Limited provides improved alignment of interests and growth potential for securityholders over the longer-term.

Management has continued to actively manage the assets over the period, delivering strong results across the portfolio despite the ongoing challenges that the COVID-19 pandemic has posed. Following the end of the government-imposed lockdowns in October and November, New South Wales and Victorian assets rebounded strongly; however, trading conditions weakened again towards the end of the period as a result of concerns around the Omicron variant.

Over the half-year, the Stapled Group announced distributions totalling \$0.04 per security, representing an annualised yield of 4.65%. The Responsible Entity board will continue to remain prudent in its assessment of Stapled Group distributions, with a view to providing sustainable distributions and long-term growth for securityholders.

The Stapled Group's Net Asset Value (**NAV**) at 31 December is \$1.72 per security, representing an increase of 4.9% on the 30 June 2021 NAV.

All assets in the portfolio were re-valued at 31 December 2021, seeing an uplift of 3.1% over the six-month period from 30 June 2021. The total value of investment properties increased by \$20.45 million to \$686.5 million, with the weighted average capitalisation rate tightening by 20bps to 5.81%. Increases in asset valuations are largely due to capitalisation rate compression. The gearing ratio of the Stapled Group remained steady at 36.8%.

Portfolio Highlights

The FSREC Property Fund portfolio continues to perform well and demonstrate its resilience in the current trading environment. The occupancy of the portfolio at 31 December 2021 was 98%, and the weighted average lease expiry (**WALE**) 4.4 years.

Overall performance of the portfolio continues to be strong with the key asset management highlights for the half-year as follows:

- Despite the ongoing restrictions in New South Wales and Victoria, the leasing team executed a total of 29 leasing deals for the half-year;
- Construction of the McDonalds pad site at Birkdale Fair was completed with a successful opening of the new McDonalds store following period end; and
- The commencement of a major repositioning project at Noosa Village, with the cornerstone of the project being a lease extension and refurbishment of the Woolworths supermarket. A new lease has been executed with Woolworths, and several new leasing deals with specialty tenants were also completed.

One unfortunate event occurred in late October at Toormina Gardens, which was the centre of a significant hailstorm, substantially damaging the centre's roof and air conditioning equipment including extensive flooding of several tenancies within the centre. The centre had to be immediately closed; however, onsite management have done a wonderful job managing the situation and working to reopen the centre as quickly as possible during a very challenging period. It is not expected to have the damage fully remediated and all tenants open and trading until the end of 2022. All damage and the lost rental income resulting from the hailstorm is expected to be covered by insurance.

FSREC Property Fund
Chair's letter
31 December 2021

Following completion of all strategic initiatives announced at the time of the merger in December 2020, the Stapled Group is now focused on continuing to maximise returns, implement value enhancement initiatives at each of the current assets within our portfolio and begin to actively look at growth opportunities for securityholders.

Developments since period end

Following extensive rainfall events across south-east Queensland, northern NSW and the Sydney metropolitan area during early March 2022, we are pleased to report that, other than some minor flooding at Windsor Riverview centre, the Stapled Group's portfolio was not materially impacted by flood waters and all sites have continued to trade. The minor damage caused by localised flooding at Windsor is expected to be covered by the Stapled Group's insurance.

The current Russia/Ukraine conflict is in its early stages, and therefore it is too early to determine the potential impacts on the Stapled Group. While North Atlantic Treaty Organisation (**NATO**) countries are presenting a unified response, with economic sanctions against Russia and military support for the Ukraine, the overall impact on the Stapled Group's Australian operating portfolio is not clear. While the likelihood of direct impacts from uninsured damage or property losses is considered remote, the Board and Investment Manager continue to monitor the conflict closely for inflation and macro-economic changes and their impacts on the Stapled Group.

On behalf of the Responsible Entity board and the FSREC management team, I would like to take this opportunity to thank securityholders for their support in the Stapled Group.

Yours sincerely,



Stuart Nisbett
Independent Chair of E&P Investments Limited, Responsible Entity
14 March 2022

FSREC Property Fund**Unaudited condensed combined statement of profit or loss and other comprehensive income****31 December 2021**

The unaudited condensed combined statement of profit or loss and other comprehensive income of the Stapled 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 8 of the Directors' report and does not form part of the condensed consolidated financial statements of FSREC Property Fund.

The unaudited condensed combined statement of profit or loss and other comprehensive income for the half-year ended 31 December 2020 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 Stapled Group's condensed consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2020, 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 unaudited condensed combined statement of profit or loss and other comprehensive income for the half-year ended 31 December 2021 below does not differ from the auditor reviewed condensed consolidated statement of profit or loss and other comprehensive income.

	31 December 2021	31 December 2020
	\$	\$
Revenue		
Rental income	24,218,624	26,896,945
Other property income	5,818,205	6,399,453
Finance income	1,047	2,326
Fair value movement of investment properties	15,062,497	6,472,027
Total revenue	45,100,373	39,770,751
Expenses		
Investment property expenses	(10,485,565)	(12,222,706)
Finance expenses	(3,793,360)	(5,647,842)
Responsible entity and trustee fees	(890,207)	(739,720)
Management fees	(2,826,772)	(3,751,827)
Accounting and audit fees	(236,741)	(216,057)
Other expenses	(641,738)	(1,791,623)
Total expenses	(18,874,383)	(24,369,775)
Profit before income tax expense	26,225,990	15,400,976
Income tax expense	-	-
Profit after tax for the half-year	26,225,990	15,400,976
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Effective portion of changes in fair value of cash flow hedge	3,021,815	1,602,127
Total comprehensive income for the period	29,247,805	17,003,103
	Cents	Cents
Basic earnings per stapled security	9.93	4.93
Diluted earnings per stapled security	9.93	4.93

The earnings per stapled security for the half-year ended 31 December 2020 was calculated by dividing combined net profit by the number of stapled securities immediately following the Restructure on 23 December 2020 (\$15,400,976 / 312,632,131).

FSREC Property Fund
Funds from operations
31 December 2021

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards (**IFRS**) 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 FSREC Property Fund.

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 Stapled Group's half-year FFO.

The comparative in the table below sets out the aggregated FFO for the half-year to 31 December 2020 had the Restructure occurred on 1 July 2020.

	31 December 2021	31 December 2020
	\$	\$
Profit after tax for the period	26,225,990	15,400,976
Adjustments:		
Fair value movement of investment properties	(15,062,497)	(6,472,027)
Straight-lining of rental revenue and incentive amortisation	(114,280)	1,176,140
Other items and amortisation of capitalised lease costs	503,646	546,795
One-off professional fees	22,686	1,417,789
FFO	11,575,545	12,069,673
Distributions for the period	10,108,956	3,746,401
	Cents per stapled security	Cents per stapled security
FFO	4.58	3.86
Distributions	4.00	1.20

Distributions for the period represented a payout ratio of 87% of FFO (31 December 2020: 31%¹).

¹ For the 31 December 2020 quarter, FSREC Property Fund announced a distribution of 1.67 cents per stapled security which was accrued on 20 January 2021 and paid on 10 February 2021. Including the 31 December 2020 quarter distribution, the payout ratio would be 74% of FFO.

FSREC Property Fund
Directors' report
31 December 2021

Introduction

The directors of E&P Investments Limited, as 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 (together, **Funds**), present their report on the Funds and their respective controlled entities (collectively referred to as **FSREC Property Fund** or **Stapled Group**) for the half-year ended 31 December 2021.

The half-year financial report of FSREC Property Fund comprises Fort Street Real Estate Capital Fund I and its controlled entities. The controlled entities of Fort Street Real Estate Capital Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**).

Directors

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

Stuart Nisbett
Warwick Keneally
Peter Shear
Mike Adams

Resigned 9 December 2021

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

Review of financial results and operations

On 9 July 2021, the Stapled Group settled on the sale of 241 O'Riordan Street, Mascot receiving net proceeds of \$145.9 million. The sale proceeds were used to provide liquidity to stapled securityholders and reduce debt. 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 per stapled security. 59,908,240 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 Stapled Group's loan facility with NAB and, in accordance with the loan agreement, an unused \$15 million facility was cancelled following the settlement of the Mascot property sale.

In late October 2021, Toormina Gardens was at the centre of a significant hailstorm which substantially damaged the centre's roof and air conditioning equipment, including extensive flooding of several tenancies within the centre. The centre was immediately closed, and whilst the supermarkets and a number of speciality tenants were able to reopen quickly, it is not expected to have all tenants open and trading again, and the damage fully remediated, for several months. Management has been in close dialogue with the Stapled Group's insurers, and it is expected that all damage and the lost rent resulting from the hailstorm will be covered by insurance.

On 17 December 2021, the Stapled Group entered into conditional placement agreements with ISPT Pty Ltd, as trustee for the ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**), and Tarawa Pty Ltd (**Tarawa**) in respect of proposed placements and investments in the Stapled Group (**Proposal**). On 20 December 2021, the Stapled Group opened its second Withdrawal Offer for a minimum of \$240 million and maximum of \$330 million to be funded by proceeds of the placements.

The application price was \$1.71 per stapled security, based on the Stapled Group's net asset value at 30 November 2021 with appropriate adjustments for property revaluations, the quarterly distribution and the costs of arranging liquidity for the withdrawal offer. The redemption price was \$1.66 per stapled security, calculated at 97% of the application price for the placement, in accordance with the respective constitutions.

The Proposal was conditional on the approval of constitution amendments by special resolution and the minimum withdrawal requests of \$240 million being met. For further information, refer to matters subsequent to the reporting period below.

The Stapled Group's net asset value at 31 December 2021 is \$1.72 per stapled security (30 June 2021: \$1.64 per stapled security).

FSREC Property Fund
Directors' report
31 December 2021

Distributions

Distributions paid by the Stapled Group during the financial half-year were as follows:

	2021 \$
2.0 cents per stapled security for the period ended 30 September 2021 paid on 2 November 2021	5,054,478
2.0 cents per stapled security for the period ended 31 December 2021 paid on 4 February 2022	5,054,478
	<u>10,108,956</u>

Application of ASIC Order

The half-year 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 Stapled 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 Stapled 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 Stapled 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 of the restructure on 23 December 2020. The condensed combined statement of profit or loss and other comprehensive income is set out on page 5.

Matters subsequent to the end of the financial half-year

On 2 February 2022, the minimum level of acceptance for the withdrawal offer was met, satisfying the first Condition Precedent of the Proposal announced on 17 December 2021. On 4 February 2022, a special resolution to amend the constitution was passed, satisfying the second Condition Precedent. Accordingly, the Stapled Group issued 187,134,502 stapled securities to IRAPT and 5,847,953 stapled securities to Tarawa on 18 February 2022. 198,795,180 stapled securities were redeemed on 18 February 2022, and redemptions of \$330,000,000 were paid on 22 February 2022.

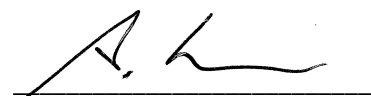
No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Stapled Group's operations, the results of those operations, or the Stapled Group's state of affairs in future financial years.

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 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Stuart Nisbett
Independent Chair of E&P Investments Limited, Responsible Entity

14 March 2022

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 March 2022

Dear Board Members

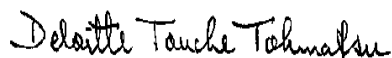
Auditor's Independence Declaration to Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

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 review of the half year financial report 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 half year ended 31 December 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching
Partner
Chartered Accountants

FSREC Property Fund
Condensed consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$	\$
Revenue			
Rental income		24,218,624	9,576,974
Other property income		5,818,205	1,857,005
Finance income		1,047	397
Fair value movement of investment properties	4	15,062,497	8,197,529
Total revenue		<u>45,100,373</u>	<u>19,631,905</u>
Expenses			
Investment property expenses		(10,485,564)	(4,257,068)
Finance expenses		(3,793,361)	(1,972,237)
Responsible entity and trustee fees	11	(890,207)	(239,553)
Management fees	11	(2,826,772)	(1,229,838)
Accounting and audit fees		(236,741)	(55,318)
Other expenses		(641,738)	(536,036)
Total expenses		<u>(18,874,383)</u>	<u>(8,290,050)</u>
Profit before income tax expense		26,225,990	11,341,855
Income tax expense		-	-
Profit after income tax expense for the half-year		26,225,990	11,341,855
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		<u>3,021,815</u>	<u>738,468</u>
Other comprehensive income for the half-year, net of tax		<u>3,021,815</u>	<u>738,468</u>
Total comprehensive income for the half-year		<u><u>29,247,805</u></u>	<u><u>12,080,323</u></u>

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

FSREC Property Fund**Condensed consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2021**

		Consolidated	
	Note	31 December 2021	31 December 2020
		\$	\$
Profit for the half-year is attributable to:			
Ordinary securityholders of the Stapled Group			
- Unitholders of FSREC Fund I		21,206,198	11,341,855
- Unitholders of FSREC Fund II and FSREC Fund III		5,017,873	-
Other non-controlling interest		1,919	-
		<u>26,225,990</u>	<u>11,341,855</u>
Total comprehensive income for the half-year is attributable to:			
Ordinary securityholders of the Stapled Group			
- Unitholders of FSREC Fund I		24,117,049	12,080,323
- Unitholders of FSREC Fund II and FSREC Fund III		5,128,837	-
Other non-controlling interest		1,919	-
		<u>29,247,805</u>	<u>12,080,323</u>
		Cents	Cents
Basic earnings per stapled security	3	9.93	11.28
Diluted earnings per stapled security	3	9.93	11.28

Total comprehensive income for FSREC Fund I for the half-year ended 31 December 2021 consolidates the financial results of FSREC Fund II, FSREC Fund III and FSREC Fund IV following the implementation of the restructure from the effective date of 23 December 2020. Refer to Note 1.

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

FSREC Property Fund
Condensed consolidated statement of financial position
As at 31 December 2021

		Consolidated	
	Note	31 December 2021	30 June 2021
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		8,990,284	5,225,226
Trade and other receivables		2,971,327	2,334,250
Investment properties held for sale	4	-	145,850,000
Prepayments		937,407	1,341,521
Total current assets		<u>12,899,018</u>	<u>154,750,997</u>
Non-current assets			
Investment properties	4	686,500,000	666,050,000
Derivative financial instruments		1,603,938	-
Total non-current assets		<u>688,103,938</u>	<u>666,050,000</u>
Total assets		<u>701,002,956</u>	<u>820,800,997</u>
Liabilities			
Current liabilities			
Trade and other payables	5	8,502,271	9,813,389
Derivative financial instruments		1,010,268	2,603,259
Distribution payable		5,068,631	6,282,671
Total current liabilities		<u>14,581,170</u>	<u>18,699,319</u>
Non-current liabilities			
Borrowings	6	250,546,953	288,445,892
Derivative financial instruments		206,192	1,738,229
Total non-current liabilities		<u>250,753,145</u>	<u>290,184,121</u>
Total liabilities		<u>265,334,315</u>	<u>308,883,440</u>
Net assets		<u>435,668,641</u>	<u>511,917,557</u>
Equity			
Issued capital	7	178,746,735	224,950,867
Cash flow hedge reserve	8	234,424	(2,676,427)
Retained profits		44,578,295	28,648,973
Equity attributable to the unitholders of FSREC Fund I		223,559,454	250,923,413
Total equity attributable to other members of the Stapled Group - FSREC Fund II and FSREC Fund III		212,084,750	260,971,018
Other non-controlling interest		24,437	23,126
Total equity		<u>435,668,641</u>	<u>511,917,557</u>

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

FSREC Property Fund
Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2021

				Equity attributable to other members - FSREC Fund II and FSREC Fund III	
Consolidated	Issued capital	Cash flow hedge reserve	Retained profits		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 half-year	-	-	11,341,855	-	11,341,855
Other comprehensive income for the half-year, net of tax	-	738,468	-	-	738,468
Total comprehensive income for the half-year	-	738,468	11,341,855	-	12,080,323
Issue of units in relation to the acquisition of FSREC Fund IV	70,749,130	-	-	-	70,749,130
Stapling with FSREC Fund II	-	-	-	107,120,664	107,120,664
Stapling with FSREC Fund III	-	-	-	157,184,313	157,184,313
<i>Transactions with securityholders in their capacity as securityholders:</i>					
Distributions declared	-	-	(1,296,530)	-	(1,296,530)
Balance at 31 December 2020	<u>224,965,599</u>	<u>(4,236,252)</u>	<u>19,026,404</u>	<u>264,304,977</u>	<u>504,060,728</u>

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

FSREC Property Fund
Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2021

Consolidated	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 2021	224,950,867	(2,676,427)	28,648,973	260,971,018	23,126	511,917,557
Profit after income tax expense for the half-year	-	-	21,206,198	5,017,873	1,919	26,225,990
Other comprehensive income for the half-year, net of tax	-	2,910,851	-	110,964	-	3,021,815
Total comprehensive income for the half-year	-	2,910,851	21,206,198	5,128,837	1,919	29,247,805
<i>Transactions with securityholders in their capacity as securityholders:</i>	-	-	-	-	-	-
Redemption of stapled securities	(46,138,350)	-	-	(49,115,751)	-	(95,254,101)
Redemption costs	(65,782)	-	-	(67,274)	-	(133,056)
Distributions declared	-	-	(5,276,876)	(4,832,080)	-	(10,108,956)
Distributions paid to other non- controlling interest	-	-	-	-	(608)	(608)
Balance at 31 December 2021	<u>178,746,735</u>	<u>234,424</u>	<u>44,578,295</u>	<u>212,084,750</u>	<u>24,437</u>	<u>435,668,641</u>

The changes in equity of FSREC Fund I for the half-year ended 31 December 2021 consolidates the changes in equity of FSREC Fund II, FSREC Fund III and FSREC Fund IV following the implementation of the restructure from the effective date of 23 December 2020. Refer to Note 1.

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

FSREC Property Fund
Condensed consolidated statement of cash flows
For the half-year ended 31 December 2021

	Consolidated	
	31 December	31 December
	2021	2020
	\$	\$
Cash flows from operating activities		
Rental and other income received	27,130,358	13,138,510
Interest income received	1,012	397
Finance costs	(2,814,779)	(1,865,609)
Payments to suppliers	(15,404,576)	(7,561,157)
Net cash from operating activities	<u>8,912,015</u>	<u>3,712,141</u>
Cash flows from investing activities		
Payments for capital expenditure	(3,639,010)	(320,725)
Acquisition of units in FSREC Fund IV, net of cash acquired	-	1,578,888
Cash acquired on stapling with FSREC Fund II	-	2,316,301
Cash acquired on stapling with FSREC Fund III	-	3,092,192
Proceeds from disposal of investment property	<u>145,850,000</u>	<u>-</u>
Net cash from investing activities	<u>142,210,990</u>	<u>6,666,656</u>
Cash flows from financing activities		
Payment of redemption of stapled securities	(95,254,101)	-
Payment of redemption costs	(133,056)	-
Distributions paid	(11,323,604)	(2,402,619)
Gross proceeds from borrowings	9,300,000	-
Repayment of borrowings	(47,500,000)	-
Payment of transaction costs relating to borrowings	(56,448)	-
Payment of early termination of swap contract	<u>(2,390,738)</u>	<u>-</u>
Net cash used in financing activities	<u>(147,357,947)</u>	<u>(2,402,619)</u>
Net increase in cash and cash equivalents	3,765,058	7,976,178
Cash and cash equivalents at the beginning of the financial half-year	<u>5,225,226</u>	<u>2,592,429</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>8,990,284</u></u>	<u><u>10,568,607</u></u>

The cash flows of FSREC Fund I for the half-year ended 31 December 2021 consolidates the cash flows of FSREC Fund II, FSREC Fund III and FSREC Fund IV following the implementation of the restructure from the effective date of 23 December 2020. Refer to Note 1.

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

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

1. General information

Fort Street Real Estate Capital Fund I is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements of FSREC Property Fund comprise of Fort Street Real Estate Capital Fund I and its controlled entities (collectively, the **Stapled Group**). The controlled entities of Fort Street Real Estate Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members of the Stapled Group, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**). The principal activity of the Stapled Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Stapled Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Stapled Group for the year ended 30 June 2021, together with any public announcements made during the half-year.

Statement of compliance

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with Australian Accounting Standards Board (**AASB**) 134 ensures compliance with IFRS IAS 34 Interim Financial Reporting.

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

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 (**Responsible Entity**). Only the Responsible Entity of the Schemes take responsibility for the financial reports of the Schemes. The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity on 14 March 2022. Directors have the power to amend and reissue the financial statements.

Basis of preparation

FSREC Property Fund was established through the restructure of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV (**Restructure**) on 23 December 2020. The Restructure comprised of FSREC Fund I's acquisition of all units in FSREC Fund IV and the subsequent stapling of FSREC Fund I, FSREC Fund II and FSREC Fund III. FSREC Property Fund operates as a single coordinated economic entity with a common board of directors and management team.

In accordance with the Australian Accounting Standards, the stapling of the issued units of FSREC Fund I, 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 financial statements of the Stapled Group have been prepared in accordance with an ASIC Order 21-0740 issued on 14 September 2021. The Relief Instrument allows the Stapled 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 entered into on 23 December 2020, the condensed consolidated financial statements and accompanying notes for the comparative period ended 31 December 2020 incorporate 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 impact of consolidating the results between 23 December 2020 to 31 December 2020 would not be material.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

1. General information (continued)

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Stapled Group's annual financial report for the year ended 30 June 2021.

The Stapled Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current half-year.

2. Working capital

As at 31 December 2021, the Stapled Group's statement of financial position discloses a deficiency of net current assets of \$1,682,152. The deficiency is primarily attributable to distribution payable of \$5,068,631 disclosed as current liabilities. The directors are satisfied that the Stapled Group will be able to meet their working capital requirements through the normal cyclical nature of receipts and payments and budgeted cash flows generated from operations. In addition, the Stapled Group has long term finance facilities available for drawdown totalling \$47,084,000 as at 31 December 2021.

Accordingly, the directors consider it appropriate to prepare the half-year financial statements of the Stapled Group on an ongoing concern basis.

3. Earnings per stapled security

	Consolidated	
	31 December 2021	31 December 2020
	\$	\$
Profit after income tax	26,225,990	11,341,855
Non-controlling interest	(1,919)	-
Profit after income tax	<u>26,224,071</u>	<u>11,341,855</u>
	Number	Number
Weighted average number of securities used in calculating basic earnings per stapled security	<u>264,119,480</u>	<u>100,506,038</u>
Weighted average number of securities used in calculating diluted earnings per stapled security	<u>264,119,480</u>	<u>100,506,038</u>
	Cents	Cents
Basic earnings per stapled security	9.93	11.28
Diluted earnings per stapled security	9.93	11.28

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

4. Investment properties

	Consolidated	
	31 December	30 June 2021
	2021	2021
	\$	\$
Disclosed in Condensed Consolidated Statement of Financial Position as:		
<i>Current assets</i>		
Investment properties held for sale	-	145,850,000
	-	145,850,000
<i>Non-current assets</i>		
Investment properties - at fair value	686,500,000	666,050,000
	<u>686,500,000</u>	<u>811,900,000</u>
<i>Movement in investment properties - at fair value</i>		
Carrying amount of investment properties at beginning of period	666,050,000	256,250,000
Additions through acquisition of FSREC Fund IV	-	117,300,000
Additions through stapling with FSREC Fund II	-	178,100,000
Additions through stapling with FSREC Fund III	-	235,000,000
Capital expenditure	3,110,251	3,361,812
Rental straight-lining, tenant incentives and other adjustments	2,277,252	1,178,864
Fair value movement	15,062,497	20,709,324
Reclassification to Investment properties held for sale	-	(145,850,000)
Carrying amount of investment properties at end of period	<u>686,500,000</u>	<u>666,050,000</u>

The investment property held for sale at 30 June 2021 relates to the commercial property at 241 O'Riordan Street, Mascot, which was subject to a sale contract that settled on 9 July 2021. The investment property held for sale was valued with reference to the contracted sale value with adjustments made to reflect circumstances existing at balance date.

There were no investment properties held for sale at 31 December 2021.

Fair value

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

The 31 December 2021 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (**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 5.50% - 6.50%) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.25%-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.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

4. Investment properties (continued)

The fair value of investment properties takes into account the impact of the significant hailstorm, which substantially damaged the roof and air conditioning equipment of one of the Stapled Group's investment properties, Toormina Gardens, in late October 2021. The fair value of Toormina Gardens which is based on an independent valuation is on the basis that the property is reinstated to at least the same standard as it was prior to the hailstorm damage and any loss of income and rectification works are covered by insurance. As at 31 December 2021, the Stapled Group has received \$2.8 million progress payments from its insurers towards rectification works for Toormina Gardens, of which \$1.2 million had been spent at balance date.

Refer to Note 9 for further information on fair value measurement.

5. Trade and other payables

	Consolidated	
	31 December	
	2021	30 June 2021
	\$	\$
<i>Current liabilities</i>		
Trade payables	1,266,003	3,466,807
Accrued liabilities	3,466,152	3,359,122
Contract liabilities (deferred income)	3,067,731	2,243,158
GST payable	666,350	699,753
Other liabilities	36,035	44,549
	<u>8,502,271</u>	<u>9,813,389</u>

6. Borrowings

	Consolidated	
	31 December	
	2021	30 June 2021
	\$	\$
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>250,546,953</u>	<u>288,445,892</u>

Financing arrangements

As at 31 December 2021, the Stapled Group had a \$300 million loan facility (30 June 2021: \$315 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (BBSY) repayable on 19 April 2025. In accordance with the loan agreement, a \$15 million facility was cancelled following the settlement of the Mascot property.

Refer to Note 4 for further information on the Mascot settlement.

	Consolidated	
	31 December	
	2021	30 June 2021
	\$	\$
Total facilities		
Secured bank loan facilities	<u>300,000,000</u>	<u>315,000,000</u>
Used at the reporting date		
Secured bank loan facilities	<u>252,916,000</u>	<u>291,116,000</u>
Unused at the reporting date		
Secured bank loan facilities	<u>47,084,000</u>	<u>23,884,000</u>

FSREC Property Fund

Notes to the condensed consolidated financial statements

31 December 2021

6. Borrowings (continued)

To take advantage of the low interest rate environment, the Stapled Group has entered into a series of interest rate swap contracts with a notional amount of \$130.5 million (30 June 2021: \$134.73 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. At 31 December 2021, after taking into account the remaining interest rate swaps, 51.6% (30 June 2021: 46.4%) of the Stapled Group's borrowings are hedged. The Stapled Group's average cost of drawn debt is approximately 2.82% (30 June 2021: 3.97%) (excluding costs relating to undrawn debt).

The drawn amount is secured against investment properties held by the Stapled Group with a carrying value of \$686.5 million at balance date and is subject to compliance with specified covenants and other requirements.

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

7. Issued capital

Movement in issued units

	31 December 2021 Units*	31 December 2021 \$
Balance at the beginning of the period	312,632,131	224,950,867
Redemption of units	(59,908,240)	(46,138,350)
Redemption costs	-	(65,782)
	<u>252,723,891</u>	<u>178,746,735</u>

*Total stapled securities of the Stapled Group at 31 December 2021 are 252,723,891 with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following the withdrawal offer announced on 25 June 2021, 59,908,240 stapled securities were redeemed on 4 August 2021.

On or around 16 December 2021, the Stapled Group entered into conditional placement agreements with ISPT Pty Ltd, as trustee for the ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**), and Tarawa Pty Ltd (**Tarawa**) in respect of proposed placements and investments in the Stapled Group (**Proposal**). On 20 December 2021, the Stapled Group opened its second withdrawal offer for a minimum of \$240 million and maximum of \$330 million to be funded by proceeds of the placements. The application price was \$1.71 per stapled security, based on the Stapled Group's net asset value at 30 November 2021 with appropriate adjustments for property revaluations, the quarterly distribution and the costs of arranging liquidity for the withdrawal offer. The redemption price was \$1.66 per stapled security, calculated at 97% of the application price for the placement, in accordance with the respective constitutions.

The Proposal was conditional on the approval of constitution amendments by special resolution and the minimum withdrawal requests of \$240 million being met. Refer to Note 14 for further information on the Proposal.

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.

8. Cash flow hedge reserve

	Consolidated 31 December 2021 \$	30 June 2021 \$
Cash flow hedge reserve	<u>234,424</u>	<u>(2,676,427)</u>

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

8. Cash flow hedge reserve (continued)

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 Stapled Group.

Movements in reserves

Movements in each class of reserve during the current financial period are set out below:

	Cash flow hedge reserve \$
Consolidated	
Balance at 1 July 2021	(2,676,427)
- Unrealised gains on cash flow hedge reserve	1,449,973
- Realised gains transferred to profit or loss as finance expense	1,460,878
	<hr/>
Balance at 31 December 2021	234,424
	<hr/> <hr/>

9. Fair value measurement

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

The Stapled 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 price) or indirectly (derived from prices)

Level 3: unobservable inputs for the financial asset or liability.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Consolidated - 31 December 2021				
<i>Assets</i>				
Investment properties	-	-	686,500,000	686,500,000
Cash flow hedge	-	1,603,938	-	1,603,938
Total assets	-	1,603,938	686,500,000	688,103,938
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Liabilities</i>				
Cash flow hedge	-	1,216,460	-	1,216,460
Total liabilities	-	1,216,460	-	1,216,460
	<hr/>	<hr/>	<hr/>	<hr/>
Consolidated - 30 June 2021				
<i>Assets</i>				
Investment properties	-	145,850,000	666,050,000	811,900,000
Total assets	-	145,850,000	666,050,000	811,900,000
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Liabilities</i>				
Cash flow hedge	-	4,341,488	-	4,341,488
Total liabilities	-	4,341,488	-	4,341,488
	<hr/>	<hr/>	<hr/>	<hr/>

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

9. Fair value measurement (continued)

An interest rate swap contract has been entered into by the Stapled Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to Note 6 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 an asset of \$387,478 (30 June 2021: \$4,341,488 liability).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Stapled 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 half-year.

Fair value of the Stapled Group's 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.

10. Controlled entities

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2021 %	30 June 2021 %
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%	100.00%
Fort Street Real Estate Capital Trust IV	Australia	99.97%	99.97%
FSREC IV No.1 Trust	Australia	100.00%	100.00%
<i>Controlled entities of Fort Street Real Estate Capital Fund II</i>			
Australian Property Opportunities Trust II	Australia	-	-
APOT II No.1	Australia	-	-
<i>Controlled entities of Fort Street Real Estate Capital Fund III</i>			
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 even though there are no ownership interests.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

11. Related party disclosures

Key management personnel

Stuart Nisbett, Warwick Keneally and Peter Shear are directors of E&P Investments Limited, the Responsible Entity of Fort Street Real Estate Fund I and of the other members of the Stapled Group, and are deemed to be key management personnel. Mike Adams was also a director of the Responsible Entity until 9 December 2021.

Warwick Keneally is also a director of the Trustee of Australian Property Opportunities Trust, Australian Property Opportunities Trust II, Australian Property Opportunities Trust III, APOT II No.1, APOT III No. 1 Trust, Fort Street Real Estate Capital Trust IV and FSREC IV No.1 Trust (together, **Trusts**), E&P Investment Services Pty Limited.

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

Related party investments in the Stapled Group

As at 31 December 2021, the Responsible Entity or its associates held 873,842 stapled securities (30 June 2021: 873,842 stapled securities), representing 0.35% interest (30 June 2021: 0.28%) in the Stapled Group.

Distributions paid or payable by the Stapled Group to the Responsible Entity or its associates in the period ended 31 December 2021 was \$34,954 (30 June 2021: \$59,973).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as Responsible Entity of the Schemes in the Stapled Group, receives a fee for the performance of its duties under the constitution of the Schemes. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Stapled Group and payable monthly. Effective upon implementation of the Restructure, the constitutions were 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 period ended 31 December 2021, \$842,645 (31 December 2020: \$113,163), exclusive of GST, was paid or payable to the Responsible Entity.

Trustee fee

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust, Australian Property Opportunities Trust II, APOT II No.1, APOT III No. 1 Trust, Fort Street Real Estate Capital Trust IV and FSREC IV No.1 Trust (together, **Trusts**), receives 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust Deeds. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deeds were amended to remove the Trustee fee.

For the period ended 31 December 2021, no trustee fee was paid or payable to the Trustee (31 December 2020: \$122,405, exclusive of GST).

Investment Manager fee

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Stapled Group's Investment Manager and receives a fee of 0.54% per annum (exclusive of GST) calculated on the gross assets of the Stapled 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 period 31 December 2021, \$1,948,348 (31 December 2020: \$695,627), exclusive of GST, was paid or payable to the Investment Manager.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2021

11. Related party disclosures (continued)

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 period ended 31 December 2021, a disposal fee of \$1,497,676 (exclusive of GST) was paid in relation to the sale of 241 O'Riordan Street, Mascot.

Fund Administration fee

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

For the period ended 31 December 2021, no fund administration fee was paid or payable to the Fund Manager (31 December 2020: \$183,739, exclusive of GST).

Fund Manager fee

E&P Funds 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.

For the period ended 31 December 2021, no fund manager fee was paid or payable to the Fund Manager (31 December 2020: \$613,855, exclusive of GST).

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 period ended 31 December 2021, \$879,449 (31 December 2020: \$345,871), exclusive of GST, was paid or payable to the Property Manager.

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 Stapled 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 period ended 31 December 2021, \$114,146 (31 December 2020: \$2,857), exclusive of GST, was paid or payable to the Development Manager.

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 Stapled 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 period ended 31 December 2021, \$322,437 (31 December 2020: \$341,115), exclusive of GST, was paid or payable to the Leasing Agent.

11. Related party disclosures (continued)

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 and shareholder of MDA1 Pty Limited, was also a director of the Responsible Entity until 9 December 2021.

For the period ended 31 December 2021, \$41,444 (31 December 2020: \$7,973), exclusive of GST, was paid or payable by the Stapled Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

Financial Advisory fee

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

For the period ended 31 December 2021, no financial advisory fee was paid or payable to the Financial Advisor (31 December 2020: \$323,193, exclusive of GST).

Signage

E&P Financial Group Limited and E&P Funds Group Pty Limited, related parties of the Stapled 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 period ended 31 December 2021, \$4,823 (31 December 2020: \$27,563), exclusive of GST, was paid or payable to the Stapled Group.

12. Capital commitments

As at 31 December 2021, the Stapled Group committed \$2,795,000 (31 December 2020: nil) in capital commitments for improvements to its existing properties. In addition, \$1,710,900 (31 December 2020: \$3,272,777) was committed for lease incentives arising from lease agreements.

13. Contingent liability

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.

14. Events after the reporting period

On 2 February 2022, the minimum level of acceptance for the withdrawal offer was met, satisfying the first Condition Precedent of the Proposal announced on 17 December 2021. On 4 February 2022, a special resolution to amend the constitution was passed, satisfying the second Condition Precedent. Accordingly, the Stapled Group issued 187,134,502 stapled securities to IRAPT and 5,847,953 stapled securities to Tarawa on 18 February 2022. 198,795,180 stapled securities were redeemed on 18 February 2022, and redemptions of \$330,000,000 were paid on 22 February 2022.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Stapled Group's operations, the results of those operations, or the Stapled Group's state of affairs in future financial years.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

		FSREC Fund II		FSREC Fund III	
	Note	31 December 2021 \$	31 December 2020 \$	31 December 2021 \$	31 December 2020 \$
Revenue					
Rental income		6,620,369	6,451,969	3,060,440	6,929,699
Other property income		1,197,673	1,118,694	1,210,334	2,131,587
Finance income		212	527	586	1,013
Fair value movement of investment properties	4	3,390,390	(1,643,251)	(2,855,610)	925,388
Total revenue		11,208,644	5,927,939	1,415,750	9,987,687
Expenses					
Investment property expenses		(3,152,114)	(2,756,250)	(1,103,476)	(2,336,630)
Finance expense		(680,687)	(1,020,428)	(501,778)	(1,796,326)
Responsible entity and trustee fees	11	(236,156)	(169,576)	(153,969)	(219,504)
Management fees	11	(744,307)	(871,242)	(484,236)	(1,097,760)
Accounting and audit fees		(68,513)	(67,303)	(49,356)	(47,447)
Other expenses		(113,547)	(397,287)	(318,525)	(560,926)
Total expenses		(4,995,324)	(5,282,086)	(2,611,340)	(6,058,593)
Profit/(loss) before income tax		6,213,320	645,853	(1,195,590)	3,929,094
Income tax		-	-	-	-
Profit/(loss) after income tax for the half-year		6,213,320	645,853	(1,195,590)	3,929,094
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Effective portion of changes in fair value of cash flow hedge		110,964	214,513	-	498,591
Other comprehensive income for the half-year, net of tax		110,964	214,513	-	498,591
Total comprehensive income/(loss) for the half-year		6,324,284	860,366	(1,195,590)	4,427,685

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

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of profit or loss and other comprehensive income
For the half-year ended 31 December 2021

	Note	FSREC Fund II		FSREC Fund III	
		31 December	31 December	31 December	31 December
		2021	2020	2021	2020
		\$	\$	\$	\$
Profit/(loss) for the half-year is attributable to:					
Non-controlling interest		-	-	(143)	861
Unitholders of FSREC Fund II and FSREC Fund III		6,213,320	645,853	(1,195,447)	3,928,233
		<u>6,213,320</u>	<u>645,853</u>	<u>(1,195,590)</u>	<u>3,929,094</u>
Total comprehensive income/(loss) for the half-year is attributable to:					
Non-controlling interest		-	-	(143)	861
Unitholders of FSREC Fund II and FSREC Fund III		6,324,284	860,366	(1,195,447)	4,426,824
		<u>6,324,284</u>	<u>860,366</u>	<u>(1,195,590)</u>	<u>4,427,685</u>
		Cents	Cents	Cents	Cents
Basic earnings/(loss) per unit	3	2.35	0.94	(0.45)	3.76
Diluted earnings/(loss) per unit	3	2.35	0.94	(0.45)	3.76

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

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of financial position
As at 31 December 2021

		FSREC Fund II		FSREC Fund III	
	Note	31 December 2021 \$	30 June 2021 \$	31 December 2021 \$	30 June 2021 \$
Assets					
Current assets					
Cash and cash equivalents		2,582,292	2,180,768	2,753,978	949,670
Trade and other receivables		805,508	614,185	835,570	336,722
Investment properties held for sale	4	-	-	-	145,850,000
Prepayments		235,228	249,469	90,270	238,360
Total current assets		3,623,028	3,044,422	3,679,818	147,374,752
Non-current assets					
Investment properties	4	186,500,000	181,050,000	87,500,000	90,000,000
Receivable from other FSREC Funds within the Stapled Group		-	-	68,027,722	-
Total non-current assets		186,500,000	181,050,000	155,527,722	90,000,000
Total assets		190,123,028	184,094,422	159,207,540	237,374,752
Liabilities					
Current liabilities					
Trade and other payables	5	2,516,733	2,663,764	2,500,777	2,544,509
Derivative financial instruments		-	110,964	-	-
Distributions payable		1,507,406	8,247	769,702	6,268,710
Payable to other FSREC Funds within the Stapled Group		20,256,441	-	130,110	-
Total current liabilities		24,280,580	2,782,975	3,400,589	8,813,219
Non-current liabilities					
Borrowings	6	72,491,222	71,524,228	37,065,308	77,369,061
Total non-current liabilities		72,491,222	71,524,228	37,065,308	77,369,061
Total liabilities		96,771,802	74,307,203	40,465,897	86,182,280
Net assets		93,351,226	109,787,219	118,741,643	151,192,472
Equity					
Issued capital	7	86,028,531	106,200,663	132,119,510	161,130,403
Cash flow hedge reserve	8	-	(110,964)	-	-
Retained profits/(accumulated losses)		7,322,695	3,697,520	(13,385,986)	(9,946,604)
Equity attributable to the unitholders of FSREC Fund II and FSREC Fund III		93,351,226	109,787,219	118,733,524	151,183,799
Non-controlling interest		-	-	8,119	8,673
Total equity		93,351,226	109,787,219	118,741,643	151,192,472

The above condensed consolidated statements of financial position should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of changes in equity
For the half-year ended 31 December 2021

	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund II					
Balance at 1 July 2020	106,200,663	(587,219)	1,511,780	-	107,125,224
Profit after income tax for the half-year	-	-	645,853	-	645,853
Other comprehensive income for the half-year, net of tax	-	214,513	-	-	214,513
Total comprehensive income for the half-year	-	214,513	645,853	-	860,366
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distribution declared	-	-	(864,926)	-	(864,926)
Balance at 31 December 2020	<u>106,200,663</u>	<u>(372,706)</u>	<u>1,292,707</u>	<u>-</u>	<u>107,120,664</u>
	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund II					
Balance at 1 July 2021	106,200,663	(110,964)	3,697,520	-	109,787,219
Profit after income tax for the half-year	-	-	6,213,320	-	6,213,320
Other comprehensive income for the half-year, net of tax	-	110,964	-	-	110,964
Total comprehensive income for the half-year	-	110,964	6,213,320	-	6,324,284
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Redemption of units	(20,143,474)	-	-	-	(20,143,474)
Redemption costs	(28,658)	-	-	-	(28,658)
Distributions declared	-	-	(2,588,145)	-	(2,588,145)
Balance at 31 December 2021	<u>86,028,531</u>	<u>-</u>	<u>7,322,695</u>	<u>-</u>	<u>93,351,226</u>

The above condensed consolidated statements of changes in equity should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of changes in equity
For the half-year ended 31 December 2021

	Issued capital \$	Cash flow hedge reserve \$	Accumulated losses \$	Non- controlling interest (NCI) \$	Total equity \$
FSREC Fund III					
Balance at July 2020	161,130,403	(1,869,492)	(5,139,417)	24,466	154,145,960
Profit after income tax for the half-year	-	-	3,928,233	861	3,929,094
Other comprehensive income for the half-year, net of tax	-	498,591	-	-	498,591
	-	498,591	3,928,233	861	4,427,685
Distributions paid to NCI	-	-	-	(301)	(301)
<i>Transactions with unitholders in their capacity as unitholders:</i>	-	-	-	-	-
Distributions declared	-	-	(1,389,031)	-	(1,389,031)
Balance at 31 December 2020	<u>161,130,403</u>	<u>(1,370,901)</u>	<u>(2,600,215)</u>	<u>25,026</u>	<u>157,184,313</u>
	Issued capital \$	Cash flow hedge reserve \$	Accumulated losses \$	Non- controlling interest (NCI) \$	Total equity \$
FSREC Fund III					
Balance at 1 July 2021	161,130,403	-	(9,946,604)	8,673	151,192,472
Loss after income tax for the half-year	-	-	(1,195,447)	(143)	(1,195,590)
Distributions paid to NCI	-	-	-	(411)	(411)
<i>Transactions with unitholders in their capacity as unitholders:</i>	-	-	-	-	-
Redemption of units	(28,972,277)	-	-	-	(28,972,277)
Redemption costs	(38,616)	-	-	-	(38,616)
Distributions declared	-	-	(2,243,935)	-	(2,243,935)
Balance at 31 December 2021	<u>132,119,510</u>	<u>-</u>	<u>(13,385,986)</u>	<u>8,119</u>	<u>118,741,643</u>

The above condensed consolidated statements of changes in equity should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of cash flows
For the half-year ended 31 December 2021

	FSREC Fund II		FSREC Fund III	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	\$	\$	\$	\$
Cash flows from operating activities				
Rental and other income received	8,675,206	8,547,449	4,802,691	10,442,135
Interest income received	209	535	561	1,089
Payment to suppliers	(5,558,035)	(5,053,889)	(2,868,710)	(5,396,101)
Finance costs	(624,514)	(934,060)	(446,181)	(1,646,327)
Net cash from operating activities	2,492,866	2,560,035	1,488,361	3,400,796
Cash flows from investing activities				
Proceeds from disposal of investments	-	-	145,850,000	-
Payments for capital expenditure	(1,974,547)	(722,825)	(463,757)	(381,845)
Net cash (used in)/from investing activities	(1,974,547)	(722,825)	145,386,243	(381,845)
Cash flows from financing activities				
Payment of redemption of units	(20,143,474)	-	(28,972,277)	-
Payment of redemption costs	(28,658)	-	(38,616)	-
Payments to/(receipts from) other FSREC Funds within Stapled Group	20,256,441	-	(67,897,612)	-
Repayment of borrowings	-	-	(47,500,000)	-
Payments of transaction cost relating to borrowings	(12,118)	-	(18,437)	(18,893)
Distributions paid	(1,088,986)	(1,585,699)	(7,743,356)	(2,580,135)
Gross proceeds from borrowings	900,000	-	7,100,000	-
Net cash used in financing activities	(116,795)	(1,585,699)	(145,070,298)	(2,599,028)
Net increase in cash and cash equivalents	401,524	251,511	1,804,306	419,923
Cash and cash equivalents at the beginning of the financial half-year	2,180,768	2,064,790	949,670	2,672,269
Cash and cash equivalents at the end of the financial half-year	2,582,292	2,316,301	2,753,976	3,092,192

The above condensed consolidated statements of cash flows should be read in conjunction with the accompanying notes

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 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 controlled entities (collectively, **FSREC Fund II**), and
- Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**).

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

2. Working capital

As at 31 December 2021, FSREC Fund II's statement of financial position discloses a deficiency of net current assets of \$20,657,552. The deficiency is primarily attributable to distribution payable of \$1,507,406 and amounts payable to FSREC Fund III of \$20,089,739 disclosed as current liabilities. The directors of the Responsible Entity of FSREC Fund III have confirmed in writing that they will not call for repayment of the amounts payable by FSREC Fund II if such action would cause FSREC Fund II to be unable to pay its debts as and when they fall due and payable.

The directors are satisfied that FSREC Fund II will be able to meet its working capital requirements through the normal cyclical nature of receipts and payments and budgeted cash flows generated from operations. In addition, the Stapled Group which includes FSREC Fund II has long term finance facilities available for drawdown totalling \$47,084,000 as at 31 December 2021.

Accordingly, the directors consider it appropriate to prepare the half-year financial statement of FSREC Fund II on the going concern basis.

3. Earnings per unit

	FSREC Fund II		FSREC Fund III	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
	\$	\$	\$	\$
Profit after income tax	6,213,320	645,853	(1,195,590)	3,929,094
Non-controlling interest	-	-	143	(861)
Profit after income tax attributable to the unitholders	<u>6,213,320</u>	<u>645,853</u>	<u>(1,195,447)</u>	<u>3,928,233</u>
	FSREC Fund II	FSREC Fund II	FSREC Fund III	FSREC Fund III
	Number	Number	Number	Number
Weighted average number of units used in calculating basic earnings per stapled unit	264,119,480	68,644,678	264,119,480	104,438,552
Weighted average number of units used in calculating diluted earnings per stapled unit	264,119,480	68,644,678	264,119,480	104,438,552
	Cents	Cents	Cents	Cents
Basic earnings/(loss) per unit	2.35	0.94	(0.45)	3.76
Diluted earnings/(loss) per unit	2.35	0.94	(0.45)	3.76

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

4. Investment properties

	FSREC Fund II		FSREC Fund III	
	31 December 2021 \$	30 June 2021 \$	31 December 2021 \$	30 June 2021 \$
Disclosed in Condensed Consolidated Statement of Financial Position as:				
<i>Current assets</i>				
Investment properties held for sale	-	-	-	145,850,000
<i>Non-current assets</i>				
Investment properties - at fair value	186,500,000	181,050,000	87,500,000	90,000,000
	<u>186,500,000</u>	<u>181,050,000</u>	<u>87,500,000</u>	<u>235,850,000</u>
<i>Movement in investment properties - at fair value</i>				
Carrying amount of investment properties at beginning of period	181,050,000	178,600,000	90,000,000	233,750,000
Capital expenditure	2,024,715	1,497,927	245,351	1,235,673
Rental straight-lining, tenant incentives and other adjustments	34,895	381,280	110,259	(376,233)
Fair value movement of investment properties	3,390,390	570,793	(2,855,610)	1,240,560
Reclassified to Investment properties held for sale	-	-	-	(145,850,000)
Carrying amount of investment properties at end of period	<u>186,500,000</u>	<u>181,050,000</u>	<u>87,500,000</u>	<u>90,000,000</u>

The investment property held for sale at 30 June 2021 in FSREC Fund III relates to the commercial property at 241 O'Riordan Street, Mascot, which was subject to a sale contract which settled on 9 July 2021. The investment property held for sale was valued with reference to the contracted sale value with adjustments made to reflect circumstances existing at balance date.

There were no investment properties held for sale at 31 December 2021.

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 31 December 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 5.50% - 6.00% for FSREC Fund II and 6.50% 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 6.25% - 6.75% 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.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

4. Investment properties (continued)

The fair value of investment properties of FSREC Fund III takes into account the impact of the significant hailstorm in late October 2021 which substantially damaged the property's roof and air conditioning equipment. The fair value of Toormina Gardens which is based on an independent valuation is on the basis that the property is reinstated to at least the same standard as it was prior to the hailstorm damage and any loss of income and rectification works are covered by insurance. As at 31 December 2021, FSREC Fund III has received \$2.8 million progress payments from its insurers towards the rectification works for Toormina Gardens, of which \$1.2 million had been spent at balance date.

Refer to Note 9 for further information on fair value measurement.

5. Trade and other payables

	FSREC Fund II		FSREC Fund III	
	31 December		31 December	
	2021	30 June 2021	2021	30 June 2021
	\$	\$	\$	\$
<i>Current liabilities</i>				
Trade payables	348,046	996,136	111,980	698,685
Accrued liabilities	1,080,752	782,754	1,295,928	1,103,170
Contract liabilities (deferred income)	911,644	723,497	1,092,869	505,179
GST payable	176,291	161,377	-	237,475
	<u>2,516,733</u>	<u>2,663,764</u>	<u>2,500,777</u>	<u>2,544,509</u>

6. Borrowings

	FSREC Fund II		FSREC Fund III	
	31 December		31 December	
	2021	30 June 2021	2021	30 June 2021
	\$	\$	\$	\$
<i>Non-current liabilities</i>				
Secured bank loan - net of borrowing costs	<u>72,491,222</u>	<u>71,524,228</u>	<u>37,065,308</u>	<u>77,369,061</u>

Financing arrangements

As at 31 December 2021, the Stapled Group had a \$300 million loan facility (30 June 2021: \$315 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 19 April 2025. In accordance with the loan agreement, a \$15 million facility was cancelled following the settlement of 241 O'Riordan Street, Mascot sale on 9 July 2021.

The Stapled Group had \$47.1 million available to be borrowed from the single loan facility.

On 16 September 2021, FSREC Fund II's \$32 million interest rate swap contract matured, therefore at 31 December 2021, FSREC Fund II's borrowings are currently not hedged (30 June 2021: 44%).

The average cost of drawn debt is approximately 1.87% for FSREC Fund II and 1.65% for FSREC Fund III (excluding costs relating to undrawn debt) (30 June 2021: 2.75% for FSREC Fund II and 5.25% for FSREC Fund III).

The drawn amount is secured against investment properties held by FSREC Fund II and FSREC Fund III with a carrying value at reporting date of \$186.5 million and \$87.5 million, respectively, and is subject to compliance with specified covenants and other requirements.

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

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

7. Issued capital

	FSREC Fund II		FSREC Fund III	
	31 December 2021	31 December 2021	31 December 2021	31 December 2021
	Units*	\$	Units*	\$
Balance at the beginning of the period	312,632,131	106,200,663	312,632,131	161,130,403
Redemption of units	(59,908,240)	(20,143,474)	(59,908,240)	(28,972,277)
Redemption costs	-	(28,658)	-	(38,616)
	<u>252,723,891</u>	<u>86,028,531</u>	<u>252,723,891</u>	<u>132,119,510</u>

*Total stapled securities of the Stapled Group at 31 December 2021 are 252,723,891 with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following the withdrawal offer announced on 25 June 2021, 59,908,240 units were redeemed on 4 August 2021.

On or around 16 December 2021, the Stapled Group entered into conditional placement agreements with ISPT Pty Ltd, as trustee for the ISPT Retail Australia Property Trust (**FSREC Fund**) (**IRAPT**), and Tarawa Pty Ltd (**Tarawa**) in respect of proposed placements and investments in the Stapled Group (**Proposal**). On 20 December 2021, the Stapled Group opened its second withdrawal offer for a minimum of \$240 million and maximum of \$330 million to be funded by proceeds of the placements. The application price was \$1.71 per stapled security, based on the Stapled Group's net asset value at 30 November 2021 with appropriate adjustments for property revaluations, the quarterly distribution and the costs of arranging liquidity for the withdrawal offer. The redemption price was \$1.66 per stapled security, calculated at 97% of the application price for the placement, in accordance with the respective constitutions.

The Proposal was conditional on the approval of constitution amendments by special resolution and the minimum withdrawal requests of \$240 million being met.

Refer to Note 14 for further information on the Proposal.

8. Cash flow hedge reserve

	FSREC Fund II		FSREC Fund III	
	31 December 2021	30 June 2021	31 December 2021	30 June 2021
	\$	\$	\$	\$
Cash flow hedge reserve	-	(110,964)	-	-

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.

Movements in reserves

Movements in each class of reserve during the current financial period are set out below:

FSREC Fund II	Cash flow hedge reserve \$
Balance at 1 July 2021	(110,964)
Unrealised losses on cash flow hedge reserve	(363)
Realised gains transferred to profit or loss as finance expense	111,327
Balance at 31 December 2021	-

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

9. 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 price) or indirectly (derived from prices)

Level 3: unobservable inputs for the financial asset or liability.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund II – 31 December 2021				
<i>Assets</i>				
Investment properties	-	-	186,500,000	186,500,000
Total assets	-	-	186,500,000	186,500,000

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund II – 30 June 2021				
<i>Assets</i>				
Investment properties	-	-	181,050,000	181,050,000
Total assets	-	-	181,050,000	181,050,000
<i>Liabilities</i>				
Cash flow hedge reserve	-	110,964	-	110,964
Total liabilities	-	110,964	-	110,964

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund III – 31 December 2021				
<i>Assets</i>				
Investment property	-	-	87,500,000	87,500,000
Total assets	-	-	87,500,000	87,500,000

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund III - 30 June 2021				
<i>Assets</i>				
Investment properties	-	145,850,000	90,000,000	235,850,000
Total assets	-	145,850,000	90,000,000	235,850,000

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

9. Fair value measurement (continued)

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 6 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 was nil at the reporting date (30 June 2021: \$110,964 liability) for FSREC Fund II.

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 half-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.

10. Controlled entities

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2021 %	30 June 2021 %
Controlled entities of FSREC Fund II			
Australian Property Opportunities Trust II	Australia	100.00%	100.00%
APOT II No. 1	Australia	100.00%	100.00%
Controlled entities of FSREC Fund III			
Australian Property Opportunities Trust III	Australia	99.98%	99.98%
APOT III No. 1 Trust	Australia	100.00%	100.00%

11. Related party disclosures

Key management personnel

Stuart Nisbett, Warwick Keneally and Peter Shear are directors of E&P Investments Limited, the Responsible Entity of FSREC Fund II and of FSREC Fund III (the **Funds**), and are deemed to be key management personnel. Mike Adams was also a director of the Responsible Entity until 9 December 2021.

Warwick Keneally is also a director of the Trustee of the Australian Property Opportunities Trust II, Australian Property Opportunities Trust III and APOT III No. 1 Trust, E&P Investment Services Pty Limited.

Key management personnel are not compensated by FSREC Fund II and FSREC Fund III or by the Responsible Entity directly for the management function provided.

As at 31 December 2021, Stuart Nisbett holds 10,000 units in FSREC Fund II and FSREC Fund III (30 June 2021: 10,000 units FSREC Fund II and FSREC Fund III). Warwick Keneally holds 20,897 units in FSREC Fund II and FSREC Fund III (30 June 2021: 20,897 units in FSREC Fund II and FSREC Fund III).

Peter Shear does not hold units in FSREC Fund II and FSREC Fund III as at 31 December 2021 (30 June 2021: nil).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

11. Related party disclosures (continued)

Related party investments in FSREC Fund II and FSREC Fund III

As at 31 December 2021, the Responsible Entity or its associates held 248,842 units in FSREC Fund II and FSREC Fund III (30 June 2021: 248,842 units in FSREC Fund II and FSREC Fund III) representing 0.10% interest in FSREC Fund II and FSREC Fund III (30 June 2021: 0.08%).

Distributions paid or payable by FSREC Fund II and FSREC Fund III to the Responsible Entity or its associates in the half-year ended 31 December 2021 was \$2,548 from FSREC Fund II and \$2,209 from FSREC Fund III (30 June 2021: \$6,924 from FSREC Fund II and \$7,778 from FSREC Fund III).

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 Funds' Constitutions were 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 period ended 31 December 2021, \$225,071 (31 December 2020: \$80,160) was paid or payable from FSREC Fund II to the Responsible Entity and \$128,850 (31 December 2020: \$103,754) was paid or payable from FSREC Fund III to the Responsible Entity, exclusive of GST.

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 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 Deeds. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deeds were amended to remove the Trustee fee.

For the period ended 31 December 2021, no trustee fee (31 December 2020: \$86,792) was paid or payable from FSREC Fund II to the Trustee and no trustee fee (31 December 2020: \$112,298) was paid or payable from FSREC Fund III to the Trustee, exclusive of GST.

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 Agreements were amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.

For the period ended 31 December 2021, \$503,425 (31 December 2020: \$24,202) was paid or payable from FSREC Fund II to the Investment Manager and \$355,994 (31 December 2020: \$806,825) was paid or payable from FSREC Fund III to the Investment Manager, exclusive of GST.

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 period ended 31 December 2021, a disposal fee of \$1,497,676 (exclusive of GST) was paid in relation to the sale of 241 O'Riordan Street, Mascot.

Fund Manager fee

E&P Funds 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.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

11. Related party disclosures (continued)

For the period ended 31 December 2021, no fund manager fee (31 December 2020: \$613,855), exclusive of GST, was paid or payable to the Fund Manager.

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 period ended 31 December 2021, \$240,747 (31 December 2020: \$223,186) was paid or payable from FSREC Fund II to the Property Manager and \$128,195 (31 December 2020: \$290,959) was paid or payable from FSREC Fund III to the Property Manager, exclusive of GST.

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 Funds 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 period ended 31 December 2021, \$102,075 (31 December 2020: \$23,879) was paid or payable from FSREC Fund II to the Development Manager and \$3,942 (31 December 2020: \$5,659) was paid or payable from FSREC Fund III to the Development Manager, exclusive of GST.

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 Funds 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 period ended 31 December 2021, \$39,061 (31 December 2020: \$71,499) was paid or payable from FSREC Fund II to the Leasing Agent and \$19,650 (31 December 2020: \$27,856) was paid or payable from FSREC Fund III to the Leasing Agent, exclusive of GST.

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 and shareholder of MDA1 Pty Limited, was also a director of the Responsible Entity until 9 December 2021.

For the period ended 31 December 2021, \$10,361 (31 December 2020: \$10,925), was paid or payable from FSREC Fund II and \$10,361 (31 December 2020: \$7,949) was paid or payable from FSREC Fund III, exclusive of GST.

Signage

E&P Financial Group Limited and E&P Funds Group Pty Limited, related parties of FSREC Fund III, 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 period ended 31 December 2021, \$4,823 (31 December 2020: \$27,563), exclusive of GST, was paid or payable to FSREC Fund III.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2021

11. Related party disclosures (continued)

Financial Advisory fee

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

For the period ended 31 December 2021, no financial advisor fee (31 December 2020: \$218,819) was paid or payable from FSREC Fund II to the Financial Advisor and nil (31 December 2020: \$314,866) was paid or payable from FSREC Fund III to the Financial Advisor.

12. Capital commitments

As at reporting date, FSREC Fund II committed \$625,000 (31 December 2020: nil) and FSREC Fund III committed nil (31 December 2020: nil) in capital commitments for improvements to its existing properties. In addition, \$258,000 (31 December 2020: \$693,777) for FSREC Fund II and \$260,000 (31 December 2020: \$645,263) for FSREC Fund III were committed as lease incentives arising from lease arrangements.

13. Contingent liability

The directors of the Responsible Entity are not aware of any potential liabilities or claims against FSREC Fund II and FSREC Fund III as at the end of the reporting period.

14. Events after the reporting period

On 2 February 2022, the minimum level of acceptance for the withdrawal offer was met, satisfying the first Condition Precedent. On 4 February 2022, a special resolution to amend the constitution was passed, satisfying the second Condition Precedent. Accordingly, both FSREC Fund II and FSREC Fund III issued 187,134,502 units to IRAPT and 5,847,953 units to Tarawa on 18 February 2022. 198,795,180 units were redeemed on 18 February 2022 and redemptions of \$70,902,661 and \$89,664,632 were paid on 22 February 2022 by FSREC Fund II and FSREC Fund III, respectively.

No other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect FSREC Fund II's and FSREC Fund III's operations, the results of those operations, or their affairs in future financial years.

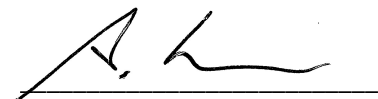
FSREC Property Fund
Directors' declaration
31 December 2021

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 10 to 40 comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- 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 10 to 40 give a true and fair view of the Stapled Group's financial position as at 31 December 2021 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the 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 of the Responsible Entity made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Stuart Nisbett
Independent Chair of E&P Investments Limited, Responsible Entity

14 March 2022

Independent Auditor's Review 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

Conclusion

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund I ('FSREC Fund 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 condensed consolidated statement of financial position as at 31 December 2021, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial reports of FSREC Property Fund, FSREC Fund II and FSREC Fund III are not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 31 December 2021 and of their financial performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year 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 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 annual 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 of FSREC Fund I, FSREC Fund II and FSREC Fund III (the 'Directors'), would be in the same terms if given to the directors as at the time of this auditor's review report.

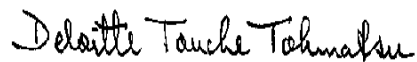
Directors' Responsibilities for the Half-year Financial Report

The directors are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 31 December 2021 and their financial performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching
Partner
Chartered Accountants

Sydney, 14 March 2022

RESPONSIBLE ENTITY

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

