FORT STREET
REAL ESTATE CAPITAL

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

FSREC PROPERTY FUND ANNUAL REPORT 30 JUNE 2022

E&P

(ACN 152 367 649) (AFSL 410 433)

DIRECTORY

FSREC PROPERTY FUND

Level 32, 1 O'Connell Street
SYDNEY NSW 2000

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 32, 1 O'Connell Street
SYDNEY NSW 2000

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

SECRETARY

Caroline Purtell

INVESTMENT MANAGER & PROPERTY MANAGER

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

Level 33, 25 Martin Place
SYDNEY NSW 2000

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 32, 1 O'Connell Street
SYDNEY NSW 2000

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

CONTENTS

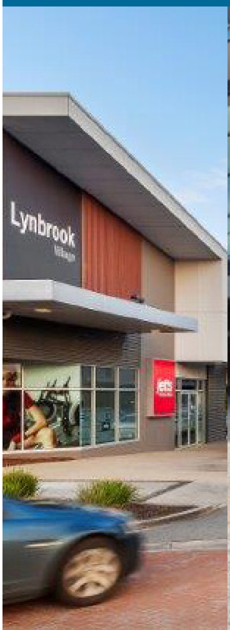
CHAIR'S LETTER	i
PROPERTY MANAGER'S REPORT	iii
UNAUDITED COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	vii
FUNDS FROM OPERATIONS	ix
DIRECTORS' REPORT	1
AUDITOR'S INDEPENDENCE DECLARATION	8

FSREC PROPERTY FUND FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	10
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	11
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	12
CONSOLIDATED STATEMENT OF CASH FLOWS	14
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	16

FSREC FUND II AND FSREC FUND III FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	45
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	46
STATEMENT OF CHANGES IN EQUITY	47
CONSOLIDATED STATEMENT OF CASH FLOWS	49
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	51
DIRECTORS' DECLARATION	75
INDEPENDENT AUDITOR'S REPORT	77


Lynbrook

Toormina
Gardens


entry

coles
northpoint

CHAIR'S LETTER

Dear Securityholders,

As Chair of the Responsible Entity for Fort Street Real Estate Capital Funds I, II and III, together, FSREC Property Fund (**Stapled Group**), I present the Annual Report for the financial year ending 30 June 2022.

OVERVIEW & FINANCIAL PERFORMANCE

I am pleased to report on several achievements for the Stapled Group which have occurred over the financial year, most importantly the completion of the major strategic initiatives announced at the time of the merger. Following the most recent withdrawal offer, which completed in July 2022, three withdrawal offers and placements totalling over $510 million have been provided to investors since the merger, a significant milestone for the Stapled Group.

As part of these initiatives, the Stapled Group undertook major transactions with ISPT, an Australian unlisted property fund manager investing on behalf of some of Australia's largest industry superannuation funds. ISPT has a $21.8 billion portfolio invested in commercial, retail, logistics, warehousing and residential property in Australia. During the year, ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**) provided total liquidity of $408.4 million to Stapled Group investors, creating a strong alignment between the investment manager and stapled securityholders. Additionally, ISPT in its capacity as trustee for the ISPT Retail Australia Property Trust No.2 (**IRAPT2**), acquired E&P Financial Group Limited's interest in Fort Street Real Estate Capital Pty Limited (the Stapled Group's Investment Manager and Property Manager) and associated investment management entities. IRAPT2's investment in Fort Street Real Estate Capital Pty Limited enables the Stapled Group to benefit from having access to the expertise and resources of ISPT.

As at 30 June 2022, the aggregate value of the Stapled Group's investment properties was $703.7 million, an increase of $37.7 million or 5.7% from 30 June 2021. All assets were independently valued as at 30 June 2022 with the increases in values largely due to income growth and capitalisation rate compression.

Over the year to 30 June 2022, the Stapled Group generated underlying operating earnings, or Funds from Operations (**FFO**), of $24.8 million, a decrease of 2.6% on the prior year proforma FFO of $25.5 million. The decrease in operating earnings is predominately due to the loss of income as a result of divestment of the Stapled Group's only office building 241 O'Riordan Street in July 2021, offset by income growth and strong leasing across the remaining portfolio. The Stapled Group's gearing ratio as at 30 June 2022 is 36.6%, a slight increase on prior year.

Distributions for the financial year were 8.0 cents per stapled security, and represented an increase of 18% on the prior year's distributions of 6.78 cents per stapled security including the proforma distribution for the period prior to the merge. The strong distribution growth reflects the portfolio's performance over the financial year, in particular a reduction in COVID-19 related rent relief as the challenging operating conditions experienced during the pandemic eased. The Stapled Group's Net Asset Value (**NAV**) increased by 12.2% on the prior year NAV, to $1.84 per stapled security, and together with the distributions, the Stapled Group delivered a total return of 17.1% for the year.

OUTLOOK

During the year there were numerous challenges including COVID-19 lockdowns, ongoing supply chain disruptions and rising interest rates. We expect market conditions to remain turbulent in the short-term given the risk of further inflationary pressures and rising interest rates (placing upward pressure on capitalisation rates and discount rates), in addition to increasing geopolitical uncertainty. However, retail spending has remained resilient, further demonstrating the strength of the Stapled Group's strategy of investing in convenience-based retail properties with their ability to continue to operate and perform through the cycle.

The transaction with IRAPT provides an exciting opportunity for the Stapled Group to leverage its collective experience and resources to provide ongoing growth opportunities. Portfolio performance has remained resilient over the year, despite challenging economic conditions, and management is now focused on actively managing and optimising its portfolio of high-quality convenience-based retail assets to maximise returns for investors.

Overall, it has been a successful year for the Stapled Group, having delivered the key strategic initiatives commenced at the time of the merger. Convenience-based retail assets continue to perform strongly and provide resilient cash flows, and we believe that the Stapled Group is well positioned to provide a steady income stream, capital growth and attractive risk adjusted returns in the current environment.

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

Sincerely,

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

14 September 2022

PROPERTY MANAGER'S REPORT

We are pleased to report the following highlights for the Group for the financial year ending 30 June 2022 (**FY22**):

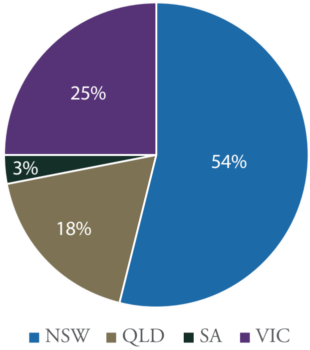
1. Weighted average lease expiry (**WALE**) of 4.3 years
2. Portfolio occupancy of 97.6%
3. Completion of Noosa Village mall refurbishment and Birkdale Fair McDonalds padsite development

PORTFOLIO OVERVIEW

The FSREC Property Fund contains 12 high-quality convenience-based retail assets with a high weighting to non-discretionary tenants. Occupancy at 30 June 2022 remained strong at 97.6%.

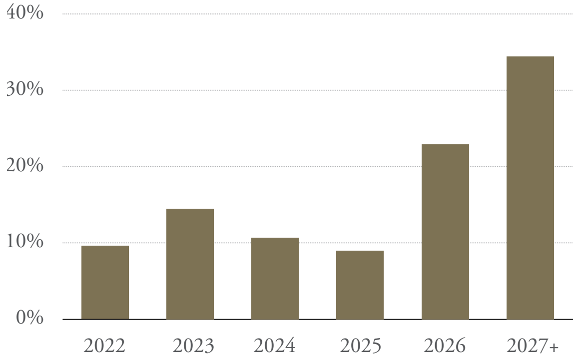
ASSET	OCCUPANCY (%)	WALE BY INCOME (YRS)	VALUATION ($M)	CAP RATE 30-JUN-22	LOCATION	PORTFOLIO VALUE (%)
Oxford Village	98.1%	3.9	112,000,000	5.75%	NSW	16%
Toormina Gardens	96.0%	3.1	88,500,000	6.25%	NSW	13%
Windsor Riverview	99.1%	3.1	58,500,000	5.50%	NSW	8%
Marketfair	94.3%	5.1	50,000,000	5.25%	NSW	7%
Lake Innes Village	99.9%	8.1	39,000,000	5.50%	NSW	6%
Newtown Central	94.6%	3.9	32,000,000	5.25%	NSW	5%
Keilor Central	97.5%	3.6	125,500,000	5.50%	VIC	18%
Lynbrook Village	99.6%	6.2	47,700,000	5.50%	VIC	7%
Northpoint	99.1%	6.5	49,750,000	5.75%	QLD	7%
Noosa Village	98.5%	3.0	38,500,000	5.50%	QLD	5%
Birkdale Fair	99.0%	4.6	37,750,000	5.25%	QLD	5%
Hilton Plaza	93.9%	4.9	24,500,000	5.25%	SA	3%
TOTAL	**97.6%**	**4.3**	**703,700,000**	**5.60%**		**100%**

Geographic Diversification by Value at 30 June 2022



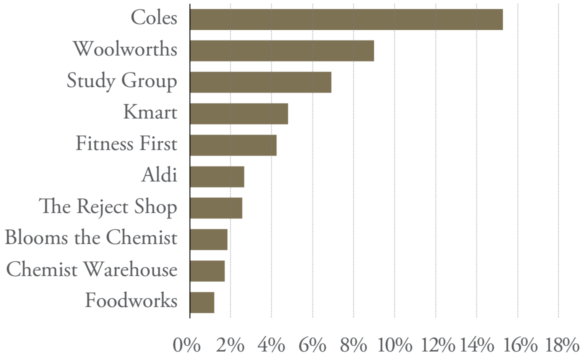
Geographically the retail portfolio is diversified across the east coast of Australia, with 79% of the portfolio weighted to the major economies of New South Wales and Victoria.

Lease Expiry Profile



The portfolio has a strong profile with a weighted average lease expiry of 4.3 years as at 30 June 2022.

Top 10 Tenants (by Income)



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

PORTFOLIO HIGHLIGHTS

Operationally, the portfolio has delivered strong results during the year. Leasing volumes eased in comparison to the prior year, a year which saw record volumes as many leases were renegotiated during the COVID-19 lockdown periods. While volumes eased, 46 leases were still agreed during the year and the leasing pipeline remains strong.

Total moving annual turnover of the retail portfolio was $843.6 million during FY22. After an exceptionally strong year in FY21, as a result of many of the Group's convenience-based retail centres over-trading during the COVID-19 lockdowns, the portfolio saw more subdued sales performance during FY22, with supermarkets recording lower average sales growth of -0.5%[1] compared to the prior year.

Specialty tenant performance remained resilient during the financial year despite the lockdowns in Victoria and New South Wales at the beginning of the period. Specialty productivity at 30 June 2022 remained strong at $9,569 per sqm[1], and the average specialty occupancy cost of 12.1%[1]. Affordability and productivity are key to overall specialty tenant performance, as well as presentation and retail offer.

The management team was able to deliver on several key development projects during the year, with the most significant being completion of the expansion of the Woolworths supermarket and mall refurbishment at Noosa Village. Another major highlight was the completion of the McDonalds' padsite at Birkdale Fair which began trading upon completion in February 2022. Unfortunately, at Toormina Gardens, a major hailstorm event in October significantly damaged the centre's roof and air conditioning equipment, resulting in extensive flooding of several tenancies within the centre. The management team did an excellent job in working with insurers and the local community to get the centre open for trade as quickly as possible. Remediation of the roof and full reinstatement of all retail tenancies is ongoing, with completion expected by early 2023.

OUTLOOK

Looking to the year ahead, the strategy will be focused on active management of the properties, portfolio optimisation and growth opportunities. Investor demand for convenience-based retail assets, such as those in the portfolio, remains quite strong given the current economic climate. We are confident our strategy to focus on non-discretionary retail, given its demonstrated resilience through the economic cycle, will optimise investor outcomes. We continue to manage the portfolio so as to provide investors with steady distribution income stream and the potential for future capital growth.

1. Specialty productivity and occupancy cost as well as supermarket sales growth excludes Toormina Gardens due to the impacts on trade arising from storm damage in FY22.

KEY MANAGEMENT PERSONNEL OF FORT STREET REAL ESTATE CAPITAL

David Rogers | Director, Investments

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

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

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

Jason Hay | Director, Asset Management

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

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

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

UNAUDITED COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

The unaudited combined statement of profit or loss and other comprehensive income of the Stapled Group for the year ended 30 June 2021 is an aggregation of the financial results of FSREC Fund I, FSREC Fund II and FSREC Fund III for the full reporting period. This basis of preparation 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 Restructure on 23 December 2020.

The unaudited combined statement of profit or loss and other comprehensive income for the year ended 30 June 2022 below does not differ from the audited consolidated statement of profit or loss and other comprehensive income.

	COMBINED 30 JUNE 2022 $	COMBINED 30 JUNE 2021 $
Revenue		
Rental income	**48,117,842**	55,467,936
Other property income	**11,491,689**	11,429,708
Finance income	**1,910**	3,504
Fair value movement of investment properties	**28,427,957**	18,983,822
Total revenue	**88,039,398**	85,884,970
Expenses		
Investment property expenses	**(20,267,950)**	(24,171,925)
Finance expenses	**(7,559,991)**	(11,599,331)
Responsible entity and trustee fees	**(1,755,433)**	(1,738,427)
Management fees	**(5,596,569)**	(6,936,196)
Accounting and audit fees	**(462,344)**	(425,209)
Other expenses	**(808,927)**	(3,486,338)
Total expenses	**(36,451,214)**	(48,357,426)
Profit before income tax expense	**51,588,184**	37,527,544
Income tax expense	**-**	-
Profit after income tax expense	**51,588,184**	37,527,544
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedge	**8,955,538**	4,794,600
Total comprehensive income for the year	**60,543,722**	42,322,144
		CENTS
Basic earnings per stapled security	**20.12**	12.00
Diluted earnings per stapled security	**20.12**	12.00

The earnings per stapled security for the year ended 30 June 2021 was calculated by dividing combined net profit by the number of stapled securities immediately following the Restructure on 23 December 2020 ($37,527,544 / 312,632,131).


Lynbrook
Toormina Gardens
entry
coles
northpoint

FUNDS FROM OPERATIONS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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 FFO.

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

	2022 $	2021 $
Profit after tax for the year	**51,588,184**	37,527,544
Adjustments:		
Fair value movement of investment properties	**(28,427,957)**	(18,983,822)
Straight-lining of rental revenue and incentive amortisation	**646,095**	2,896,578
Other items and amortisation of capitalised lease costs	**1,107,027**	1,391,378
One-off professional (rebate)/fees	**(105,718)**	2,634,873
FFO	**24,807,631**	25,466,551
Distributions for the year	**19,985,401**	21,191,272
	CENTS PER STAPLED SECURITY	CENTS PER STAPLED SECURITY
FFO	**10.05**	8.15
Distributions	**8.00**	6.78

Distributions for the year represented a payout ratio of 80% of FFO (2021: 83%).


Lynbrook
Toormina
Gardens
entry
coles
northpoint

DIRECTORS' REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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**), together with the annual financial report for the financial year ended 30 June 2022.

The annual 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 OF THE RESPONSIBLE ENTITY

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

Stuart Nisbett

Warwick Keneally

Peter Shear

Mike Adams *Resigned 9 December 2021*

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

INFORMATION ON DIRECTORS

Stuart Nisbett
Chair

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

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

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

Warwick Keneally

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

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

Peter Shear

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

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

Mike Adams (resigned 9 December 2021)

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

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

PRINCIPAL ACTIVITIES

Fort Street Real Estate Fund I, Fort Street Real Estate Fund II, and Fort Street Real Estate Fund III (together, **Funds**) are unlisted managed investment schemes registered in Australia. E&P Investments Limited, the responsible entity of the Funds, is incorporated and domiciled in Australia. The registered office and principal place of business of the responsible entity is located at Level 32, 1 O'Connell Street, Sydney, New South Wales 2000.

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

REVIEW OF FINANCIAL RESULTS AND OPERATIONS

The Stapled Group implemented a series of liquidity initiatives during the year with withdrawal offers totalling over $510 million, being mostly funded from placements totalling $418 million (of which $408.4 million was provided by ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**)).

- 59,908,240 stapled securities were redeemed on 4 August 2021 at $1.59 per stapled security totalling $95 million paid on 6 August 2021. This redemption was funded from proceeds from the sale of 241 O'Riordan Street, Mascot which settled on 9 July 2021 for $145.9 million (net proceeds). 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.
- 198,795,180 stapled securities were redeemed on 18 February 2022 at $1.66 per stapled security totalling $330 million paid on 22 February 2022. This redemption was fully funded from the placement proceeds from IRAPT and Tarawa Pty Ltd (**Tarawa**), pursuant to a conditional placement agreement entered into on 17 December 2021 (the **Proposal**). The Proposal was conditional on the approval of constitutional amendments by special resolution and receiving the minimum withdrawal requests of $240 million. Following the satisfaction of the two condition precedents, 187,134,502 stapled securities and 5,847,953 stapled securities were issued to IRAPT and Tarawa on 18 February 2022 at $1.71 per stapled security, respectively.
- A final withdrawal offer was opened on 17 June 2022 with a closing date of 8 July 2022 to enable securityholders to fully exit their remaining investment in the Stapled Group. IRAPT committed to subscribe for the same number of stapled securities as the total of all withdrawal offer acceptances. The maximum stapled securities that could be redeemed under the offer was 53,928,711, being the stapled securities not already held by IRAPT and those not held by Tarawa. For further information, refer to matters subsequent to reporting period below.

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. At 30 June 2022, the supermarkets and more than half of the specialty tenants were open and trading. A full roof replacement project is underway with a target date for completion of January 2023. 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.

a) Financial results for the year

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

	2022	2021
Results		
Total income ($)	**88,039,398**	65,746,124
Total expense ($)	**(36,451,214)**	(32,277,704)
Net operating profit	**51,588,184**	33,468,420

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

	2022	2021
Distributions		
Cash distributions FSREC Fund I pre stapling (cents per unit)	-	1.29
Cash distributions post stapling (cents per stapled security)	**8.00**	5.58
	8.00	6.87
Net asset value		
Net asset value ($ per stapled security)	**1.84**	1.64

b) Performance returns

	2022 %	2021 %
Growth return (a)	**12.20**	4.46
Distribution return (b)	**4.87**	4.32
Total return (c)	**17.07**	8.78

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

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

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

DISTRIBUTIONS

Distributions declared during the financial year were as follows:

	2022 $
2.00 cents per stapled security for the period ended 30 September 2021 paid on 2 November 2021	**5,054,478**
2.00 cents per stapled security for the period ended 31 December 2021 paid on 4 February 2022	**5,054,478**
2.00 cents per stapled security for the period ended 31 March 2022 paid on 6 May 2022	**4,938,223**
2.00 cents per stapled security for the period ended 30 June 2022 paid on 5 August 2022	**4,938,222**
	19,985,401

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

FUTURE DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

OPTIONS

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

INDEMNITIES AND INSURANCE

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

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

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

ENVIRONMENTAL REGULATION

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

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

INTERESTS HELD BY THE RESPONSIBLE ENTITY AND DIRECTORS

The number of stapled securities in the Stapled Group held by the Responsible Entity, their related parties and Directors at the date of this report are disclosed in Note 22 to the financial statements.

INTERESTS IN THE FUND

The movement in stapled securities in the Stapled Group on issue in the Fund during the financial year is disclosed in Note 14 of the financial statements.

FEES PAID TO THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity and its associates out of Stapled Group assets during the financial year are disclosed in Note 22 of the financial statements.

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

APPLICATION OF ASIC ORDER

The financial report of FSREC Property Fund is presented in accordance with an ASIC Order 21-0740 issued on 14 September 2021 (**Relief Instrument**). The Relief Instrument allows the 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 aggregates 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 for the year ended 30 June 2021, wherein FSREC Fund I consolidates the financial results of FSREC Fund II and FSREC Fund III from the effective date of 31 December 2020, following the implementation of the restructure on 23 December 2020.

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

MATTERS SUBSEQUENT TO REPORTING PERIOD

On 16 June 2022, a withdrawal offer at a redemption price of $1.78 was announced to enable investors to fully exit their remaining investment in the Stapled Group, to be funded from a placement with IRAPT, the majority investor of the Stapled Group.

The maximum stapled securities that could be redeemed under the offer was 53,928,711, being the stapled securities not owned by either IRAPT or Tarawa. The offer closed on 8 July 2022 with 48,077,253 stapled securities taking up the offer. Accordingly the Stapled Group redeemed 48,077,253 stapled securities on 20 July 2022, and redemptions of $85,520,596 were paid on 25 July 2022 and $56,915 on 13 September 2022.

On 20 July 2022, the Stapled Group issued 48,045,278 stapled securities to IRAPT at an application price of $1.84 per stapled security, in accordance with the respective constitutions, totalling $88,403,313.

No other matter or circumstance has arisen since 30 June 2022 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 298(2)(a) of the *Corporations Act 2001*.

On behalf of the Directors

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

14 September 2022


Lynbrook
Toormina
Gardens
entry
coles
northpoint

AUDITOR'S INDEPENDENCE DECLARATION

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

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

The Board of Directors
E&P Investments Limited as Responsible Entity for:
Fort Street Real Estate Capital Fund I
Fort Street Real Estate Capital Fund II and
Fort Street Real Estate Capital Fund III
Level 32, 1 O'Connell Street
Sydney, NSW 2000

14 September 2022

Dear Board Members

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

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

As lead audit partner for the audit of the financial statements of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III for the financial year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants

FSREC PROPERTY FUND FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	NOTE	2022 $	2021 $
Revenue			
Rental income		**48,117,842**	38,147,965
Other property income		**11,491,689**	6,887,260
Finance income	4	**1,910**	1,575
Fair value movement of investment properties	11	**28,427,957**	20,709,324
Total revenue		**88,039,398**	65,746,124
Expenses			
Investment property expenses		**(20,267,950)**	(16,206,290)
Finance expense	5	**(7,559,991)**	(7,923,726)
Responsible entity and trustee fees	22	**(1,755,433)**	(1,238,260)
Management fees	22	**(5,596,569)**	(4,414,207)
Accounting and audit fees		**(462,344)**	(264,470)
Other expenses	6	**(808,927)**	(2,230,751)
Total expenses		**(36,451,214)**	(32,277,704)
Profit before income tax expense		**51,588,184**	33,468,420
Income tax expense		**-**	-
Profit after income tax expense for the year		**51,588,184**	33,468,420
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Effective portion of changes in fair value of cash flow hedge	5	**8,955,538**	3,930,941
Other comprehensive income for the year, net of tax		**8,955,538**	3,930,941
Total comprehensive income for the year		**60,543,722**	37,399,361
Profit for the year is attributable to:			
Ordinary securityholders of the Stapled Group			
- Unitholders of FSREC Fund I		**33,305,436**	26,190,840
- Unitholders of FSREC Fund II and FSREC Fund III		**18,281,269**	7,276,874
Other non-controlling interest		**1,479**	706
		51,588,184	33,468,420
Total comprehensive income for the year is attributable to:			
Ordinary securityholders of the Stapled Group			
- Unitholders of FSREC Fund I		**42,150,010**	28,489,133
- Unitholders of FSREC Fund II and FSREC Fund III		**18,392,233**	8,909,522
Other non-controlling interest		**1,479**	706
		60,543,722	37,399,361
		CENTS	CENTS
Basic earnings per stapled security	7	**20.12**	15.90
Diluted earnings per stapled security	7	**20.12**	15.90

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	NOTE	2022 $	2021 $
Assets			
Current assets			
Cash and cash equivalents	8	**9,767,945**	5,225,226
Trade and other receivables	10	**2,036,951**	2,334,250
Investment properties held for sale	11	-	145,850,000
Derivative financial instruments		**1,627,246**	-
Prepayments		**1,225,509**	1,341,521
Total current assets		**14,657,651**	154,750,997
Non-current assets			
Investment properties	11	**703,700,000**	666,050,000
Derivative financial instruments		**4,084,695**	-
Total non-current assets		**707,784,695**	666,050,000
Total assets		**722,442,346**	820,800,997
Liabilities			
Current liabilities			
Trade and other payables	12	**8,354,319**	9,813,389
Derivative financial instruments		-	2,603,259
Distribution payable		**4,945,835**	6,282,671
Total current liabilities		**13,300,154**	18,699,319
Non-current liabilities			
Borrowings	13	**255,605,363**	288,445,892
Derivative financial instruments		-	1,738,229
Total non-current liabilities		**255,605,363**	290,184,121
Total liabilities		**268,905,517**	308,883,440
Net assets		**453,536,829**	511,917,557
Equity			
Issued capital	14	**176,925,327**	224,950,867
Cash flow hedge reserve	15	**6,168,147**	(2,676,427)
Retained profits		**51,340,436**	28,648,973
Equity attributable to unitholders of FSREC Fund I		**234,433,910**	250,923,413
Total equity attributable to other members of the Stapled Group – FSREC Fund II and FSREC Fund III		**219,079,609**	260,971,018
Other non-controlling interest	16	**23,310**	23,126
Total equity		**453,536,829**	511,917,557

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	EQUITY ATTRIBUTABLE TO OTHER MEMBERS - FSREC FUND II AND FSREC FUND III $	OTHER NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2020	154,216,469	(4,974,720)	8,981,079	-	-	158,222,828
Profit after income tax expense for the year	-	-	26,190,840	7,276,874	706	33,468,420
Other comprehensive income for the year, net of tax	-	2,298,293	-	1,632,648	-	3,930,941
Total comprehensive income for the year	-	2,298,293	26,190,840	8,909,522	706	37,399,361
Acquisition of FSREC Fund IV	70,734,398	-	-	-	14,732	70,749,130
Stapling with FSREC Fund II	-	-	-	107,120,664	-	107,120,664
Stapling with FSREC Fund III	-	-	-	157,159,287	25,026	157,184,313
Distributions paid to NCI	-	-	-	-	(17,338)	(17,338)
Transactions with securityholders in their capacity as securityholders:						
Distributions declared	-	-	(6,522,946)	(12,218,455)	-	(18,741,401)
Balance at 30 June 2021	**224,950,867**	**(2,676,427)**	**28,648,973**	**260,971,018**	**23,126**	**511,917,557**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	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 year	-	-	33,305,436	18,281,269	1,479	51,588,184
Other comprehensive income for the year, net of tax	-	8,844,574	-	110,964	-	8,955,538
Total comprehensive income for the year	-	8,844,574	33,305,436	18,392,233	1,479	60,543,722
Distributions paid to other non-controlling interest	-	-	-	-	(1,295)	(1,295)
Transactions with securityholders in their capacity as securityholders:						
Issue of stapled securities (Note 14)	169,432,707	-	-	160,567,293	-	330,000,000
Issue costs (Note 14)	(1,720,357)	-	-	(1,630,341)	-	(3,350,698)
Redemption of stapled securities (Note 14)	(215,571,057)	-	-	(209,683,044)	-	(425,254,101)
Redemption costs (Note 14)	(166,833)	-	-	(166,122)	-	(332,955)
Distributions declared (Note 17)	-	-	(10,613,973)	(9,371,428)	-	(19,985,401)
Balance at 30 June 2022	**176,925,327**	**6,168,147**	**51,340,436**	**219,079,609**	**23,310**	**453,536,829**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	NOTE	2022 $	2021 $
Cash flows from operating activities			
Rental and other income received		**59,790,140**	49,992,369
Interest income received		**1,952**	1,599
Finance costs		**(5,048,238)**	(7,836,659)
Payments to suppliers		**(33,798,422)**	(29,142,196)
Net cash from operating activities	9	**20,945,432**	13,015,113
Cash flows from investing activities			
Receipt of insurance proceeds	11	**4,160,115**	-
Proceeds from disposal of investment property		**145,850,000**	-
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
Payments for capital expenditure		(10,204,356)	(2,882,448)
Net cash from investing activities		**139,805,759**	4,104,933
Cash flows from financing activities			
Gross proceeds from borrowings		**14,000,000**	1,350,000
Issue of stapled securities		**330,000,000**	-
Payments of transaction costs relating to borrowings		**(56,448)**	(2,255,091)
Redemption costs		**(332,955)**	-
Payment of early termination of swap contract		**(2,390,738)**	-
Issue costs		**(3,350,698)**	-
Distributions paid		**(21,323,532)**	(13,582,158)
Repayment of borrowings		**(47,500,000)**	-
Payment of redemption of stapled securities		**(425,254,101)**	-
Net cash used in financing activities		**(156,208,472)**	(14,487,249)
Net increase in cash and cash equivalents		**4,542,719**	2,632,797
Cash and cash equivalents at the beginning of the financial year		**5,225,226**	2,592,429
Cash and cash equivalents at the end of the financial year	8	**9,767,945**	5,225,226

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

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


Lynbrook
Toormina
Gardens
entry
coles
northpoint

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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.

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 (**Responsible Entity**) takes responsibility for the financial report of these entities. The financial statements were authorised for issue by the board of directors of the Responsible Entity on 14 September 2022. Directors have the power to amend and reissue the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The comparative period is the year from 1 July 2020 to 30 June 2021.

New or amended Accounting Standards and Interpretations adopted

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

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 consolidated financial statements and accompanying notes for the comparative year ended 30 June 2021 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.

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

Functional and presentation currency

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

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

Removal of parent entity financial statements

The Stapled Group has applied amendments to the *Corporations Act 2001* that remove the requirement for the Stapled Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 21.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Stapled Group and the results of all subsidiaries for the reporting period.

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

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

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

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

Revenue

Interest income

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

Rental income

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

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

Taxes

i. Income tax

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

ii. Goods and Services Tax (GST)

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

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

Earnings per stapled security

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

Financial instruments

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

i. Financial assets

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

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

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

ii. Financial liabilities

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

iii. Derecognition

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

iv. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on the bid price for all quoted investments in an active market. Valuation techniques are applied to determine the fair value for all unlisted securities and securities in markets that are not active, including recent arm's length transactions, and reference to similar instruments and valuation techniques commonly used by market participants. At 30 June 2022, the fair value of financial assets and financial liabilities approximates their carrying value.

v. Derivative financial instruments

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

Derivative financial instruments are stated at fair value.

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

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

Investment properties

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

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

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

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

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

Cash and cash equivalents

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

Receivables

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

Impairment of assets

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

Borrowings

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

Trade and other payables

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

Provisions

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

Fair value measurement

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

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

Unit capital

i. Ordinary units

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

ii. Distribution to securityholders

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

Business combinations

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

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

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

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

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

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

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

Accounting Standards and Interpretations issued but not yet effective

New standards, amendments to standards and interpretations that are effective for annual reporting periods beginning on or after 1 July 2022 have not been early adopted in preparing these financial statements. There are no standards that are not yet effective and that are expected to have a material impact on the Stapled Group.

3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Stapled Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

a) Fair value assessment of investment properties

Investment properties are carried at fair value. Refer to Note 11 for further details.

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

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

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

b) Expected credit losses

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

4. FINANCE INCOME

	2022 $	2021 $
Finance income - interest income from bank deposits	**1,910**	1,575

5. FINANCE EXPENSES

	2022 $	2021 $
Recognised directly in profit or loss		
Interest expense on financial liabilities measured at amortised cost	**1,998,752**	1,653,851
Interest expense on cash flow hedge	**2,932,841**	3,906,125
Other finance costs - including facility line fees and amortisation of loan establishment costs	**2,628,398**	2,363,750
Finance expense recognised directly in profit or loss	**7,559,991**	7,923,726
Recognised in other comprehensive income		
Net gains on cash flow hedge for the year:		
- Realised losses transferred to profit or loss	**2,932,841**	3,906,125
- Unrealised gains on cash flow hedge	**6,022,697**	24,816
Net gains on interest rate swaps recognised in other comprehensive income	**8,955,538**	3,930,941

6. OTHER EXPENSES

	2022 $	2021 $
Legal and compliance costs	**152,565**	195,356
Due diligence expense	**906**	6,404
Other operating expenses	**655,456**	375,780
Professional fees	-	1,653,211
	808,927	2,230,751

7. EARNINGS PER STAPLED SECURITY

	2022 $	2021 $
Profit after income tax	**51,588,184**	33,468,420
Other non-controlling interest	**(1,479)**	(706)
Profit after income tax attributable to the securityholders of FSREC Property Fund	**51,586,705**	33,467,714
	NUMBER	**NUMBER**
Weighted average number of securities used in calculating basic earnings per stapled security	**256,366,381**	210,471,284
Weighted average number of securities used in calculating diluted earnings per stapled security	**256,366,381**	210,471,284
	CENTS	**CENTS**
Basic earnings per stapled security	**20.12**	15.90
Diluted earnings per stapled security	**20.12**	15.90

8. CASH AND CASH EQUIVALENTS

	2022 $	2021 $
Current assets		
Cash at bank	**9,767,945**	5,225,226

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

At 30 June 2022, the Stapled Group had available $42,384,000 (2021: $23,884,000) of an undrawn committed borrowing facility. Details of the borrowing facility are set out in Note 13.

9. CASH FLOW INFORMATION

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

	2022 $	2021 $
Profit after income tax expense for the year	**51,588,184**	33,468,420
Adjustments for:		
Fair value movement of properties	**(28,427,957)**	(20,709,324)
Rental straight-lining, tenant incentives and other adjustments	**(3,328,009)**	(999,260)
Amortisation of borrowing costs	**715,919**	470,935
Amortisation of early swap termination	**1,292,847**	-

	2022 $	2021 $
Change in operating assets and liabilities:		
Decrease in receivables	**665,600**	1,118,289
Decrease/(increase) in prepayments	**116,012**	(110,729)
(Decrease) in payables	**(1,677,164)**	(223,218)
Net cash from operating activities	**20,945,432**	13,015,113

b) Net debt reconciliation

	2022 $	2021 $
Reconciliation of net debt movements		
Secured bank loan balance at the beginning of the year	**288,445,892**	93,941,923
Changes from financing cash flows:		
Proceeds from borrowings	**14,000,000**	1,350,000
Repayment of borrowings	**(47,500,000)**	-
Payment of transaction costs	**(56,448)**	(2,255,091)
Non-cash changes:		
Amortisation of borrowing costs	**715,919**	470,935
Additions to borrowings through the acquisition of FSREC Fund IV and stapling with FSREC Fund II and FSREC Fund III	-	194,938,125
Secured bank loan balance as at the end of the year	**255,605,363**	288,445,892

10. TRADE AND OTHER RECEIVABLES

	2022 $	2021 $
Current assets		
Rental and outgoing receivables	**2,656,897**	4,340,760
Less: allowance for expected credit losses	**(1,066,017)**	(2,006,552)
	1,590,880	2,334,208
Interest receivable	-	42
Receivable from insurers	**368,301**	-
GST receivable	**77,770**	-
	2,036,951	2,334,250

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

Receivable from insurers comprises of capital spent on rectification works to be reimbursed by insurers in relation to Toormina Gardens. Refer to Note 11 for further information on investment properties.

	2022 $	2021 $
Ageing of rental and outgoing receivables		
Current (0 - 30 days)	**1,414,813**	2,459,773
31 - 60 days	**247,808**	482,805
61 - 90 days	**211,023**	239,173
90 + days	**783,253**	1,159,009
	2,656,897	4,340,760

As at 30 June 2022, the total unpaid rental and outgoings balance of $2,656,897 was recognised as rental income and a corresponding rental and outgoings receivable was also recognised. An equivalent ECL provision of $1,066,017 (2021: $2,006,552) has been recognised in relation to the balance of the rental and outgoings receivable that is not expected to be recovered.

11. INVESTMENT PROPERTIES

	2022 $	2021 $
Disclosed in Condensed Consolidated Statement of Financial Position as:		
Current assets		
Investment properties held for sale	-	145,850,000
	-	145,850,000
Non-current assets		
Investment properties - at fair value	**703,700,000**	666,050,000
	703,700,000	811,900,000
Movement in investment properties - at fair value		
Carrying amount of investment properties at beginning of year	**666,050,000**	256,050,000
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	**5,894,034**	3,361,812
Rental straight-lining, tenant incentives and other adjustments	**3,328,009**	1,178,864
Fair value movement	**28,427,957**	20,709,324
Reclassification to investment properties held for sale	-	(145,850,000)
Carrying amount of investment properties at end of year	**703,700,000**	666,050,000

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 30 June 2022.

Fair value

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

The 30 June 2022 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 5.25% - 6.25%) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.00% - 6.75%) 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.

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 30 June 2022, the Stapled Group has spent $4.6 million for rectification works for Toormina Gardens, of which $4.2 million progress payments had been received from insurers and $0.4 million was receivable at period end. Rectification works covered from insurers are not capitalised as investment property.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair value adopted at 30 June 2022, based on a range of potential capitalisation rate movements on the Stapled Group's investment property as compared to the capitalisation rate adopted at 30 June 2022. Capitalisation rate is considered to be one of the key unobservable inputs that would have a material impact on the fair value adopted if they moved. An increase or decrease of 0.25% to the capitalisation rate adopted at 30 June 2022 would result in a change in the portfolio valuation, by a decrease of $30.1 million or an increase of $32.9 million.

A sensitivity analysis has also been performed by adjusting net operating income by 5%. An increase in net operating income by 5% is expected to have a $36.3 million increase in fair value of the investment property, while a 5% decrease is expected to have a $36.3 million decrease in value.

Refer to Note 18 for further information on fair value measurement.

Leasing arrangements

Investment properties are leased to tenants under operating leases for a term of generally 20 years for major tenants and 5 to 7 years for all other tenants. Rental income is payable monthly in advance. The minimum lease payments receivable on investment property leases are as follows:

Minimum lease payments

	2022 $	2021 $
Minimum lease payments receivable but not recognised in the financial statements:		
Within one year	**50,966,628**	52,602,193
One to five years	**135,079,205**	149,814,447
More than five years	**48,411,268**	65,144,399
	234,457,101	267,561,039

12. TRADE AND OTHER PAYABLES

	2022 $	2021 $
Current liabilities		
Trade payables	**1,518,224**	3,466,807
Accrued liabilities	**4,422,837**	3,359,122
Contract liabilities (deferred income)	**1,839,823**	2,243,158
GST payable	**573,435**	699,753
Other liabilities	-	44,549
	8,354,319	9,813,389

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

Refer to Note 19 for further information on financial instruments.

13. BORROWINGS

	2022 $	2021 $
Non-current liabilities		
Secured bank loan - net of borrowing costs	**255,605,363**	288,445,892

Refer to Note 19 for further information on financial instruments.

Financing arrangements

As at 30 June 2022, the Stapled Group had a $300 million loan facility (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 11 for further information on the Mascot settlement.

As at 30 June 2022, the Stapled Group's facility is as follows:

	2022 $	2021 $
Total facilities		
Secured bank loan facilities	**300,000,000**	315,000,000
Used at the reporting date		
Secured bank loan facilities	**257,616,000**	291,116,000
Unused at the reporting date		
Secured bank loan facilities	**42,384,000**	23,884,000

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 $136.0 million (2021: $134.7 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (3 month) on the notional amount. At 30 June 2022, after taking into account the remaining interest rate swaps, 52.8% (2021: 46.4%) of the Stapled Group's borrowings are hedged. The Stapled Group's average cost of drawn debt is approximately 3.03% (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 $703.7 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 the financial year.

14. ISSUED CAPITAL

	2022 UNITS*	2021 UNITS*	2022 $	2021 $
Balance at the beginning of the period	**312,632,131**	100,506,038	**224,950,867**	154,216,469
Issue of units in relation to the acquisition of FSREC Fund IV	-	45,483,257	-	70,734,398
Issue of units to equalise with FSREC Fund II upon stapling	-	68,326,036	-	-
Issue of units to equalise with FSREC Fund III upon stapling	-	98,316,800	-	-
Redemption of stapled securities at $1.59 per stapled security	**(59,908,239)**	-	**(46,138,350)**	-
Redemption of stapled securities at $1.66 per stapled security	**(198,795,180)**	-	**(169,432,707)**	-
Issue of stapled securities at $1.71 per stapled security	**192,982,455**	-	**169,432,707**	-
Redemption costs	-	-	**(166,833)**	-
Issue costs	-	-	**(1,720,357)**	-
	246,911,167	312,632,131	**176,925,327**	224,950,867

*Total stapled securities of the Stapled Group at 30 June 2022 are 246,911,167 (2021: 312,632,131) with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

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

Capital risk management

The Stapled Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of the Stapled Group consists of issued capital net of issue costs amounting to $176,925,327 (2021: $224,950,867).

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

The debt to equity ratio at 30 June 2022 was 56.36% (2021: 56.35%).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2022, the gearing ratio of total amount drawn of $257,616,000 (2021: $291,116,000) to the total value of investment properties of $703,700,000 (2021: $666,050,000) was 36.61% (2021: 35.86%).

15. CASH FLOW HEDGE RESERVE

	2022 $	2021 $
Cash flow hedge reserve	**6,168,147**	(2,676,427)

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 and previous financial year are set out below:

	Total $
Balance at 1 July 2020	**(4,974,720)**
Unrealised losses on cash flow hedge reserve	(1,607,832)
Realised losses transferred to profit or loss as finance expense	3,906,125
Balance at 30 June 2021	**(2,676,427)**
Unrealised gains on cash flow hedge reserve	5,911,733
Realised losses transferred to profit or loss as finance expense	2,932,841
Balance at 30 June 2022	**6,168,147**

16. OTHER NON-CONTROLLING INTEREST

	2022 $	2021 $
Issued capital	**50,000**	50,000
Retained profis	**(26,690)**	(26,874)
	23,310	23,126

The non-controlling interest had a 0.02% (2021: 0.02%) equity holding in Australian Property Opportunities Trust III and 0.03% (2021: 0.03%) in Fort Street Real Estate Capital Trust IV at balance date.

17. DISTRIBUTIONS

Distributions declared during the financial year were as follows:

	2022 $
2.00 cents per stapled security for the period ended 30 September 2021 paid on 2 November 2021	**5,054,478**
2.00 cents per stapled security for the period ended 31 December 2021 paid on 4 February 2022	**5,054,478**
2.00 cents per stapled security for the period ended 31 March 2022 paid on 6 May 2022	**4,938,223**
2.00 cents per stapled security for the period ended 30 June 2022 paid on 5 August 2022	**4,938,222**
	19,985,401

18. 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

2022	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets				
Investment properties	-	-	703,700,000	703,700,000
Cash flow hedge	-	5,711,941	-	5,711,941
Total assets	-	**5,711,941**	**703,700,000**	**709,411,941**

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

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 13 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 swaps at the reporting date was an asset of $5,711,941 (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 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.

19. FINANCIAL INSTRUMENTS

Financial risk management objectives

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

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

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

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

Market risk

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

Interest rate risk

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

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

	2022 WEIGHTED AVERAGE INTEREST RATE	2022 BALANCE $	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $
Cash and cash equivalents	**0.56%**	**9,767,945**	0.02%	5,225,226
Exposed debt not covered by swap instruments	**0.78%**	**(121,616,000)**	1.00%	(156,891,000)
Net exposure to cash flow interest rate risk		**(111,848,055)**		(151,665,774)

Sensitivity analysis

The following sensitivity analysis shows the effect on the Stapled Group's profit or loss, and equity and has been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 50 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant. As shown in Note 13, the interest rate exposure in respect of the Stapled Group's borrowings is 52.8% hedged.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
2022	BASIS POINTS CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY	BASIS POINTS CHANGE	EFFECT ON PROFIT BEFORE TAX	EFFECT ON EQUITY
Cash and cash equivalents	50	48,840	48,840	(50)	(48,840)	(48,840)
Cash flow hedge	50	-	1,058,259	(50)	-	(1,071,792)
Exposed debt not covered by swap instruments	50	(608,080)	(608,080)	(50)	608,080	608,080
		(559,240)	**499,019**		**559,240**	**(512,552)**
2021						
Cash and cash equivalents	50	26,126	26,126	(50)	(26,126)	(26,126)
Cash flow hedge	50	-	877,094	(50)	-	(887,508)
Exposed debt not covered by swap instruments	50	(784,455)	(784,455)	(50)	784,455	784,455
		(758,329)	**118,765**		**758,329**	**(129,179)**

Credit risk

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

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

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

	2022 $	2021 $
Summary of exposure		
Cash and cash equivalents	**9,767,945**	5,225,226
Trade and other receivables	**2,036,951**	2,334,250
	11,804,896	7,559,476

Cash and cash equivalents

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

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of $1,066,017 (2021: $2,006,552) has been recognised in respect of outstanding amounts at balance date.

Liquidity risk

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

Financing arrangements

Unused borrowing facilities at the reporting date:

	2022 $	2021 $
Secured bank loan facilities	**42,384,000**	23,884,000

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

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

2022	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Non-interest bearing				
Trade payables	1,518,224	-	-	1,518,224
Accrued liabilities	4,422,837	-	-	4,422,837
Contract liabilities (deferred income)	1,839,823	-	-	1,839,823
Distribution payable	4,945,835	-	-	4,945,835
Borrowings	6,906,263	276,989,868	-	283,896,131
Total non-derivatives	**19,632,982**	**276,989,868**	**-**	**296,622,850**

2021	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Non-interest bearing				
Trade payables	3,466,807	-	-	3,466,807
Accrued liabilities	3,359,122	-	-	3,359,122
Contract liabilities (deferred income)	2,243,158	-	-	2,243,158
Other liabilities	44,549	-	-	44,549
Distribution payable	6,268,710	-	-	6,268,710
Borrowings	1,841,692	305,615,932	-	307,457,624
Total non-derivatives	**17,224,038**	**305,615,932**	**-**	**322,839,970**
Derivative financial liabilities				
Cash flow hedge	4,187,427	1,831,120	-	6,018,547
Total derivatives	**4,187,427**	**1,831,120**	**-**	**6,018,547**

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

20. CONTROLLED ENTITIES

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

		OWNERSHIP INTEREST	
NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	2022 %	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%
Controlled entities of Fort Street Real Estate Capital Fund II			
Australian Property Opportunities Trust II	Australia	-	-
APOT II No.1	Australia	-	-
Controlled entities of Fort Street Real Estate Capital Fund III			
Australian Property Opportunities Trust III	Australia	-	-
APOT III No.1 Trust	Australia	-	-

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

21. PARENT ENTITY INFORMATION

During the year ended 30 June 2022, the parent entity of the Stapled Group was Fort Street Real Estate Capital Fund I.

Summarised financial information

	2022 $	2021 $
Summarised statement of financial position		
Current assets	**4,448,733**	499,433
Non-current assets	**218,457,866**	218,107,188
Total assets	**222,906,599**	218,606,621
Current liabilities	**49,010,033**	175,518
Total liabilities	**49,010,033**	175,518
Net assets	**173,896,566**	218,431,103
Summarised statement of profit or loss and other comprehensive income		
Revenue	**15,170,806**	8,839,233
Expenses	**(1,416,507)**	(2,618,347)
Profit after income tax	**13,754,299**	6,220,886
Other comprehensive income	-	-
Total comprehensive income	**13,754,299**	6,220,886
Unitholders' equity in the parent entity		
Issued capital	**176,925,327**	224,950,867
Accumulated losses	**(3,028,761)**	(6,519,764)
Total equity	**173,896,566**	218,431,103

As at 30 June 2022, Fort Street Real Estate Capital I's statement of financial position discloses a deficiency of net current assets of $44,561,300. The deficiency is primarily attributable to amounts payable to FSREC Fund III of $44,981,561 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 Fort Street Real Estate Capital I if such action would cause Fort Street Real Estate Capital I to be unable to pay its debts as and when they fall due and payable.

The parent entity does not have any contingent liabilities, contractual commitments and has not entered into any guarantees during or since the end of the financial year (2021: nil).

22. RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Stapled Group if they have the ability, directly or indirectly, to control or exercise significant influence over the Stapled Group in making financial and operating disclosures. Related parties may be individual or other entities.

Following the placement and redemption on 18 February 2022, the majority security holder and ultimate controlling party of the Stapled Group is ISPT Pty Ltd, as trustee for the ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**).

On 18 February 2022, the ultimate holding company of the Responsible Entity also sold its indirect interests in Fort Street Real Estate Capital Pty Ltd, Fort Street Real Estate Development Pty Ltd, Fort Street Real Estate Leasing Pty Ltd and Fort Street Capital Pty Ltd. These interests were acquired by ISPT Pty Ltd, as trustee for ISPT Retail Australia Property Trust No.2.

The related parties of the Stapled Group with which it had transctions during the year ended 30 June 2022 are as follows:

Related party	Relationship
E&P Investments Limited (**Responsible Entity**) and its associates	Significant influence
Fort Street Real Estate Capital Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Development Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Leasing Pty Ltd	Common ultimate controlling entity
Fort Street Capital Pty Ltd	Common ultimate controlling entity

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 (**Responsible Entity**), 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.

As at 30 June 2022, details of directors who hold stapled securities in FSREC Property Fund for their own benefit or who have an interest in holdings through a third party and the total number of such stapled securities held are listed below:

	2022 STAPLED SECURITIES	2021 STAPLED SECURITIES
Stuart Nisbett	**1,239**	10,000
Warwick Keneally	**20,897**	20,897
Peter Shear	-	-
Mike Adams (resigned 9 December 2021)	-	-
	22,136	30,897

Related party investments in the Stapled Group

As at 30 June 2022, the Responsible Entity or its associates held 873,842 stapled securities (2021: 873,842 stapled securities), representing 0.35% interest (2021: 0.28%) in the Stapled Group.

Distributions paid or payable by the Stapled Group to the Responsible Entity or its associates in the year ended 30 June 2022 was $69,907 (2021: $59,973).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as Responsible Entity of Fort Street Real Estate Fund I and of the other members of the Stapled Group, receives a fee for the performance of its duties under the constitutions. 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 year ended 30 June 2022, $1,683,711 (2021: $1,060,648), exclusive of GST, was paid or payable to the Responsible Entity. Total Responsible Entity fee included in trade and other payables at 30 June 2022 was $147,543 (2021: nil).

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 year ended 30 June 2022, no trustee fee (2021: $122,405), exclusive of GST, was paid or payable to the Trustee. Total Trustee fee included in trade and other payables at 30 June 2021 was nil (2021: nil).

Fund Administration fee

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

For the year ended 30 June 2022, no fund administration fee (2021: $183,739), exclusive of GST, was paid or payable to the Fund Manager. Total Fund Administration fee included in trade and other payables at 30 June 2022 was nil (2021: nil).

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 year ended 30 June 2022, no fund manager fee (2021: $598,883), exclusive of GST, was paid or payable to the Fund Manager. Total Fund Administration fee included in trade and other payables at 30 June 2022 was nil (2021: nil).

Investment Manager fees

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity until 18 February 2022, 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 year ended 30 June 2022, $3,830,498 (2021: $2,847,781) was paid or payable to the Investment Manager. Total Investment Manager fee included in trade and other payables at 30 June 2022 was $393,135 (2021: $389,163).

Fort Street receives Investment Management Fees of 1.25% of the value of the property for acquisitions (exclusive of GST), and 1% of the sale value (as long as the net proceeds exceed the aggregate of the acquisition costs and capital costs for the relevant asset) of the property for disposals (exclusive of GST).

For the year ended 30 June 2022, a disposal fee of $1,497,676 (exclusive of GST) was paid in relation to the sale of 241 O'Riordan Street, Mascot.

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

There were no accrued performance fees for the year ended 30 June 2022 (2021: nil).

Property Manager fee

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

For the year ended 30 June 2022, $1,767,805 (2021: $1,384,066), exclusive of GST, was paid or payable to the Property Manager. Total Property Manager fee included in trade and other payables at 30 June 2022 was $167,469 (2021: $158,580).

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity until 18 February 2022, 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 year ended 30 June 2022, $162,024 (2021: $37,505), exclusive of GST, was paid or payable to the Development Manager. Total Development Manager fee included in trade and other payables at 30 June 2022 was $47,878 (2021: $34,560).

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity until 18 February 2022, 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 year ended 30 June 2022, $667,735 (2021: $656,243), exclusive of GST, was paid or payable to the Leasing Agent. Total Leasing Services fee included in trade and other payables at 30 June 2022 was $345,298 (2021: $315,127).

Debt Advisory fee

Fort Street Capital Pty Ltd, a related party of the Responsible Entity until 18 February 2022, receives a debt arranging fee for assistance in arranging a new debt facility for the Stapled Group. For the Stapled Group's recent refinance of the four debt facilities to a single facility with a longer tenure totalling $315 million, Fort Street Capital Pty Ltd received a fee of 0.3% of the total facility limit.

For the year ended 30 June 2020, no debt advisory fee was paid or payable (2021: $945,000), exclusive of GST. The fee has been capitalised to the costs of borrowings and amortised over the life of the loan.

Legal and Consulting services

MDA1 Pty Limited, trading as MA Law, provides legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director and shareholder of MDA1 Pty Limited, was also a director of the Responsible Entity until 9 December 2021.

For the year ended 30 June 2022, $50,105 (2021: $47,738), exclusive of GST, was paid or payable to MA Law, and are included in the other expenses in the statement of profit or loss and other comprehensive income. Total Legal and consulting services fee to MDA1 Pty Limited included in trade and other payables at 30 June 2022 was nil (2021: $26,368).

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 year ended 30 June 2022, no financial advisory fee was paid or payable to the Financial Advisor (2021: $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 year ended 30 June 2022, $4,823 (2021: $27,879), exclusive of GST, was paid or payable to the Stapled Group.

23. REMUNERATION OF AUDITOR

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

	2022 $	2021 $
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements	**234,000**	187,125
Other services - Deloitte Touche Tohmatsu		
Taxation services	**79,700**	79,700
Other services	**28,228**	109,071
	107,928	188,771
	341,928	375,896

Fees paid to the auditor of the Stapled Group for the year ended 30 June 2021 consolidates the fees of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV from the effective date of 31 December 2020, following the implementation of the Restructure on 23 December 2020.

24. CAPITAL COMMITMENTS

As at reporting date, the Stapled Group committed nil (2021: $3,858,300) in capital commitments for improvements to its existing properties. In addition, $2,894,608 (2021: $1,098,300) was committed for lease incentives arising from lease agreements.

25. CONTINGENT LIABILITIES

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

26. EVENTS AFTER THE REPORTING PERIOD

On 16 June 2022, a withdrawal offer at a redemption price of $1.78 was announced to enable investors to fully exit their remaining investment in the Stapled Group, to be funded from a placement with IRAPT, the majority investor of the Stapled Group.

The maximum stapled securities that could be redeemed under the offer was 53,928,711, being the stapled securities not owned by either IRAPT or Tarawa. The offer closed on 8 July 2022 with 48,077,253 stapled securities taking up the offer. Accordingly the Stapled Group redeemed 48,077,253 stapled securities on 20 July 2022, and redemptions of $85,520,596 were paid on 25 July 2022 and $56,915 on 13 September 2022.

On 20 July 2022, the Stapled Group issued 48,045,278 stapled securities to IRAPT at an application price of $1.84 per stapled security, in accordance with the respective constitutions, totalling $88,403,313.

No other matter or circumstance has arisen since 30 June 2022 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.


Lynbrook
Toormina
Gardens
entry
coles
northpoint

FSREC FUND II AND FSREC FUND III FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

	NOTE	FSREC FUND II 2022 $	FSREC FUND II 2021 $	FSREC FUND III 2022 $	FSREC FUND III 2021 $
Revenue					
Rental income		**13,640,409**	13,007,076	**5,977,399**	14,912,796
Other property income		**2,331,896**	2,195,536	**2,289,927**	2,833,466
Finance income	3	**566**	724	**717**	1,485
Fair value movement of investment properties	10	**10,027,914**	570,793	**(1,832,756)**	1,240,560
Expenses					
Investment property expenses		**(5,678,718)**	(5,580,957)	**(2,323,114)**	(4,959,251)
Finance expense	4	**(1,303,767)**	(1,970,056)	**(1,027,048)**	(4,107,378)
Responsible entity and trustee fees	21	**(474,353)**	(394,822)	**(248,076)**	(514,453)
Management fees	21	**(1,500,950)**	(1,597,744)	**(847,827)**	(2,016,727)
Accounting and audit fees		**(137,213)**	(120,015)	**(95,860)**	(103,687)
Other expenses	5	**(157,157)**	(613,798)	**(360,409)**	(931,375)
Total expenses		**(9,252,158)**	(10,277,392)	**(4,902,334)**	(12,632,871)
Profit before income tax expense		**16,748,627**	5,496,737	**1,532,953**	6,355,436
Income tax expense		**-**	-	**-**	-
Profit after income tax expense for the year		**16,748,627**	5,496,737	**1,532,953**	6,355,436
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Effective portion of changes in fair value of cash flow hedge	4	**110,964**	476,255	**-**	1,869,492
Other comprehensive income for the year, net of tax		**110,964**	476,255	**-**	1,869,492
Total comprehensive income for the year		**16,859,591**	5,972,992	**1,532,953**	8,224,928
Profit for the year is attributable to:					
Non-controlling interest		**-**	-	**311**	1,208
Unitholders of FSREC Fund II and FSREC Fund III		**16,748,627**	5,496,737	**1,532,642**	6,354,228
		16,748,627	5,496,737	**1,532,953**	6,355,436
Total comprehensive income for the year is attributable to:					
Non-controlling interest		**-**	-	**311**	1,208
Unitholders of FSREC Fund II and FSREC Fund III		**16,859,591**	5,972,992	**1,532,642**	8,223,720
		16,859,591	5,972,992	**1,532,953**	8,224,928
		CENTS	CENTS	CENTS	CENTS
Basic earnings per unit	6	**6.53**	2.82	**0.60**	3.04
Diluted earnings per unit	6	**6.53**	2.82	**0.60**	3.04

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

		FSREC FUND II		FSREC FUND III	
	NOTE	2022 $	2021 $	2022 $	2021 $
Assets					
Current assets					
Cash and cash equivalents	7	**3,455,262**	2,180,768	**1,782,970**	949,670
Trade and other receivables	9	**422,257**	614,185	**689,395**	336,722
Investment properties as held for sale	10	**-**	-	**-**	145,850,000
Prepayments		**248,712**	249,469	**43,847**	238,360
Total current assets		**4,126,231**	3,044,422	**2,516,212**	147,374,752
Non-current assets					
Investment properties	10	**194,000,000**	181,050,000	**88,500,000**	90,000,000
Receivable from other FSREC Funds within the Stapled Group		**-**	-	**67,071,299**	-
Total non-current assets		**194,000,000**	181,050,000	**155,571,299**	90,000,000
Total assets		**198,126,231**	184,094,422	**158,087,511**	237,374,752
Liabilities					
Current liabilities					
Trade and other payables	11	**2,445,927**	2,663,764	**814,117**	2,544,509
Derivative financial instruments		**-**	110,964	**-**	-
Distribution payable		**1,564,060**	8,247	**654,023**	6,268,710
Payable to other FSREC Funds within the Stapled Group		**20,878,270**	-	**318,820**	-
Total current liabilities		**24,888,257**	2,782,975	**1,786,960**	8,813,219
Non-current liabilities					
Borrowings	12	**73,270,330**	71,524,228	**37,180,329**	77,369,061
Total non-current liabilities		**73,270,330**	71,524,228	**37,180,329**	77,369,061
Total liabilities		**98,158,587**	74,307,203	**38,967,289**	86,182,280
Net assets		**99,967,644**	109,787,219	**119,120,222**	151,192,472
Equity					
Issued capital	13	**85,265,534**	106,200,663	**131,153,318**	161,130,403
Cash flow hedge reserve	14	**-**	(110,964)	**-**	-
Retained profits		**14,702,110**	3,697,520	**(12,041,353)**	(9,946,604)
Equity attributable to unitholders of FSREC Fund II and FSREC Fund III		**99,967,644**	109,787,219	**119,111,965**	151,183,799
Non-controlling interest	15	**-**	-	**8,257**	8,673
Total equity		**99,967,644**	109,787,219	**119,120,222**	151,192,472

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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

FSREC FUND II	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2021	106,200,663	(110,964)	3,697,520	-	109,787,219
Profit after income tax expense for the year	-	-	16,748,627	-	16,748,627
Other comprehensive income for the year, net of tax	-	110,964	-	-	110,964
Total comprehensive income for the year	-	110,964	16,748,627	-	16,859,591
Transactions with unitholders in their capacity as unitholders:					
Issue of stapled securities (Note 13)	70,902,661	-	-	-	70,902,661
Issue costs (Note 13)	(719,919)	-	-	-	(719,919)
Redemption of stapled securities (Note 13)	(91,046,135)	-	-	-	(91,046,135)
Redemption costs (Note 13)	(71,736)	-	-	-	(71,736)
Distributions declared	-	-	(5,744,037)	-	(5,744,037)
Balance at 30 June 2022	**85,265,534**	**-**	**14,702,110**	**-**	**99,967,644**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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

FSREC FUND III	ISSUED CAPITAL $	CASH FLOW HEDGE RESERVE $	RETAINED PROFITS $	NON-CONTROLLING INTEREST $	TOTAL EQUITY $
Balance at 1 July 2021	161,130,403	-	(9,946,604)	8,673	151,192,472
Profit after income tax expense for the year	-	-	1,532,642	311	1,532,953
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	1,532,642	311	1,532,953
Distributions paid to NCI	-	-	-	(727)	(727)
Transactions with unitholders in their capacity as unitholders:					
Issue of stapled securities (Note 13)	89,664,632	-	-	-	89,664,632
Issue costs (Note 13)	(910,422)	-	-	-	(910,422)
Redemption of stapled securities (Note 13)	(118,636,909)	-	-	-	(118,636,909)
Redemption costs (Note 13)	(94,386)	-	-	-	(94,386)
Distributions declared	-	-	(3,627,391)	-	(3,627,391)
Balance at 30 June 2022	**131,153,318**	**-**	**(12,041,353)**	**8,257**	**119,120,222**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

		FSREC FUND II		FSREC FUND III	
	NOTE	2022 $	2021 $	2022 $	2021 $
Cash flows from operating activities					
Rental and other income received		**17,814,789**	17,036,402	**9,000,939**	20,746,510
Interest income received		**578**	778	**726**	1,711
Payments to suppliers		**(10,400,047)**	(9,913,151)	**(5,944,804)**	(10,787,758)
Finance costs		**(982,935)**	(1,733,917)	**(761,360)**	(3,924,135)
Net cash from operating activities	8	**6,432,385**	5,390,112	**2,295,501**	6,036,328
Cash flows from investing activities					
Proceeds from insurance claims		**-**	-	**4,160,115**	-
Proceeds from disposal of investments		**-**	-	**145,850,000**	-
Payments for capital expenditure		**(2,500,690)**	(1,253,802)	**(5,081,510)**	(936,354)
Net (used in)/cash from investing activities		**(2,500,690)**	(1,253,802)	**144,928,605**	(936,354)
Cash flows from financing activities					
Gross proceeds from borrowings		**1,600,000**	500,000	**7,100,000**	-
Issue of stapled securities		**70,902,661**	-	**89,664,632**	-
Payments of transaction costs relating to borrowings		**(12,118)**	(488,562)	**(18,437)**	(722,064)
Payment of redemption costs		**(71,736)**	-	**(94,386)**	-
Issue costs		**(719,919)**	-	**(910,422)**	-
Distributions paid		**(4,188,224)**	(4,031,770)	**(9,242,805)**	(6,100,509)
Repayment of borrowings		**-**	-	**(47,500,000)**	-
Payment of redemption of stapled securities		**(91,046,135)**	-	**(118,636,909)**	-
Payments to/(receipts from) other FSREC Funds within Stapled Group		**20,878,270**	-	**(66,752,479)**	-
Net cash used in financing activities		**(2,657,201)**	(4,020,332)	**(146,390,806)**	(6,822,573)
Net increase/(decrease) in cash and cash equivalents		**1,274,494**	115,978	**833,300**	(1,722,599)
Cash and cash equivalents at the beginning of the financial year		**2,180,768**	2,064,790	**949,670**	2,672,269
Cash and cash equivalents at the end of the financial year	7	**3,455,262**	2,180,768	**1,782,970**	949,670

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


Lynbrook
Toormina
Gardens
entry
coles
northpoint

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

1. GENERAL INFORMATION

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

The financial statements comprise:

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

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

FSREC Fund II and FSREC Fund III form part of the stapled group, FSREC Property Fund (**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 30 June 2022, FSREC Fund II's statement of financial position discloses a deficiency of net current assets of $20,762,026. The deficiency is primarily attributable to 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 $42,384,000 as at 30 June 2022.

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

3. FINANCE INCOME

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Finance income - interest income from bank deposits	**566**	724	**717**	1,485

4. FINANCE EXPENSE

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Recognised directly in profit or loss				
Interest expense on financial liabilities measured at amortised cost	**575,274**	657,508	**298,640**	884,940
Interest expense on cash flow hedge	**111,327**	518,299	-	1,931,878
Other finance costs - including facility line fees and amortisation of loan establishment costs	**617,166**	794,249	**728,408**	1,290,560
Finance income recognised directly in profit or loss	**1,303,767**	1,970,056	**1,027,048**	4,107,378
Recognised in other comprehensive income				
Net loss on cash flow hedge for the year:				
- Realised losses transferred to profit or loss	**111,327**	518,299	-	1,931,878
- Unrealised losses on cash flow hedge	**(363)**	(42,044)	-	(62,386)
Net gains on interest rate swaps recognised in other comprehensive income	**110,964**	476,255	-	1,869,492

5. OTHER EXPENSES

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Legal and compliance costs	**44,438**	65,406	**44,734**	75,000
Due diligence expense	**302**	3,118	**302**	3,118
Other operating expenses	**112,417**	113,189	**315,373**	234,700
Professional fees	-	432,085	-	618,557
	157,157	613,798	**360,409**	931,375

6. EARNINGS PER UNIT

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Profit after income tax	**16,748,627**	5,496,737	**1,532,953**	6,355,436
Non-controlling interest	-	-	**(311)**	(1,208)
Profit after income tax attributable to the unitholders	**16,748,627**	5,496,737	**1,532,642**	6,354,228
	NUMBER	NUMBER	NUMBER	NUMBER
Weighted average number of units used in calculating basic earnings per stapled unit	**256,366,381**	194,829,740	**256,366,381**	209,291,040
Weighted average number of units used in calculating diluted earnings per stapled unit	**256,366,381**	194,829,740	**256,366,381**	209,291,040
	CENTS	CENTS	CENTS	CENTS
Basic earnings per unit	**6.53**	2.82	**0.60**	3.04
Diluted earnings per unit	**6.53**	2.82	**0.60**	3.04

7. CASH AND CASH EQUIVALENTS

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Current assets				
Cash at bank	**3,455,262**	2,180,768	**1,782,970**	949,670

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

At 30 June 2022, FSREC Fund II and FSREC Fund III had available $42,384,000 of an undrawn committed borrowing facility of the Stapled Group through the Australian Property Opportunities Trust (2021: $23,884,000). Details of the borrowing facility are set out in Note 12.

8. CASH FLOW INFORMATION

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

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Profit after income tax expense for the year	**16,748,627**	5,496,737	**1,532,953**	6,355,436
Adjustments for:				
Fair value movement of investment properties	**(10,027,914)**	(570,793)	**1,832,756**	(1,240,560)
Rental straight-lining, tenant incentives and other adjustments	**(223,000)**	(381,280)	**(139,762)**	376,233
Amortisation of borrowing costs	**158,220**	172,773	**229,705**	253,737
Change in operating assets and liabilities:				
Decrease in receivables	**191,928**	393,160	**15,628**	173,968
Decrease/(increase) in prepayments	**757**	(15,564)	**194,513**	11,608
(Decrease)/increase in payables	**(416,233)**	295,079	**(1,370,292)**	105,906
Net cash from operating activities	**6,432,385**	5,390,112	**2,295,501**	6,036,328

b) Net debt reconciliation

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Reconciliation of net debt movements				
Secured bank loan balance at the beginning of the year	**71,524,228**	71,340,017	**77,369,061**	77,837,388
Changes from financing cash flows:				
Gross proceeds from borrowings	**1,600,000**	500,000	**7,100,000**	-
Repayment of borrowings	**-**	-	**(47,500,000)**	-
Payment of transaction cost	**(12,118)**	(488,562)	**(18,437)**	(722,064)
Non-cash changes:				
Amortisation of borrowing costs	**158,220**	172,773	**229,705**	253,737
Secured bank loan balance as at the end of the year	**73,270,330**	71,524,228	**37,180,329**	77,369,061

9. TRADE AND OTHER RECEIVABLES

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Current assets				
Rental and outgoing receivables	**705,560**	816,402	**417,969**	564,769
Less: allowance for expected credit losses	**(283,303)**	(202,229)	**(174,645)**	(228,056)
	422,257	614,173	**243,324**	336,713
Interest receivable	-	12	-	9
Receivable from insurers	-	-	**368,301**	-
GST receivable	-	-	**77,770**	-
	422,257	614,185	**689,395**	336,722

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

Receivable from insurers comprises of capital spent on rectification works to be reimbursed by insurers in relation to Toormina Gardens. Refer to Note 10 for further information on investment properties.

	FSREC FUND II		FSREC FUND III	
	2021 $	2021 $	2021 $	2021 $
Ageing of rental and outgoing receivables				
Current (0 - 30 days)	**372,720**	466,079	**219,782**	500,886
31 - 60 days	**70,965**	165,800	**44,525**	27,486
61 - 90 days	**53,868**	21,528	**51,050**	16,210
90 + days	**208,007**	162,995	**102,612**	20,187
	705,560	816,402	**417,969**	564,769

As at 30 June 2022, total unpaid rental and outgoings balance of $705,560 for FSREC Fund II and $417,969 for FSREC Fund III was recognised. An equivalent ECL provision of $283,303 for FSREC Fund II and $174,645 for FSREC Fund III (2021: $202,229 for FSREC Fund II and $228,056 for FSREC Fund III) has been recognised in relation to the balance of the rental and outgoings receivable that is not expected to be recovered.

10. INVESTMENT PROPERTIES

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Disclosed in Condensed Consolidated Statement of Financial Position as:				
Current assets				
Investment properties held for sale	-	-	-	145,850,000
Non-current assets				
Investment properties - at fair value	**194,000,000**	181,050,000	**88,500,000**	90,000,000
	194,000,000	181,050,000	**88,500,000**	235,850,000
Movement in investment properties - at fair value				
Carrying amount of investment properties at beginning of year	**181,050,000**	178,600,000	**90,000,000**	233,750,000
Capital expenditure	**2,699,086**	1,497,927	**192,994**	1,235,673
Rental straight-lining, tenant incentives and other adjustments	**223,000**	381,280	**139,762**	(376,233)
Fair value movement	**10,027,914**	570,793	**(1,832,756)**	1,240,560
Reclassified to investment properties held for sale	-	-	-	(145,850,000)
Carrying amount of investment properties at end of year	**194,000,000**	181,050,000	**88,500,000**	90,000,000

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 30 June 2022.

Fair value

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

The 30 June 2022 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 5.25% - 5.75% for FSREC Fund II and 6.25% 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 6.00% - 6.50% for FSREC Fund II and 6.75% 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.

The fair value of Toormina Gardens, the investment property of FSREC Fund III, takes into account the impact of the significant hailstorm in late October 2021, which substantially damaged the 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 30 June 2022, FSREC Fund III has spent $4.6 million for rectification works for Toormina Gardens, of which $4.2 million progress payments had been received from insurers and $0.4 million was receivable at period end. Rectification works covered from insurers are not capitalised as investment property.

Due to the impact that the COVID-19 pandemic could have on valuations of investment properties, sensitivity analysis has been performed on the fair value adopted at 30 June 2022, based on a range of potential capitalisation rate movements on the FSREC Fund II's and FSREC Fund III's investment property as compared to the capitalisation rate adopted at 30 June 2022. Capitalisation rate is considered to be one of the key unobservable inputs that would have a material impact on the fair value adopted if they moved. An increase or decrease of 0.25% to the capitalisation rate adopted at 30 June 2022 would result in a change in the portfolio valuation, by a decrease of $8.6 million or an increase of $9.5 million for FSREC Fund II and a decrease of $3.4 million or an increase of $3.7 million for FSREC Fund III.

A sensitivity analysis has also been performed by adjusting net operating income by 5%. An increase in net operating income by 5% is expected to have a $10.0 million for FSREC Fund II and $4.7 million for FSREC Fund III increase in fair value of the investment property, while a 5% decrease is expected to have a $10.0 million for FSREC Fund II and $4.7 million for FSREC Fund III decrease in value.

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

Leasing arrangements

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

Minimum lease payments

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Minimum lease payments receivable but not recognised in the financial statements:				
Within one year	**13,700,141**	14,194,492	**6,665,155**	7,399,571
One to five years	**40,692,990**	39,925,077	**14,376,250**	17,893,231
More than five years	**18,577,960**	22,970,049	**2,096,804**	3,800,794
	72,971,091	77,089,618	**23,138,209**	29,093,596

11. TRADE AND OTHER PAYABLES

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Current liabilities				
Trade payables	**136,665**	996,136	**86,359**	698,685
Accrued liabilities	**1,352,897**	782,754	**433,653**	1,103,170
Contract liabilities (deferred income)	**720,792**	723,497	**294,105**	505,179
GST payable	**235,573**	161,377	-	237,475
	2,445,927	2,663,764	**814,117**	2,544,509

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

Refer to Note 18 for further information on financial instruments.

12. BORROWINGS

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Non-current liabilities				
Secured bank loan - net of borrowing costs	**73,270,330**	71,524,228	**37,180,329**	77,369,061

Refer to Note 18 for further information on financial instruments.

Financing arrangements

As at 30 June 2022, the Stapled Group had a $300 million loan facility (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.

As at 30 June 2022, FSREC Fund II & FSREC Fund III had a combined $42.4 million (2021: $23.9 million) available to be borrowed from the Stapled Group's loan facility.

On 16 September 2021, FSREC Fund II's $32 million interest rate swap contract matured, therefore at 30 June 2022, FSREC Fund II's borrowings are currently not hedged (2021: 44% hedged).

The average cost of drawn debt is approximately 1.80% for FSREC Fund II and 3.22% for FSREC Fund III (excluding costs relating to undrawn debt) (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 $194.0 million and $88.5 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 the financial year.

13. ISSUED CAPITAL

	FSREC FUND II			
	2022 UNITS*	2021 UNITS*	2022 $	2021 $
Balance at the beginning of the year	**312,632,131**	68,644,678	**106,200,663**	106,200,663
Conversion of units on issue on a 0.9954 for 1 basis	-	(318,642)	-	-
Issue of units to equalise with FSREC Fund I upon stapling	-	145,989,295	-	-
Issue of units to equalise with FSREC Fund III upon stapling	-	98,316,800	-	-
Redemption of stapled securities at $1.59 per stapled security	**(59,908,239)**	-	**(20,143,474)**	-
Redemption of stapled securities at $1.66 per stapled security	**(198,795,180)**	-	**(70,902,661)**	-
Issue of stapled securities at $1.71 per stapled security	**192,982,455**	-	**70,902,661**	-
Redemption costs	-	-	**(71,736)**	-
Issue costs	-	-	**(719,919)**	-
Balance at the end of the year	**246,911,167**	312,632,131	**85,265,534**	106,200,663

	FSREC FUND III			
	2022 UNITS*	2021 UNITS*	2022 $	2021 $
Balance at the beginning of the year	**312,632,131**	104,438,552	**161,130,403**	161,130,403
Conversion of units on issue on a 0.9414 for 1 basis	-	(6,121,752)	-	-
Issue of units to equalise with FSREC Fund I upon stapling	-	145,989,295	-	-
Issue of units to equalise with FSREC Fund II upon stapling	-	68,326,036	-	-
Redemption of stapled securities at $1.59 per stapled security	**(59,908,239)**	-	**(28,972,277)**	-
Redemption of stapled securities at $1.66 per stapled security	**(198,795,180)**	-	**(89,664,632)**	-
Issue of stapled securities at $1.71 per stapled security	**192,982,455**	-	**89,664,632**	-
Redemption costs	-	-	**(94,386)**	-
Issue costs	-	-	**(910,422)**	-
Balance at the end of the year	**246,911,167**	312,632,131	**131,153,318**	161,130,403

* Total stapled securities of the Stapled Group at 30 June 2022 are 246,911,167 with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Capital risk management

FSREC Fund II and FSREC Fund III manage its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of FSREC Fund II and FSREC Fund III consist of issued capital net of issue costs amounting to $85,265,534 and $131,153,318, respectively (2021: $106,200,663 for FSREC Fund II and $161,130,403 for FSREC Fund III).

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

The debt to equity ratio at 30 June 2022 was 73.29% for FSREC Fund II and 31.21% for FSREC Fund III (2021: 65.15% for FSREC Fund II and 51.17% for FSREC Fund III).

The gearing ratio represents the extent to which the investment properties are financed by debt. At 30 June 2022, the FSREC Fund II gearing ratio of total amount drawn of $73,715,000 (2021: $72,115,000) to the total value of investment properties of $194,000,000 (2021: $181,050,000) was 38.00% (2021: 39.83%). At 30 June 2022, the FSREC Fund III gearing ratio of total amount drawn of $37,826,000 (2021: $78,226,000) to the total value of investment properties of $88,500,000 (2021: $235,850,000) was 42.74% (2021: 33.17%).

14. CASH FLOW HEDGE RESERVE

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	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 and FSREC Fund III.

Movements in reserves

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

FSREC FUND II	Total $
Balance at 1 July 2020	**(587,219)**
Unrealised losses on cash flow hedge reserve	(42,044)
Realised losses transferred to profit or loss as finance expense	518,299
Balance at 30 June 2021	**(110,964)**
Unrealised losses on cash flow hedge reserve	(363)
Realised losses transferred to profit or loss as finance expense	111,327
Balance at 30 June 2022	**-**

FSREC FUND III	Total $
Balance at 1 July 2020	**(1,869,492)**
Unrealised losses on cash flow hedge reserve	(62,386)
Realised losses transferred to profit or loss as finance expense	1,931,878
Balance at 30 June 2021	**-**
Balance at 30 June 2022	**-**

15. NON-CONTROLLING INTEREST

The non-controlling interest had a 0.02% (2021: 0.02%) equity holding in Australian Property Opportunities Trust III at year end.

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Issued capital	-	-	**25,000**	25,000
Retained profits	-	-	**(16,743)**	(16,327)
	-	-	**8,257**	8,673

16. DISTRIBUTIONS

Distributions declared during the financial year were as follows:

FSREC FUND II	2022 $
0.43 cents per unit for the period ended 30 September 2021 paid on 2 November 2021	1,088,987
0.59 cents per unit for the period ended 31 December 2021 paid on 4 February 2022	1,499,158
0.65 cents per unit for the period ended 31 March 2022 paid on 6 May 2022	1,597,762
0.63 cents per unit for the period ended 30 June 2022 paid on 5 August 2022	1,558,130
	5,744,037

FSREC FUND III	2022 $
0.58 cents per unit for the period ended 30 September 2021 paid on 2 November 2021	1,474,391
0.30 cents per unit for the period ended 31 December 2021 paid on 4 February 2022	769,544
0.30 cents per unit for the period ended 31 March 2022 paid on 6 May 2022	729,623
0.26 cents per unit for the period ended 30 June 2022 paid on 5 August 2022	653,833
	3,627,391

17. FAIR VALUE MEASUREMENT

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

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

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

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

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

FSREC FUND II – 2022	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets				
Investment properties	-	-	194,000,000	194,000,000
Total assets	**-**	**-**	**194,000,000**	**194,000,000**

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

FSREC FUND III – 2022	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets				
Investment properties	-	-	88,500,000	88,500,000
Total assets	**-**	**-**	**88,500,000**	**88,500,000**

FSREC FUND III – 2021	LEVEL 1 $	LEVEL 2 $	LEVEL 3 $	TOTAL $
Assets				
Investment properties	-	145,850,000	90,000,000	235,850,000
Total assets	**-**	**145,850,000**	**90,000,000**	**235,850,000**

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

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

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

18. FINANCIAL INSTRUMENTS

Financial risk management objectives

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

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

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

- market risk (interest rate risk and real estate risk)
- credit risk
- liquidity risk

Market risk

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

Interest rate risk

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

FSREC FUND II	2022 WEIGHTED AVERAGE INTEREST RATE	2022 BALANCE $	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $
Cash and cash equivalents	**0.73%**	**3,455,262**	0.03%	2,180,768
Exposed debt not covered by swap instruments	**0.78%**	**(73,715,000)**	0.98%	(40,115,000)
Net exposure to cash flow interest rate risk		**(70,259,738)**		(37,934,232)

FSREC FUND III	2022 WEIGHTED AVERAGE INTEREST RATE	2022 BALANCE $	2021 WEIGHTED AVERAGE INTEREST RATE	2021 BALANCE $
Cash and cash equivalents	**0.04%**	**1,782,970**	0.01%	2,672,269
Exposed debt not covered by swap instruments	**0.78%**	**(37,826,000)**	1.13%	(78,226,000)
Net exposure to cash flow interest rate risk		**(36,043,030)**		(75,553,731)

Sensitivity analysis

The following sensitivity analysis shows the effect on FSREC Fund II's and FSREC Fund III's profit or loss, and equity and have been determined assuming the variable interest cash balance outstanding at year end was outstanding for the whole year and based on a 50 basis point change in interest rates taking place at the beginning of the financial year and held constant throughout the reporting period, with all other variables held constant.

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
FSREC FUND II – 2022	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**
Cash and cash equivalents	50	17,276	17,276	(50)	(17,276)	(17,276)
Cash flow hedge	50	-	-	(50)	-	-
Exposed debt not covered by swap instruments	50	(368,575)	(368,575)	(50)	368,575	368,575
		(351,299)	**(351,299)**		**351,299**	**351,299**
FSREC FUND II – 2021						
Cash and cash equivalents	50	10,904	10,904	(50)	(10,904)	(10,904)
Cash flow hedge	50	-	27,264	(50)	-	(27,334)
Exposed debt not covered by swap instruments	50	(200,575)	(200,575)	(50)	200,575	200,575
		(189,671)	**(162,407)**		**189,671**	**162,337**

	BASIS POINTS INCREASE			BASIS POINTS DECREASE		
FSREC FUND III – 2022	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**	**BASIS POINTS CHANGE**	**EFFECT ON PROFIT BEFORE TAX**	**EFFECT ON EQUITY**
Cash and cash equivalents	50	8,915	8,915	(50)	(8,915)	(8,915)
Cash flow hedge	50	-	-	(50)	-	-
Exposed debt not covered by swap instruments	50	(189,130)	(189,130)	(50)	189,130	189,130
		(180,215)	**(180,215)**		**180,215**	**180,215**
FSREC FUND III – 2021						
Cash and cash equivalents	50	4,748	4,748	(50)	(4,748)	(4,748)
Cash flow hedge	50	-	-	(50)	-	-
Exposed debt not covered by swap instruments	50	(391,130)	(391,130)	(50)	391,130	391,130
		(386,382)	**(386,382)**		**386,382**	**386,382**

Credit risk

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

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

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

	FSREC FUND II		FSREC FUND III	
	2022 $	**2021 $**	**2022 $**	**2021 $**
Summary of exposure				
Cash and cash equivalents	**3,455,262**	2,180,768	**1,782,970**	949,670
Trade and other receivables	**422,257**	614,185	**689,395**	336,722
	3,877,519	2,794,953	**2,472,365**	1,286,392

Cash and cash equivalents

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

Trade and other receivables

Credit risk is managed by requiring tenants to pay rentals in advance and through the provision of rental security deposits and guarantees. The credit quality of the tenant is assessed at the time of entering into a lease agreement and review on tenants arrears is performed regularly. No interest is charged from the date of the invoice. A loss allowance of $283,303 for FSREC Fund II and $174,645 for FSREC Fund III (2021: $202,229 for FSREC Fund II and $228,056 for FSREC Fund III) have been recognised in respect of outstanding amounts at balance date.

Liquidity risk

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

Financing arrangements

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

FSREC Fund II and FSREC Fund III had $42.4 million available to be borrowed from the Stapled Group's facility through the Australian Property Opportunities Trust.

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

FSREC FUND II – 2022	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	136,665	-	-	136,665
Accrued liabilities	1,352,897	-	-	1,352,897
Contract liabilities (deferred income)	720,792	-	-	720,792
Distribution payable	1,564,060	-	-	1,564,060
Borrowings	1,552,983	79,179,369	-	80,732,352
Total non-derivatives	**5,327,397**	**79,179,369**	**-**	**84,506,766**

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

FSREC FUND III – 2022	1 YEAR OR LESS $	BETWEEN 1 AND 5 YEARS $	OVER 5 YEARS $	REMAINING CONTRACTUAL MATURITIES $
Non-derivative financial liabilities				
Trade payables	86,411	-	-	86,411
Accrued liabilities	433,601	-	-	433,601
Contract liabilities (deferred income)	294,105	-	-	294,105
Distribution payable	654,023	-	-	654,023
Borrowings	1,101,099	40,687,000	-	41,788,099
Total non-derivatives	**2,569,239**	**40,687,000**	**-**	**43,256,239**

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

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

19. CONTROLLED ENTITIES

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

		OWNERSHIP INTEREST	
NAME	PRINCIPAL PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	2022 %	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%

20. PARENT ENTITY INFORMATION

During the year ended 30 June 2022, the parent entity of FSREC Fund II and FSREC Fund III was Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital III, respectively.

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Summarised statement of financial position				
Current assets	**1,820,719**	602,098	**67,493,765**	101,509,277
Non-current assets	**97,022,212**	97,084,842	**53,412,321**	56,042,232
Total assets	**98,842,931**	97,686,940	**120,906,086**	157,551,509
Current liabilities	**22,614,282**	121,121	**1,794,530**	6,359,037
Total liabilities	**22,614,282**	121,121	**1,794,530**	6,359,037
Net assets	**76,228,649**	97,565,819	**119,111,556**	151,192,472
Summarised statement of profit or loss and other comprehensive income				
Revenue	**6,100,316**	4,600,787	**1,964,761**	107,383,979
Expenses	**(695,689)**	(1,586,896)	**(441,201)**	(103,126,727)
Profit before income tax	**5,404,627**	3,013,891	**1,523,560**	4,257,252
Other comprehensive income	-	-	-	-
Total comprehensive income	**5,404,627**	3,013,891	**1,523,560**	4,257,252
Unitholders' equity in the parent entity				
Issued capital	**85,265,534**	106,200,663	**131,153,319**	161,130,403
(Accumulated losses)/retained profits	**(9,036,885)**	(8,634,844)	**(12,041,763)**	(9,937,931)
Total equity	**76,228,649**	97,565,819	**119,111,556**	151,192,472

As at 30 June 2022, Fort Street Real Estate Capital Fund II's statement of financial position discloses a deficiency of net current assets of $20,793,563. Refer to Note 2 for further information.

The parent entities do not have any contingent liabilities, contractual commitments and have not entered into any guarantees during or since the end of the financial year (2021: nil).

21. RELATED PARTY TRANSACTIONS

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 Capital Fund II and Fort Street Real Estate Capital Fund III (**Responsible Entity**), 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 E&P Investments Services Pty Limited, the Trustee of the Australian Property Opportunities Trust II, Australian Property Opportunities Trust III and APOT III No. 1 Trust (**Trusts**).

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 30 June 2022, details of directors who hold units in FSREC Fund II and FSREC Fund III for their own benefit or who have an interest in holdings through a third party and the total number of such units held are listed below:

	FSREC FUND II		FSREC FUND III	
	2022 UNITS	2021 UNITS	2022 UNITS	2021 UNITS
Stuart Nisbett	**1,239**	10,000	**1,239**	10,000
Warwick Keneally	**20,897**	20,897	**20,897**	20,897
Peter Shear	-	-	-	-
Mike Adams (resigned 9 December 2021)	-	-	-	-
	22,136	30,897	**22,136**	30,897

Related party investments in the Fund

As at 30 June 2022, the Responsible Entity or its associates held 248,842 units in FSREC Fund II and FSREC Fund III (2021: 248,842 units in FSREC Fund II and FSREC Fund III) representing 0.10% interest in FSREC Fund II and FSREC Fund III (2021: 0.08%).

Distributions paid or payable by FSREC Fund II and FSREC Fund III to the Responsible Entity or its associates in the year ended 30 June 2022 was $5,729 from FSREC Fund II and $3,604 from FSREC Fund III (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 constitutions 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 year ended 30 June 2022, $453,364 (2021: $295,236), was paid or payable from FSREC Fund II to the Responsible Entity and $237,168 (2021: $385,412) was paid or payable from FSREC Fund III to the Responsible Entity. These amounts are exclusive of GST. Total Responsible Entity fees included in trade and other payables at 30 June 2022 was $40,729 for FSREC Fund II (2021: nil) and $18,763 for FSREC Fund III (2021: nil).

Trustee fee

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

For the year ended 30 June 2022, no trustee fee was paid or payable to the Trustee (2021: $86,792 for FSREC Fund II and $112,298 for FSREC Fund III, exclusive of GST). There were no outstanding trustee fees included in trade and other payables at 30 June 2022 and 2021.

Investment Manager fee

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity until 18 February 2022, is engaged as the Stapled 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 year ended 30 June 2022, $1,013,840 (2021: $508,088), was paid or payable from FSREC Fund II to the Investment Manager and $599,611 (2021: $1,440,769) was paid or payable from FSREC Fund III to the Investment Manager. These amounts are exclusive of GST. Total Investment Manager fees included in trade and other payables at 30 June 2022 was $84,339 for FSREC Fund II (2021: $87,983) and $40,355 for FSREC Fund III (2021: $114,771).

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 30 June 2022, 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.

As at 30 June 2022, no Fund Manager fee (2021: $598,883), exclusive of GST, was paid or payable from FSREC Fund II to the Fund Manager. Total Fund Manager fee included in trade and other payables at 30 June 2022 was nil (2021: nil).

Property Manager fee

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

For the year ended 30 June 2022, $486,974 (2021: $475,801), was paid or payable from FSREC Fund II to the Property Manager and $248,169 (2021: $575,958) was paid or payable from FSREC Fund III to the Property Manager. These amounts are exclusive of GST. Total Property Manager fees included in trade and other payables at 30 June 2022 was $41,423 for FSREC Fund II and $22,369 for FSREC Fund III (2021: $43,947 for FSREC Fund II and $49,817 for FSREC Fund III).

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity until 18 February 2022, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the year ended 30 June 2022, $109,652 (2021: $33,617), was paid or payable from FSREC Fund II to the Development Manager and $4,137 (2021: $15,505) was paid or payable from FSREC Fund III to the Development Manager. These amounts are exclusive of GST. Total Development Manager fees included in trade and other payables at 30 June 2022 was $7,577 for FSREC Fund II and $195 for FSREC Fund III (2021: $9,738 for FSREC Fund II and $9,845 for FSREC Fund III).

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity until 18 February 2022, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the year ended 30 June 2022, $91,339 (2021: $122,166), was paid or payable from FSREC Fund II to the Leasing Agent and $93,289 (2021: $159,823) was paid or payable from FSREC Fund III to the Leasing Agent. These amounts are exclusive of GST. Total Leasing Services fees included in trade and other payables at 30 June 2022 was $57,278 for FSREC Fund II and $73,639 for FSREC Fund III (2021: $50,667 for FSREC Fund II and $131,967 for FSREC Fund III).

Legal and Consulting services

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

For the year ended 30 June 2022, $12,526 (2021: $18,263), was paid or payable from FSREC Fund II and $12,526 (2021: $18,591) was paid or payable from FSREC Fund III. These amounts are exclusive of GST, and included in the statement of profit or loss and other comprehensive income. Total Leasing Services fees included in trade and other payables at 30 June 2022 was nil for FSREC Fund II and FSREC Fund III (2021: $6,592 for FSREC Fund II and $6,592 for FSREC Fund III).

Debt Advisory fee

Fort Street Capital Pty Ltd, a related party of the Responsible Entity until 18 February 2022, receives a debt arranging fee for assistance in arranging new debt facilities for the Group. For the Group's recent refinance of the four debt facilities to a single facility with a longer tenure totalling $315 million, Fort Street Capital Pty Ltd received a fee of 0.3% of the total facility limit.

For the year ended 30 June 2022, no debt advisory fee was paid or payable from FSREC Fund II and FSREC Fund III (2021: $206,531 for FSREC Fund II and $297,184 for FSREC Fund III, exclusive of GST and have been capitalised to the costs of borrowings and amortised over the life of the loan).

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 year ended 30 June 2022, $4,823 (2021: $55,442), exclusive of GST, was paid or payable to FSREC Fund III.

Financial Advisory fee

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

For the year ended 30 June 2022, no financial advisor fee (2021: 218,819), was paid or payable from FSREC Fund II to the Financial Advisor and nil (2021: $314,866) was paid or payable from FSREC Fund III to the Financial Advisor. These amounts are exclusive of GST. Total Financial Advisory fees included in trade and other payables at 30 June 2022 was nil (2021: nil).

22. REMUNERATION OF AUDITOR

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

	FSREC FUND II		FSREC FUND III	
	2022 $	2021 $	2022 $	2021 $
Audit services - Deloitte Touche Tohmatsu				
Audit or review of the financial statements	**72,765**	69,235	**39,885**	45,325
Other services - Deloitte Touche Tohmatsu				
Taxation services	**22,100**	22,100	**22,100**	22,100
Other services	**6,072**	51,782	**8,114**	80,899
	28,172	73,882	**30,214**	102,999
	100,937	143,117	**70,099**	148,324

23. CAPITAL COMMITMENTS

As at reporting date, FSREC Fund II (2021: $1,964,500) and FSREC Fund III (2021: $100,000) did not commit capital commitments for improvements to its existing properties. In addition, $1,139,500 (2021: $200,000) for FSREC Fund II and $375,000 (2021: $206,000) for FSREC Fund III were committed as lease incentives arising from lease arrangements.

24. CONTINGENT LIABILITIES

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

25. EVENTS AFTER THE REPORTING PERIOD

On 16 June 2022, a withdrawal offer at a redemption price of $1.78 was announced to enable investors to fully exit their remaining investment in the Stapled Group, to be funded from a placement with IRAPT, the majority investor of the Stapled Group.

The maximum stapled securities that could be redeemed under the offer was 53,928,711, being the stapled securities not owned by either IRAPT or Tarawa. The offer closed on 8 July 2022 with 48,077,253 stapled securities taking up the offer. Accordingly FSREC Fund II and FSREC Fund III each redeemed 48,077,253 units on 20 July 2022, and redemptions of $18,908,654 and $22,504,689 were paid on 25 July 2022 by FSREC Fund II and FSREC Fund III, respectively.

On 20 July 2022, 48,045,278 units were issued to IRAPT by FSREC Fund II and FSREC Fund III for $19,485,674 and $23,218,891, respectively.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect FSREC Fund II's and FSREC Fund III's operations, the results of those operations, or state of affairs in future financial years.


Lynbrook
Toormina
Gardens
entry
coles
northpoint

DIRECTORS' DECLARATION

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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 73, comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

– the attached financial statements and notes of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III set out on pages 10 to 73, comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;

– the attached financial statements and notes give a true and fair view of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and

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

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

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

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

14 September 2022


Lynbrook
Toormina
Gardens
entry
coles
northpoint

INDEPENDENT AUDITOR'S REPORT

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

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

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

Opinion

We have audited the financial report of Fort Street Real Estate Capital Fund I ('FSREC 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 consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information and the directors' declaration.

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

(i) giving a true and fair view of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 30 June 2022 and of their financial performance for the year then ended; and

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

Basis for Opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited, the Responsible Entity 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 report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the FSREC Property Fund, FSREC Fund II and FSREC Fund III's annual financial report for the year ended 30 June 2022 but does not include the financial report and our auditor's report thereon.

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

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

Deloitte.

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSREC Property Fund, FSREC Fund II and FSREC Fund III's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the FSREC Property Fund, FSREC Fund II and FSREC Fund III to cease to continue as going concerns.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within FSREC Property Fund, FSREC Fund II and FSREC Fund III to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's audit. We remain solely responsible for our audit opinion.

Deloitte.

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Weng W Ching
Partner
Chartered Accountants
Sydney, 14 September 2022

RESPONSIBLE ENTITY

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

E&P