

Pelathon Pub Group

Consolidated Annual Financial Report

Year Ended 30 June 2018

Pelathon Hotels Limited

ABN 80 117 204 225

Pelathon Hotels No 2 Limited

ABN 78 619 064 998

Pelathon Pub Fund

ARSN 123 286 304

Suite 1, 207 Ben Boyd Road

Neutral Bay NSW 2089

Phone: (02) 9098 9100

Pelathon Pub Group

CONTENTS

Annual Financial Report

Directors' Report	Page 3
Auditor's Independence Declaration	Page 8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	Page 9
Consolidated Statement of Financial Position	Page 10
Consolidated Statement of Changes in Equity	Page 11
Consolidated Statement of Cash Flows	Page 12
Notes to the Consolidated Financial Statements	Page 13
Directors' Declaration	Page 41
Independent Auditor's Report	Page 42

Pelathon Pub Group

Directors' Report

The Directors present their report together with the consolidated financial report of the Pelathon Pub Group (Group) for the year ended 30 June 2018. The Group is comprised of:

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

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

The consolidated financial reports of the Group for the year ended 30 June 2018 comprise the consolidated financial reports of the Fund and the Companies.

Principal Activities & Result

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

The net result for the Group was a profit after tax of \$272,003 (2017: \$8,242,431). The result includes the following non-trading items:

- Transaction costs of \$1,005,224 (2017: Nil) relating to the acquisition of four hotel assets during the 2018 financial year;
- A fair value adjustment of (\$3,182) (2017: \$7,313,846); and
- A capital gain on the sale of the Queens Hotel Motel of \$413,870 (2017: Nil) during the 2018 financial year.

For the financial year ended 30 June 2018 the Group generated operating cash flows of \$1,433,806 (2017: \$1,343,919). The operating cashflow in the 2018 financial year includes transaction costs of \$1,005,224 (2017: Nil) relating to the purchase of four hotel assets.

Significant Changes in Affairs

During the 2018 financial year the Group completed the settlement of the freehold going concern interests of three new assets, namely:

- Diplomat Motel, Alice Springs NT
- Tandara Hotel Motel, Sarina QLD (including a stand-alone leasehold bottle shop)
- Queens Hotel Motel, Gladstone QLD

The Group also entered into and settled a sale contract to acquire the leasehold going concern interests of an entertainment asset in Wagga Wagga NSW. The venue has been renamed as the Que Restaurant & Nightclub.

During the 2018 financial year the Group issued a further 5,012,817 units in the Fund raising \$4,626,479. These funds were primarily used to assist in funding the four new hotel assets acquired during the period.

Pelathon Pub Group

Directors' Report (continued)

Significant Changes in Affairs (continued)

Immediately after acquiring the Queens Hotel Motel, Gladstone, the Group placed the asset on the market. This asset was only acquired because it was being sold in one line with the Tandara Hotel Motel by the vendor who was exiting the market. The Group entered into an agreement to sell this asset in May 2018 with settlement of the sale occurring on 11 September 2018. The Group has recorded a capital gain relating to the sale of this hotel of \$413,870 in the 2018 financial statements.

Other than the acquisition and sale of hotel assets, and the issuing of additional units in the fund, there were no significant changes to the state of affairs of the Group during the financial year.

Dividends / Distributions

Distributions of \$1,792,451 (2017: \$894,672) were paid or declared during the 2018 financial year. The distributions to unitholders included a component that was a return of capital. No dividends were paid by the Companies for the year ended 30 June 2018 (2017: \$nil).

Likely Developments

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

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

Events Subsequent to Reporting Date

On 11 September 2018, the Fund completed the sale of the Queens Hotel Motel in Gladstone for total consideration of \$2.75m. The Group applied \$2.45m of the sale proceeds towards amortisation of senior debt.

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

Directors

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

Darren Baker
James (Jaz) Mooney
David Horton

Pelathon Pub Group

Directors' Report (continued)

Information on Directors

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

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

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

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

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

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

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

Meeting Attendances

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

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

Pelathon Pub Group

Directors' Report (continued)

Proceedings on behalf of the Group

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

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

Environmental Regulation and Performance

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

Indemnities of Officers

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

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

Non-audit Services

Amounts paid to the auditor for non-audit services during the year are detailed at Note 16 of the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor's Independence Declaration

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

Auditor

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

Pelathon Pub Group

Directors' Report (continued)

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



Darren Baker
Director
Sydney, 27 September 2018



David Horton
Director
Sydney, 27 September 2018



AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF PELATHON PUB GROUP

In accordance with the requirements of section 307C of the Corporations Act, as auditor for the Pelathon Pub Group as at 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

Dated at Sydney 27th of September 2018

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

ESV Accounting and Business Advisors

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

Tim Valtwies
Partner

Pelathon Pub Group

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2018

	Notes	2018 \$	2017 \$
Revenue			
Hotel Operations Income		31,710,414	19,049,940
Profit on sale of hotel		413,870	-
Other income		5,868	6,584
Total Revenue	3	32,130,152	19,056,524
Expenses			
Cost of sales		(13,598,643)	(8,467,605)
General and administrative expenses		(575,155)	(350,464)
Marketing expenses		(1,252,474)	(779,539)
Poker machine expenses		(660,450)	(458,393)
Operating expenses		(1,928,671)	(938,345)
Employment expenses		(8,430,768)	(4,991,728)
Occupancy costs		(1,951,990)	(852,142)
Other management expenses		(897,763)	(515,564)
Depreciation and amortisation		(500,600)	(278,679)
Finance costs		(1,053,229)	(495,480)
Transaction costs relating to hotel acquisitions		(1,005,224)	-
Fair value adjustment of property, plant & equipment		(3,182)	7,313,846
Profit Before Income Tax		272,003	8,242,431
Income tax expense	4	-	-
Profit After Income Tax for the year		272,003	8,242,431
Other Comprehensive Income		-	-
Total Comprehensive Profit for the year		272,003	8,242,431
Profit for the year is attributable to:			
Pelathon Pub Fund		(471,608)	7,365,211
Pelathon Hotels Limited		847,461	884,063
Pelathon Hotels No 2 Limited		(103,850)	(6,843)
		272,003	8,242,431
Total Comprehensive Income for the year is attributable to:			
Pelathon Pub Fund		(471,608)	7,365,211
Pelathon Hotels Limited		847,461	884,063
Pelathon Hotels No 2 Limited		(103,850)	(6,843)
		272,003	8,242,431

The accompanying notes form part of these consolidated financial statements.

Pelathon Pub Group

Consolidated Statement of Financial Position As at 30 June 2018

	Note	2018 \$	2017 \$
ASSETS			
Current Assets			
Cash and cash equivalents	5	1,935,460	941,981
Trade and other receivables	6	2,999,244	65,089
Inventories	7	805,032	461,808
Other assets	8	527,062	833,835
Total Current Assets		6,266,798	2,302,713
Non-Current Assets			
Property plant and equipment	9	46,800,000	31,800,000
Total Non-Current Assets		46,800,000	31,800,000
TOTAL ASSETS		53,066,798	34,102,713
LIABILITIES			
Current Liabilities			
Trade and other payables	10	3,661,945	1,874,739
Interest bearing liabilities	11	4,050,000	-
Provisions	12	259,938	129,057
Total Current Liabilities		7,971,883	2,003,796
Non-Current Liabilities			
Interest bearing liabilities	11	20,330,000	10,534,000
Provisions	12	180,685	86,717
Total Non-Current Liabilities		20,510,685	10,620,717
TOTAL LIABILITIES		28,482,568	12,624,513
NET ASSETS		24,584,230	21,478,200
EQUITY			
Contributed equity	13	30,710,129	27,876,102
Accumulated losses		(6,125,899)	(6,397,902)
TOTAL EQUITY		24,584,230	21,478,200
Equity attributable to members of Pelathon Pub Fund (Parent interest)			
Contributed equity		23,984,351	22,075,619
Accumulated losses		(3,067,271)	(2,595,663)
Total Equity attributable to members of Pelathon Pub Fund		20,917,080	19,479,956
Equity attributable to members of Pelathon Hotels Limited			
Contributed equity		6,725,777	5,800,482
Accumulated losses		(2,947,935)	(3,795,396)
Total Equity attributable to members of Pelathon Hotels Limited		3,777,842	2,005,086
Equity attributable to members of Pelathon Hotels No 2 Limited			
Contributed equity		1	1
Accumulated losses		(110,693)	(6,843)
Total Equity attributable to members of Pelathon Hotels No 2 Limited		(110,692)	(6,842)

The accompanying notes form part of these consolidated financial statements.

Pelathon Pub Group

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2018

	No. of securities	Contributed equity \$	Accumulated losses \$	Total \$
Balance at 1 July 2017	17,542,988	27,876,102	(6,397,902)	21,478,200
Issues of securities	5,012,817	4,626,479	-	4,626,479
Distributions Paid	-	(1,221,594)	(570,858)	(1,792,452)
Profit after income tax for the year	-	-	272,003	272,003
Balance at 30 June 2018	22,555,805	31,280,987	(6,696,757)	24,584,230
Balance at 1 July 2016	128,073,505	25,554,455	(14,640,333)	10,914,122
Issues of securities	47,351,094	3,216,319	-	3,216,319
Consolidation of Securities	(157,881,611)	-	-	-
Distributions Paid	-	(894,672)	-	(894,672)
Profit after income tax for the year	-	-	8,242,431	8,242,431
Balance at 30 June 2017	17,542,988	27,876,102	(6,397,902)	21,478,200

Pelathon Pub Group

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

		2018	2017
		\$	\$
Cash Flows From Operating Activities			
Receipts from customers inclusive of GST		34,697,887	20,938,851
Payments to suppliers and employees inclusive of GST		(32,216,720)	(19,106,036)
Interest paid		(1,053,229)	(495,480)
Interest received		5,868	6,584
Net Cash Flows From Operating Activities	17	1,433,806	1,343,919
Cash Flows From Investing Activities			
Payments for property, plant and equipment		(1,402,540)	(2,215,512)
Payment for acquisition of new hotel assets		(13,294,892)	-
Proceeds from sale of assets		-	581,483
Net Cash Flows Used in Investing Activities		(14,697,432)	(1,634,029)
Cash Flows From Financing Activities			
Proceeds from issue of securities		3,976,480	3,216,319
Payment of distributions		(1,565,375)	(593,612)
Proceeds from borrowings		13,021,000	-
Repayment of borrowings		(1,175,000)	(2,208,332)
Net Cash Flows From/(Used in) Financing Activities		14,257,105	414,375
Net Increase/(Decrease) in Cash Held			
Cash and cash equivalents at the beginning of the year		941,981	817,716
Cash and Cash Equivalents at End of the Year	5	1,935,460	941,981

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies

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

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

The consolidated financial statements for Pelathon Pub Group for the year ended 30 June 2018 were authorised for issue in accordance with the resolution of the directors of the Company and of PFML on 27 September 2018.

Basis of Preparation

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

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

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

Going Concern

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

Change in Accounting Policies

There were no changes in accounting policies for the Group during the 2018 financial year.

Presentation of financial statements

Presentation currency

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies (continued)

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

Principles of Consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of Pelathon Pub Fund and its subsidiaries, Pelathon Hotels Limited and its controlled entities and Pelathon Hotels No 2 Limited and its controlled entities as at 30 June 2018. A list of controlled entities is contained in Note 21 to the financial statements. All controlled entities have a June financial year-end and use consistent accounting policies.

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

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

Inter-company balances

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Stapled Securities

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

Distributions

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies (continued)

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

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

Unit prices

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

Financial Instruments

Non-derivative financial instruments

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

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

Recognition

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

Loans and receivables

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

Financial liabilities

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

Interest bearing borrowings

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies (continued)

Impairment

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

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

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

Impairment losses are recognised in the statement of comprehensive income.

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

Employee benefits

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

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

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

Provisions

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

Cash and cash equivalents

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

Inventories

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies (continued)

Trade and other receivables

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

Trade and other payables

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

Revenue

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

Income Tax

Current income tax expense

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

Accounting for deferred tax

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

Deferred tax calculation

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

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

Deferred income tax assets

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

1. Statement of Significant Accounting Policies (continued)

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

Benefit brought to account

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

Goods and Services Tax (GST)

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

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

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

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

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

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

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

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

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The standard also requires enhanced disclosure to be provided by lessors that will improve information disclosed about a lessor's risk exposure particularly to residual risk. When adopted, it will result in a right to use asset and corresponding lease liability being recorded in the Balance Sheet. The Group has not yet quantified the impact that the adoption of the new standard will have on the Group's financial statements.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

2. Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates - Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. The Directors believed it appropriate to raise no impairment provisions for the year ended 30 June 2018.

Key estimates – Valuation of Hotel and Pub Properties

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

3. Revenue

	2018	2017
	\$	
Revenue from hotel operations:		
- Food and beverage sales	21,355,583	13,451,286
- Gaming revenue	6,997,592	4,835,272
- Accommodation income	2,078,441	16,022
- Other income	1,278,798	747,360
	<u>31,710,414</u>	<u>19,049,940</u>
Other income:		
- Profit on sale of hotel	413,870	-
- Interest income	5,868	6,584
	<u>419,738</u>	<u>6,584</u>
Total revenue	<u>32,130,152</u>	<u>19,056,524</u>

4. Income Tax Expense

	2018	2017
	\$	\$
Current tax	-	-
Deferred tax	-	-
Total income tax expense	<u>-</u>	<u>-</u>
Profit before income tax	272,003	8,242,431
Prima facie tax on (profit) from ordinary activities before income tax at 30% (2017: 30%)	(81,601)	(2,472,729)
Adjustment for non-deductible expenses:		
- Transaction costs relating to hotel acquisitions	(301,567)	-
- Fair value adjustment of property, plant & equipment	(955)	2,194,154
- Other non-deductible expenses	(7,123)	-
Add / (less) tax effect of:		
Tax losses not brought to account	391,246	278,575
Total income tax expense	<u>-</u>	<u>-</u>

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

Tax Effect of Tax Losses Carried Forward	826,869	1,083,835
--	---------	-----------

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

5. Current Assets - Cash and Cash Equivalents

	2018	2017
	\$	\$
Cash on hand and at bank	1,935,460	941,981
Total cash and cash equivalents	1,935,460	941,981

(a) Effective interest rate

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

6. Current Assets - Trade and Other Receivables

	2018	2017
	\$	\$
Trade receivables:		
- Trade debtors	34,424	41,657
- Queens Hotel Motel settlement	2,750,000	-
- Sundry debtors	214,820	23,432
Total trade and other receivables	2,999,244	65,089

None of the receivables were impaired as at 30 June 2018 (2017: \$nil).

7. Current Assets - Inventories

	2018	2017
	\$	\$
Food supplies and beverages	805,032	461,808
Total inventories	805,032	461,808

8. Current Assets - Other Assets

	2018	2017
	\$	\$
Prepaid expenses	214,708	134,015
Security and other deposits	312,354	10,980
Deposits paid for acquisition of new hotel/pub assets	-	688,840
Total other assets	527,062	833,835

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

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

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

	2018	2017
	\$	\$
Non-Current		
Hotel and pub properties at fair value	46,800,000	31,800,000
Total Property, plant, equipment and intangibles	46,800,000	31,800,000
Reconciliation		
Carrying amount at the beginning of the year	31,800,000	23,900,000
Hotel assets purchased/(sold) during the year	14,094,878	(528,621)
Additions to existing property	1,408,904	1,393,454
Depreciation	(500,600)	(278,679)
Net fair value adjustments	(3,182)	7,313,846
	46,800,000	31,800,000

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

Name	Fair value	Fair value
	30 June 2018	30 June 2017
	\$	\$
Amaroo Tavern, Moree, NSW	5,000,000	5,000,000
Victoria Hotel, Wagga Wagga, NSW	17,900,000	17,900,000
Mary G's Hotel, Lismore, NSW	10,300,000	8,900,000
Diplomat Motel, Alice Springs, NT	9,600,000	-
Tandara Hotel Motel, Sarina, QLD	3,500,000	-
Que Restaurant & Nightclub, Wagga Wagga, NSW (leasehold)	500,000	-
Total hotel and pub properties	46,800,000	31,800,000

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

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

Directors' valuations as at 30 June 2018

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

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

Name	Adopted yield	Directors' valuation	Adopted yield	Directors' valuation
	30 June 2018	30 June 2018	30 June 2017	30 June 2017
		\$		\$
Amaroo Tavern, Moree NSW	14.01%	5,000,000	14.01%	5,000,000
Victoria Hotel, Wagga Wagga NSW	12.52%	17,900,000	12.52%	17,900,000
Mary G's Hotel, Lismore NSW	12.25%	10,300,000	14.00%	8,900,000
Diplomat Motel, Alice Springs NT	10.83%	9,600,000	-	-
Tandara Hotel Motel, Sarina QLD	17.60%	3,500,000	-	-
Que Restaurant & Nightclub, Wagga Wagga NSW (leasehold)	-	500,000	-	-
Total hotel and pub properties		46,800,000		31,800,000

Valuation of hotel and pub properties

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

Valuations of the Amaroo Tavern, Victoria Hotel, Diplomat Motel and Tandara Hotel Motel were performed by registered independent valuers during the period from March to May 2017. A valuation of Mary G's Hotel was performed by a registered independent valuer in April 2018. The valuations were undertaken using reference to recent market sales of similar properties and common valuation methodologies including capitalisation of income projections on a going concern basis. These values have been adjusted where appropriate to reflect market conditions (including consideration of appropriate market evidence where available) at year end and represent the best estimates of fair value at the balance sheet date.

The Que Restaurant & Nightclub leasehold interest was acquired during the current period and the Director's value is in line with the price paid to acquire this asset.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

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

Ownership

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

Capital commitments

There were no capital expenditure commitments contracted in relation to the properties as at 30 June 2018.

Assets pledged as securities

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

10. Current Liabilities – Trade and Other Payables

	2018 \$	2017 \$
Trade and Other Payables		
- Trade creditors	2,791,086	1,497,535
- Accrued expenses	342,722	76,144
- Distribution payable	528,137	301,060
Total trade and other payables	3,661,945	1,874,739

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

	2018 \$	2017 \$
Current		
Secured - bank borrowings	4,050,000	-
Total current borrowings	4,050,000	-
Non-Current		
Secured – bank borrowings	18,655,000	10,534,000
Secured – other borrowings	1,675,000	-
Total non-current borrowings	20,330,000	10,534,000

In November 2017, the Fund increased and extended the term of its facilities with National Australia Bank to assist with the funding of new hotel assets. The new facility which covers all bank borrowings related to the Fund expires on 30 September 2020.

The interest bearing liabilities from the National Australia Bank of \$22.705 million are secured against all of the hotel's assets within the Fund and the facility has amortisation requirements which have been complied with throughout the financial year. The National Australia Bank facility comprises a \$9.119 million fixed component at a rate of 4.73% per annum, a \$9.0 million fixed component at a rate of 4.69% per annum and a variable component of \$4.586 million.

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

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

The Fund also has a \$1.675 million secured loan that was provided by the vendors of the Diplomat Hotel when the asset was acquired in September 2017. This loan is a fixed interest loan paying interest at a rate of 9% per annum with a maturity date of 13 September 2019.

A registered mortgage debenture over Pelathon Hotels Limited and Pelathon Hotels No 2 Limited is held by the National Australia Bank as supporting security for the bank bill facility held by Pelathon Pub Fund in the name of Pelathon Funds Management Limited as responsible entity of the Fund.

Since the end of the financial year the Fund has entered into an Amendment and Restatement Deed with National Australia Bank that requires the Fund to repay \$2.45 million of bank debt from the proceeds from the sale of the Queens Hotel Motel, Gladstone. Settlement of the Queens Hotel Motel, Gladstone occurred on 11 September 2018 and the Group repaid \$2.45m of bank debt out of proceeds from this sale at that time.

Other than the reduction of \$2.45 million of bank debt, all other terms of this Amendment and Restatement Deed are consistent with the National Australia Bank facility that the Group entered into in November 2017. The facility continues to have an expiry date of 30 September 2020.

12. Current and Non-Current Liabilities – Provisions

	2018 \$	2017 \$
(a) Current		
Annual leave	259,938	129,057
Total current provisions	259,938	129,057
(b) Non-current		
Long service leave	180,685	86,717
Total non-current provisions	180,685	86,717

13. Contributed Equity

(a) Summary table

	2018 \$	2017 \$
Ordinary Stapled Securities (“Stapled Securities”) 22,555,805 (30 June 2017: 17,542,988)	30,710,129	27,876,102
Total contributed equity	30,710,129	27,876,102

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

13. Contributed Equity (continued)

(b) Movement in stapled securities on issue

	2018 No.	2017 No.
Stapled Securities		
At the beginning of reporting period	17,542,988	128,073,505
Stapled Securities issued	5,012,817	47,351,094
Consolidation of Stapled Securities	-	(157,881,611)
Stapled Securities at reporting date	22,555,805	17,542,988

Stapled Securities

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

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

14. Business Combinations

Diplomat Motel, Alice Springs NT

On 13 September 2017, the Group acquired the land and building relating to the Diplomat Motel and 100% of the units of Diplomat (Aust) Trading Unit Trust for total consideration of \$9.65m. This entity carries on the trading activities of the Diplomat Motel located in Alice Springs. The acquired business contributed revenues of \$4,308,340 and profit after tax of \$757,147 to the consolidated entity for the period from 13 September 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Diplomat Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	77,148
Trade Receivables	86,380
Prepayments	19,939
Stock	41,795
Land and Buildings	7,250,000
Plant & Equipment	1,964,707
Trade Payables	(204,146)
Employee Benefits	<u>(48,804)</u>
Net Assets Acquired	9,187,019
Goodwill	<u>523,512</u>
Acquisition-date fair value of the total consideration transferred	<u>9,710,531</u>
Representing:	
Cash Paid or Payable to Vendor	7,060,531
Vendor Loan	2,000,000
Issued Units	<u>650,000</u>
	9,710,531
Acquisition costs expensed to the Profit or Loss	(536,986)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	7,060,531
Less: Cash and Cash equivalents	<u>(77,148)</u>
Net cash used	<u>6,983,383</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

14. Business Combinations (continued)

Queens Hotel Motel, Gladstone QLD

On 6 November 2017, the Group acquired the land, building and business relating to the Queens Hotel Motel in Gladstone Qld for total consideration of \$2.0m. The acquired business contributed revenues of \$1,761,105 and a loss after tax of \$66,446 to the consolidated entity for the period from 6 November 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Queens Hotel Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	65,000
Prepayments	43,358
Stock	61,263
Land and Buildings	1,800,000
Gaming Entitlements	200,000
Trade Payables	(49,772)
Employee Benefits	<u>(29,464)</u>
Net Assets Acquired	2,090,385
Goodwill	<u>-</u>
Acquisition-date fair value of the total consideration transferred	<u>2,090,385</u>
Representing:	
Cash Paid or Payable to Vendor	<u>2,090,385</u>
Acquisition costs expensed to the Profit or Loss	(159,138)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	2,090,385
Less: Cash and Cash equivalents	<u>(65,000)</u>
Net cash used	<u>2,025,385</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

14. Business Combinations (continued)

Tandara Hotel Motel, Sarina QLD

On 13 November 2017, the Group acquired the land, building and business relating to the Tandara Hotel Motel in Sarina Qld for total consideration of \$4.0m. The acquired business contributed revenues of \$5,035,755 and profit after tax of \$374,991 to the consolidated entity for the period from 13 November 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Tandara Hotel Motel are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	43,400
Prepayments	35,429
Stock	308,633
Land and Buildings	3,200,000
Gaming Entitlements	800,000
Trade Payables	(16,340)
Employee Benefits	<u>(17,452)</u>
Net Assets Acquired	4,353,670
Goodwill	<u>-</u>
Acquisition-date fair value of the total consideration transferred	<u>4,353,670</u>
Representing:	
Cash Paid or Payable to Vendor	<u>4,353,670</u>
Acquisition costs expensed to the Profit or Loss	(283,919)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	4,353,670
Less: Cash and Cash equivalents	<u>(43,400)</u>
Net cash used	<u>4,310,270</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

14. Business Combinations (continued)

Que Restaurant and Nightclub, Wagga Wagga NSW

On 20 October 2017, the Group acquired the leasehold going concern interests of an entertainment asset in Wagga Wagga NSW for total consideration of \$444,878. The venue has been renamed as the Que Restaurant & Nightclub. The acquired business contributed revenues of \$1,739,220 and a loss after tax of \$261,515 to the consolidated entity for the period from 20 October 2017 to 30 June 2018.

The values identified in relation to the acquisition of the Que Restaurant and Nightclub are final at 30 June 2018. Details of the acquisition are as follows:

	Fair Value
	\$
Cash and Cash Equivalents	10,000
Prepayments	12,954
Stock	25,643
Plant and Equipment	396,234
Trade Payables	(1,200)
Employee Benefits	<u>(13,131)</u>
Net Assets Acquired	430,500
Goodwill	<u>48,644</u>
Acquisition-date fair value of the total consideration transferred	<u>479,144</u>
Representing:	
Cash Paid or Payable to Vendor	<u>479,144</u>
Acquisition costs expensed to the Profit or Loss	(25,181)
Cash used to acquire business net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	479,144
Less: Cash and Cash equivalents	<u>(10,000)</u>
Net cash used	<u>469,144</u>

15. Dividends / Distributions

Distributions of \$1,792,451 were declared for the year ended 30 June 2018 (2017: \$894,672). The distributions included a return of capital component of \$1,221,594 (2017: \$894,672)

There were no dividends paid or declared for the year ended 30 June 2018 (2017: Nil).

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

16. Auditors' Remuneration

	2018	2017
	\$	\$
Remuneration of the auditor of the Group for:		
- Auditing of the financial statements	52,954	43,998
- Other services	-	2,300
	<u>52,954</u>	<u>46,298</u>

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

17. Commitments

	2018	2017
	\$	\$
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	711,727	466,009
One to five years	1,569,170	492,917
Greater than 5 years	121,746	-
	<u>2,402,643</u>	<u>958,926</u>

Operating lease commitments include:

- rent payable under the property lease relating to the Que Restaurant & Nightclub Wagga
- contracted amounts for gaming machine software and hardware under non-cancellable operating leases expiring within three years.

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

	2018	2017
	\$	\$
Profit for the year	272,003	8,242,431
Non-cash flows included in profit:		
Depreciation and amortisation	553,099	278,679
Fair value adjustments – property, plant and equipment	3,182	(7,313,846)
Profit on sale of hotel asset	(413,870)	
Changes in assets and liabilities:		
(Increase) in trade and other receivables	(184,155)	(16,742)
(Increase)/decrease in inventories	(343,224)	140,351
(Increase) in other assets	(382,064)	(33,285)
Increase in trade payables and accruals	1,480,440	105,828
Increase/(decrease) in other liabilities	223,547	(88,267)
Increase in provisions	224,848	28,770
Net cash flows from operating activities	<u>1,433,806</u>	<u>1,343,919</u>

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

19. Contingent Assets and Contingent Liabilities

The Group had no contingent assets or contingent liabilities as at 30 June 2018 (2017: Nil).

20. Subsequent Events

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

21. Controlled Entities

Name of subsidiary	Country of incorporation	Percentage owned (%)	
		2018	2017
Pelathon Hotels Limited:			
Hotel Business Trust	Australia	100	100
Victoria Business Trust	Australia	100	100
Bridge Business Trust	Australia	100	100
Gilhooleys Business Trust	Australia	100	100
Pelathon Pub Fund:			
No 1 Trust	Australia	100	100
No 2 Trust	Australia	100	100
No 3 Trust	Australia	100	100
No 4 Trust	Australia	100	100
No 5 Trust	Australia	100	100
No 6 Trust	Australia	100	100
Hotel Property Trust	Australia	100	100
Victoria Realty Trust	Australia	100	100
Bridge Realty Trust	Australia	100	100
Gilhooleys Realty Trust	Australia	100	100
Victoria Property Trust	Australia	100	100
Bridge Property Trust	Australia	100	100
Gilhooleys Property Trust	Australia	100	100
Victoria Land Trust	Australia	100	100
Bridge Land Trust	Australia	100	100
Gilhooleys Land Trust	Australia	100	100
Pelathon Hotels No 2 Limited:			
Diplomat Trading (Aust) Pty Ltd	Australia	100	-
The Diplomat Trading (Aust) Unit Trust	Australia	100	-

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

22. Related Party Transactions

(a) Related Entities and Managed Funds

The Group owns and operates hotel and pub businesses.

Fees and Transactions

Under the terms of the Fund Constitution, the Responsible Entity is entitled to an asset management fee of 1.5% per annum of the value of gross assets of the Group, payable monthly in arrears. For the year ended 30 June 2018 asset management fees amounted to \$602,087 (2017: \$261,533). The Responsible Entity is also entitled to a 2.0% sale fee relating to the profitable sale of the Queens Hotel Motel, Gladstone. The fee which is calculated at 2.0% of the net sale price was \$55,000 (2017: Nil). Of these Asset management fees relating to the 2018 financial year, \$420,530 (2017: \$197,930) were paid, none were converted to equity (2017: Nil) and the balance of \$181,557 (2017: \$63,603) was outstanding at 30 June 2018. The sale fee of \$55,000 (2017: Nil) was outstanding at 30 June 2018.

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

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

(b) Transactions with Related Parties

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

	2018 \$	2017 \$
Expenses:		
- Asset Management fees Pelathon Funds Management Limited	602,087	261,533
- Sale fees Pelathon Funds Management Limited	55,000	-
- Property Management fees Pelathon Management Group Pty Ltd	386,417	246,594
- Accounting and tax services fees Horton & Associates Pty Ltd	57,250	46,650

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

22. Related Party Transactions (continued)

(c) Interests Held By Related Parties

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

Related party	Holdings at June 2017	Securities issued or purchased/(sold)	Holdings at June 2018
Pelathon Funds Management Limited ⁽ⁱ⁾	15,696	-	15,696
J & K Mooney Investments Pty Ltd ⁽ⁱⁱ⁾	400,000	9,483	409,483
Mooney Super Pty Ltd ⁽ⁱⁱⁱ⁾	-	97,516	97,516
Middle Head Ventures Holdings Pty Ltd ^(iv)	3,193,686	546,368	3,740,054
Horton & Associates Pty Ltd ^(v)	823,356	413,048	1,236,404
Hirondelle Investments Pty Ltd ^(vi)	514,394	100,606	615,000
	<u>4,947,132</u>	<u>1,167,021</u>	<u>6,114,153</u>

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

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

⁽ⁱⁱⁱ⁾ Jaz Mooney, a director of the Companies and the Responsible Entity is a Director of Mooney Super Pty Ltd.

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

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

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

23. Directors and Key Management Personnel Disclosures

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

24. Financial Risk Management

(a) Financial risk management

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

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

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

(b) Financial risk management (continued)

The Group holds the following financial instruments:

	2018	2017
	\$	\$
Financial assets		
Cash and cash equivalents	1,935,460	941,981
Trade and other receivables	2,999,244	65,089
	4,934,704	1,007,070
Financial liabilities		
Trade and other payables	3,661,945	1,874,739
Interest bearing liabilities	24,380,000	10,534,000
	28,041,945	12,408,739

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

24. Financial Risk Management (continued)

(c) Market risk

(i) Interest rate risk

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

	30 June 2018		30 June 2017	
	Weighted average effective interest rate %	Balance \$	Weighted average effective interest rate %	Balance \$
Cash and cash equivalents	1.00	1,175,788	1.00	617,845
Interest bearing borrowings	5.00	<u>(24,380,000)</u>	4.70	<u>(10,534,000)</u>
Net exposure to cash flow interest rate risk		<u>(23,204,212)</u>		<u>(9,916,155)</u>

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

The Group has borrowings from the bank and other external parties. The average interest rate payable on the total borrowings at 30 June 2018 was 5.00% (2017: 4.70%). The Group has entered into a fixed interest rate facility for \$19.794m (2017: \$9.119m) of its debt which significantly limits its exposure to increasing variable interest rates from bank and other borrowings.

(ii) Interest rate risk (continued)

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in the profit or securityholders' equity while a positive amount reflects a potential net increase. The analysis is performed on the same basis for 30 June 2017.

Movement in interest rates	Net Profit Higher / (Lower)	
	2018 \$	2017 \$
+ 2.0%	(91,720)	(28,300)
- 2.0%	91,720	28,300

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

24. Financial Risk Management (continued)

(c) Credit risk

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

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

	2018	2017
	\$	\$
Cash and cash equivalents	1,175,788	617,845
Trade and other receivables	2,999,244	65,089
	<u>4,175,032</u>	<u>682,934</u>

(d) Liquidity risk

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

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

24. Financial Risk Management (continued)

(d) Liquidity risk (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	2018	2017
	\$	\$
Bank loans	-	221,000

Financial arrangements at the reporting date:

	Maturing within 1 year	Maturing 1 – 5 years	Total
	\$	\$	\$
At 30 June 2018			
Financial assets			
Cash and cash equivalents	1,175,788		1,175,788
Trade and other receivables	2,999,244		2,999,244
	4,175,032		4,175,032
Financial liabilities			
Trade and other payables	3,661,945		3,661,945
Interest bearing liabilities	4,050,000	20,330,000	24,380,000
	7,711,945	20,330,000	28,041,945
At 30 June 2017			
Financial assets			
Cash and cash equivalents	617,845	-	617,845
Trade and other receivables	65,089	-	65,089
	682,934		682,934
Financial liabilities			
Trade and other payables	1,874,739	-	1,874,739
Interest bearing liabilities	-	10,534,000	10,534,000
	1,874,739	10,534,000	12,408,739

25. Segment Reporting

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

Pelathon Pub Group

Notes to the Financial Statements

For the Year Ended 30 June 2018

26. Parent Financial Information

Summary financial information about the Parent is:

	Pelathon Pub Fund	
	2018	2017
	\$	\$
Current assets	3,154,293	708,796
Non-current assets	40,329,690	29,776,835
Total assets	43,483,983	30,485,631
Current liabilities	5,005,990	455,232
Non-current liabilities	17,560,912	10,550,442
Total liabilities	22,566,902	11,005,674
Unitholders' equity		
Issued units	23,984,355	22,075,623
Accumulated losses	(3,067,274)	(2,595,666)
Total unitholders' equity	20,917,081	19,479,957
Net profit/(loss) attributable to unitholders of the Parent	471,608	7,365,211
Total revenue	2,221,087	986,584

27. Company Details

Principal place of business

The principal place of business of the Group is:
Pelathon Pub Fund
Suite 1, 207 Ben Boyd Road
Neutral Bay, NSW, 2089

Pelathon Pub Group

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 40 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Darren Baker

Director

Sydney, 27 September 2018



David Horton

Director

Sydney, 27 September 2018



Independent Audit Report to the Unitholders of Pelathon Pub Group

Opinion

We have audited the financial report of Pelathon Pub Group (the “Group”), which comprises the consolidated statement of financial position as at 30 June 2018, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

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

- giving a true and fair view of the Group’s financial position as at 30 June 2018 and of its performance for the year then ended; and
- complying with Australian Accounting Standards to the extent described in Note 1, and the Corporations Regulations 2001.

Basis for opinion

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

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

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



Independent Audit Report to the Unitholders of Pelathon Pub Group

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Dated at Sydney on the 27th of September 2018

ESV Accounting and Business Advisors

Tim Valtwies
Partner