Capricorn Diversified Investment Fund

ARSN 139 774 646

ANNUAL REPORT 2019

For year ending 30 June 2019

Capricorn Diversified Investment Fund

RESPONSIBLE ENTITY
CIP Licensing Limited
ACN 603 558 658
AFSL No. 471 728

HLB Mann Judd
Accountants | Business and Financial Advisers

AUDITOR
HLB Mann Judd

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OPERATIONAL REVIEW FOR YEAR ENDED 30 JUNE 2019

The Capricorn Diversified Investment Fund ("CDIF" / "Fund") was established nine years ago with the aim of creating an asset base generating sound income returns with limited volatility. As of 30th June 2019, total assets were $13.87 million, a decline of 7.4 per cent over the previous financial year.

Over the year to 30 June 2019, the assets of the Fund comprised cash, Suncorp House in Rockhampton, an approximate 16 per cent stake in an over 55's lifestyle community (Federation Villages) situated in Melbourne, and investments in solar electricity and a jet aircraft.

During the year the Fund paid distributions totalling 1.0 cents per unit. The Fund began paying distributions in March 2012, and distributions since inception total 27 cents per unit. Of these, 17 distributions have been tax exempt and the remainder a mixture of capital and income. Capital distributions have the impact of reducing the unit price, enabling tax free distributions to be made.

The Fund's investment in Federation Villages (Federation) is represented by its holding of units in Eighth Gate Residences Fund No.6. Returns from the investment comprise a mixture of rental income and deferred management fees captured when residences are sold and totalled about 3.5 per cent for the year. Federation's yield has been weaker than expected on account of slower realisation of the deferred management fees, which are a component of each tenant's lease. Such fees are driven by sales of units when clients vacate, which is in turn affected by the state of property markets and management's ability to effect transactions. Recognising these issues Federation entered into negotiations to improve management capacity, with the result that Ingenia Communities became manager early in the new financial year. We expect Ingenia's influence to result in a significant lift in income received from Federation.

CDIF Solar Pty Ltd is a wholly-owned subsidiary of the Fund, which finances and manages commercial solar arrays. Currently CDIF Solar has 50kw installed on the Tropical Pines Packing shed near Yeppoon and 55kw on Suncorp House. A further 60kw has been installed across Maine Caravan Park and on another commercial building in Rockhampton. There are a large number of solar proposals in the pipeline.

Suncorp House is a commercial building with lettable area of around 1,000m^2 situated in Rockhampton. The building is fully leased to The Investment Collective, Suncorp, and a restaurant known as the BBQ Box. The Suncorp lease comprises two sections of the building and Suncorp has given notice that it wishes to vacate the smaller portion. Regardless of Suncorp's intentions, the lease has a little over a year to run and negotiations with a potential tenant are underway

Early in the 2017/18 financial year the Fund entered into a lease arrangement for a commercial aircraft. Approximately 5 months into the lease, the airline entered into administration and the aircraft was repossessed by the Fund. At the time of repossession the aircraft was due for scheduled heavy maintenance. Despite delays, the maintenance project was generally on track until around February 2019, when testing revealed serious problems with one engine and some electronics. Over several months, the manager explored a number of options for the aircraft to maximise returns to the Fund. These included completing repairs and selling the aircraft, leasing the aircraft under a profit share agreement, or selling the aircraft for parts only.

Despite recent discussions around leasing the aircraft seeming very positive, negotiations broke down at a late stage. It has now been determined that the most appropriate way forward is to sell the aircraft for parts only. Unfortunately this has had the result of materially compromising the carrying value of the aircraft, which has been recognised in the financial statements as a writedown of around $1.96 million. This is an extremely disappointing outcome for unitholders and those who put so much effort into managing the situation.

Over the course of the year the Fund was successful in putting in place a $1 million line of credit with National Australia Bank. This flexible line of credit is available to smooth cash flows and fund investment opportunities in the short term. As a result of uncertainty concerning the value of the aircraft, CDIF management suspended redemptions, distributions, and new investment into the Fund. This measure was undertaken to ensure the Fund had sufficient cash to complete the maintenance project, and also to protect the interests of all unitholders. The intent is to re-open the Fund when a decision is made regarding the future of the aircraft.

The manager continues to investigate further investments which it believes have attractive prospects, but which are difficult or not practical for individuals to own independently.

David French

Managing Director, CIP Licensing Limited

DIRECTORS' REPORT

The Directors of CIP Licensing Limited ("CIPLL"), the Responsible Entity for the Capricorn Diversified Investment Fund, ("the Fund") submit the following statutory report for the Fund for the financial year ended 30 June 2019. CIPLL is an unlisted public company incorporated under the *Corporations Act 2001* , and holds an Australian Financial Services Licence.

In order the comply with the provisions of the *Corporations Act 2001* , the Directors report as follows.

1 : Directors

The names of the Directors of the Responsible Entity who held office at any time during the year and up to the date of this report are as follows.

David Mackay French

Owen Glendower Evans

Lance Patrick Livermore

Christopher John Heyworth

Nigel William Allfrey

2 : Principal Activities

The principal activities of the Fund during the year were those of a managed investment scheme.

3 : Operating and Financial Review

The result of the operations (including unrealised gains and losses) of the Fund during the year was a total comprehensive loss of $1,702,023 (2018 - profit of $702,172).

4 : Investment Strategy

The investment strategy of the Fund is to;

- only invest in financial assets, which may include companies or other unit trusts that invest in asset classes such as equities (Australian and international), property, and fixed interest.

- be a 'long-only' Fund, comprising a portfolio of ASX listed investments and complementary unlisted investments; and

- where appropriate, take positions in unlisted infrastructure and property related entities.

The weightings for each asset class will be determined by the Fund's investment committee.

5 : Distributions

During the 2019 year, 1 distribution of 1.00 cent per issued unit, was made (2018 : 4 distributions of 1.00 cent per unit). No distributions have been declared post year-end.

Distributions for the 2019 year were 100% capital for income tax purposes.

6 : Significant Changes in the State of Affairs

During the year, the Fund loaned $1.19 million to its fully owned subsidiary, Regional Aircraft Leasing Pty Ltd ("RAL") to enable it to meet maintenance and repair costs on the jet aircraft owned by RAL.

The Fund worked to complete the, maintenance project on the aircraft that was previously the subject of a finance lease. In February 2019 the project took an unexpected turn when, during testing, significant problems were found in one engine and with some electronics. The engine was found not to be repairable

Management (with the assistance of industry experts) sought solutions to this problem over several months. However it was ultimately determined that the aircraft should be sold for parts, resulting in a writedown of approximately $1.96 million.

Also, during the year, the Fund obtained a $1 million credit line from the National Australia Bank.

7 : Significant Events After Balance Date

In August 2019, the Fund sold 288,231 Eighth Gate Residences Fund No.6 securities for cash proceeds of $317,054 ($1.10 per security)

In October 2019, negotiations to lease the aircraft owned by Regional Aircraft Leasing were unable to be successfully concluded. Consequently, a decision was made to sell the aircraft for parts. This resulted in a writedown of approximately $1.96m of the investment in Regional Aircraft Leasing.

Other than the above, there has not arisen in the interval between the end of the reporting year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years.

8 : Likely Developments

The Fund will seek to identify new investment opportunities. The aim is to provide steady long-term returns to unitholders in accordance with the Product Disclosure Statement.

DIRECTORS' REPORT (continued)

9 : Indemnification of Directors and Officers

During the financial year, the Responsible Entity paid a premium in respect of a contract insuring the Directors of the Responsible Entity (as named above) against a liability incurred as such a director, secretary, or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year, except the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or any related body corporate against a liability incurred as such an officer or auditor.

10 : Environmental Regulation

The Fund's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

11 : Proceedings on behalf of the Fund

There were no proceedings either by the Fund or against the Fund during the year, or at the date of this report.

12 : Options Granted

No options have been issued in respect of, or over, units in the Fund.

13 : Scheme information to be included in the Directors' Report

The Responsible Entity received $211,966 (2018 - $198,966) in management fees from the Fund during the financial year.

The Responsible Entity and the Directors of the Responsible Entity held the following interests in the Fund at the end of the financial year.

Beneficial owner	Units	Proportionate holding
David French	209,762	1.2%
Owen Evans	295,993	1.7%
Lance Livermore	11,848	0.1%
Christopher Heyworth	101,094	0.6%
Nigel Allfrey	-	0.0%

14 : Auditor Independence

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

Signed on behalf of the Directors of the Responsible Entity, CIP Licensing Limited.

David French

Director, CIP Licensing Limited

24 October 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Capricorn Diversified Investment Fund for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

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

A B Narayanan
Partner

Brisbane, Queensland
24 October 2019

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2019

	Note	2019 $	2018 $
Revenue from continuing operations			
Trust distributions received		220,612	299,817
Gain / (loss) on sales of financial assets		(3,125)	-
Interest income		12,109	46,230
Total revenue		**229,596**	**346,048**
Expenses from continuing operations			
Fair value movement		1,603,873	-
Scheme administration fees		211,966	198,966
Consultants		44,860	780
Borrowing costs		5,000	-
Interest		62,280	73,874
Other expenses		3,639	8,238
Total expenses from continuing operations		**1,931,619**	**281,857**
Operating Profit / (Loss) before tax		**(1,702,023)**	**64,191**
Income tax expense / (benefit)	3	-	-
Profit / (Loss) for the year		**(1,702,023)**	**64,191**
Other comprehensive income			
Unrealised gain / (loss) arising on revaluation of available for sale assets		-	637,981
Total other comprehensive income for the period (net of tax)		**-**	**637,981**
Total comprehensive income for the period		**(1,702,023)**	**702,172**

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 30 June 2019

	Note	2019 $	2018 $
Current Assets			
Cash and cash equivalents	11	52,791	258,023
Trade and other receivables	4	59,085	63,351
Total Current Assets		**111,876**	**321,374**
Non Current Assets			
Financial assets	5	12,596,931	14,538,964
Loans to related parties	6	1,161,635	121,206
Total Non Current Assets		**13,758,566**	**14,660,170**
Total Assets		**13,870,442**	**14,981,544**
Current Liabilities			
Trade and other payables	7	34,500	177,791
Loans from related parties	6	190,000	264,000
Borrowings	8	1,210,091	157,500
Total Current Liabilities		**1,434,591**	**599,291**
Non Current Liabilities			
Borrowings	8	-	984,375
Total Non Current Liabilities		-	**984,375**
Total Liabilities		**1,434,591**	**1,583,666**
Net Assets		**12,435,851**	**13,397,878**
Net Assets Attributable to Unitholders			
Units issued	9	13,516,496	12,608,731
Undistributed income / (retained losses)		(1,080,645)	-
Reserves	10	-	789,147
Total Net Assets Attributable to Unitholders		**12,435,851**	**13,397,878**

The accompanying notes form part of these financial statements

Statement of Changes in Net Assets Attributable to Unitholders for the Year Ended 30 June 2019

	Units issued	Reserves	Undistributed Income	Total Equity
	$		$	$
Balance at 1 July 2017	11,502,210	151,166	-	11,653,376
Profit (Loss) for the year	-	-	64,191	64,191
Other comprehensive income	-	637,981	-	637,981
Units issued - for cash	1,942,432	-	-	1,942,432
Redemption of units	(276,547)	-	-	(276,547)
Payments of income distributions	-	-	(64,191)	(64,191)
Capital returns	(559,364)	-	-	(559,364)
Balance at 30 June 2018	**12,608,731**	**789,147**	**-**	**13,397,878**
Reclassification from available for sale to fair value through profit or loss - AASB 9	-	(789,147)	789,147	-
Balance at 1 July 2018	**12,608,731**	**-**	**789,147**	**13,397,878**
Profit (Loss) for the year	-	-	(1,702,023)	(1,702,023)
Units issued - for cash	1,411,336	-	-	1,411,336
Redemption of units	(503,571)	-	-	(503,571)
Payments of income distributions	-	-	(167,769)	(167,769)
Capital returns	-	-	-	-
Balance at 30 June 2019	**13,516,496**	**-**	**(1,080,645)**	**12,435,851**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the Year Ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Interest received		12,108	46,228
Dividends and trust distributions received		223,638	354,751
Payments to suppliers and employees		(250,788)	(206,500)
Interest paid		(62,280)	(73,874)
Net cash inflows / (outflows) from operating activities	11	**(77,321)**	**120,605**
Cash flows from investing activities			
Payments for purchase of financial assets		-	(2,841,086)
Proceeds from sale of financial assets		335,036	365,650
Net cash outflows from investing activities		**335,036**	**(2,475,436)**
Cash flows from financing activities			
Proceeds from issue of units		1,411,336	1,942,432
Payments for redemption of units		(503,571)	(276,547)
Payments of distributions		(328,390)	(603,497)
Loans made to borrowers		-	(300,000)
Repayment of loans from borrowers		-	300,000
Loan made to related entities		(1,264,429)	(370,294)
Repayment of loans from related entities		153,892	642,088
Proceeds of borrowings - bank		225,716	-
Repayment of borrowings - bank		(157,500)	(157,500)
Net cash inflows from financing activities		**(462,946)**	**1,176,682**
Net increase/(decrease) in cash and cash equivalents		(205,232)	(1,178,149)
Cash and cash equivalents at the beginning of the financial year		258,023	1,436,172
Cash and cash equivalents at the end of the financial year	11	**52,791**	**258,023**

The accompanying notes form part of these financial statements

Notes to the Financial Statements
for the Year Ended 30 June 2019

1. Corporate Information

The Capricorn Diversified Investment Fund ("Fund") is domiciled in Australia. The Responsible Entity, CIP Licensing Limited ("CIPLL"), is an unlisted public company limited by shares incorporated and domiciled in Australia. The ultimate parent entity of CIPLL is CIPL (Holding) Limited, an Australian unlisted public company.
The principal place of business and registered office of the Responsible Entity is Suite 1B, Suncorp House, 103 Bolsover Street, Rockhampton, Queensland.

The objective of the Fund is to construct and maintain a portfolio that meets the requirements of;

- matching identified Fund risk profile to portfolio risk;
- balancing income and growth requirements;
- achieving generally accepted financial standards for diversity with respect to modern portfolio theory (related to risk); and
- lowering the overall cost of management for investors.

These financial statements were authorised for issue by the directors of the Responsible Entity on 24 October 2019.

2. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

The financial statements relate to the entity consisting solely of Capricorn Diversified Investment Fund.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.*

The financial statements have been prepared on an accruals basis and are based on historical costs, apart from financial assets and investment properties which have been measured at fair value.

The Fund is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The Fund has determined that it is an Investment Entity under Australian Accounting Standard AASB 10. Under this standard, an entity is an Investment Entity if (a) it obtains funds from one or more investors for the purpose of providing those investors with investment management services; (b) it commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) it measures and evaluates the performance of substantially all its investments on a fair value basis. As the Fund meets all these criteria, it is an Investment Entity.

The effect of this determination is that controlled entities of the Fund, such as subsidiary companies, are not consolidated with the Fund itself. Instead, investments in controlled entities are recorded at fair value on the Fund's statement of financial position.

Going concern

The Fund's Statement of Financial Position is showing an excess of current liabilities over current assets. This is due to the reclassification of all borrowings as current due to the breaching of the National Australia Bank's earnings to interest cover ratio. The reclassification is required under the relevant Accounting Standards. However, the NAB has confirmed that it will take no action in relation to the breach and will allow repayments and drawdowns to be made as per the loan agreements.

This allows the Fund to repay the $984,375 loan over the period from 1 July 2019 to 29 September 2023 as planned, and also allows it to draw down a further $774,284 under another facility (which is not repayable until 31 May 2021) if these funds are required. Refer Note 12 for details on these facilities.
Consequently, the directors of the Responsible Entity have determined that the Fund is able to pay its debts as and when they fall due, and that it is appropriate for the Fund's financial statements to be prepared on a going concern basis.

Compliance with IFRS's

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Financial instruments

Australian Accounting Standard AASB 9, "Financial Instruments" became effective for annual reporting periods beginning on or after 1 January 2018. The Fund has therefore adopted the Standard from 1 July 2018. Adoption was undertaken via the cumulative effective approach rather than the retrospective approach. That is, comparative figures for the 2018 year were not restated.

Prior to adoption of AASB 9, financial assets were classified into the following categories; (i) available for sale financial assets; and (ii) loans and receivables. The classification depended on the nature and purpose of the financial assets and was determined at the time of initial recognition.
All non "loans and receivable" financial assets held by the Fund were classified as "available for sale" and were stated at fair value. Gains and losses arising from changes in fair value were recognised in other comprehensive income and accumulated in the financial assets reserve, with the exception of impairment losses, interest calculated using the effective interest method, and losses on monetary assets, all of which were recognised in the profit and loss.

As a consequence of the adoption of AASB 9, reserves previously held in equity were transferred to retained earnings on 1 July 2018.

Financial assets and liabilities comprising cash and cash equivalents, distributions receivable, and borrowings held at amortised cost under AASB 139 continue to be held at amortised cost under AASB 9.

Notes to the Financial Statements
for the Year Ended 30 June 2019

Financial instruments (continued)

There was no measurement impact to any financial assets or liabilities upon adoption of AASB 9.

AASB 9 requires that entities classify financial instruments as one of the following - (a) amortised cost (b) fair value through other comprehensive income (c) fair value through profit and loss. The classification is made on the basis of (i) the entity's business model for managing financial assets and (ii) the contractual cash flow characteristics of the financial asset.

The Fund has elected to classify all financial instruments represented by investments in, or loans to, other entities as "fair value through profit and loss". Consequently, all movements in fair value will appear on the profit and loss statement, with no amounts be recognised in other comprehensive income or reserves.

Financial assets and liabilities comprising cash and cash equivalents, distributions receivable, and borrowings held at amortised cost under AASB 139 continue to be held at amortised cost under AASB 9.

There was no measurement impact to any financial assets or liabilities upon adoption of AASB 9.

AASB 9 requires that entities classify financial instruments as one of the following - (a) amortised cost (b) fair value through other comprehensive income (c) fair value through profit and loss. The classification is made on the basis of (i) the entity's business model for managing financial assets and (ii) the contractual cash flow characteristics of the financial asset.

The Fund has elected to classify all financial instruments represented by investments in, or loans to, other entities as "fair value through profit and loss". Consequently, all movements in fair value will appear on the profit and loss statement, with no amounts be recognised in other comprehensive income or reserves.

Recognition of Financial Instruments

All financial assets and liabilities are recognised on the statement of financial position when, and only when, the Fund becomes party to the contractual provisions of the instrument.

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial assets

Financial assets are subsequently measured at either amortised cost or fair value through profit and loss.

Measurement is on the basis of two primary criteria (a) the contractual cashflows of the financial asset and (b) the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost (a) the financial asset is managed solely to collect contractual cashflows and (b) the contractual terms within the financial asset give rise to cashflows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

By default, all other financial assets that do not meet the measurement conditions of amortised cost and fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

The Fund initially designates a financial instrument as measured at fair value through profit or loss if;

- it eliminates or significantly reduces a measurement or recognition inconsistency (often referred to as “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

- it is in accordance with the documented risk management or investment strategy, and information about the groupings was documented appropriately, so that the performance of the financial liability that was part of a group of financial liabilities or financial assets can be managed and evaluated consistently on a fair value basis;

- it is a hybrid contract that contains an embedded derivative that significantly modifies the cash flows otherwise required by the contract.

Financial liabilities

Financial liabilities arising from bank borrowings are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

Financial liabilities arising from borrowings from controlled entities are measured at fair value through the profit or loss, as they do not have defined repayment schedules.

The reclassification of financial liabilities is not permitted under the Accounting Standards.

Derecognition of Financial Instruments

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Notes to the Financial Statements
for the Year Ended 30 June 2019

2. Statement of Significant Accounting Policies (continued)

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Fund no longer controls the asset (ie the Fund has no practical ability to make a unilateral decision to sell the asset to a third party).

Derecognition of financial assets(continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Where such loans and receivables are held with the objective of collecting contractual cash flows and the contractual terms of the loan or receivable contain specified dates for the payment of principal and interest, they are measured at amortised cost using the effective interest method, less any impairment. Loans that do not meet this criteria are classified as fair value through profit and loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cashflows of that investment have been affected.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

The Fund recognises a loss allowance for expected credit losses on financial assets measured at amortised cost.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Where the trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

Loss allowance is not recognised for financial assets measured at fair value through profit or loss.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Fund uses the simplified approach to impairment, as applicable under AASB 9: *Financial Instruments*:

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times. This approach is applicable to trade receivables or contract assets that result from transactions within the scope of AASB 15 Revenue from Contracts with Customers and which do not contact a significant financing component.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

No additional credit losses were recognised upon application of AASB 9.

Fair value estimation

The fair value of instruments that are not traded in active markets is determined using valuation techniques. The Fund may use a variety of methods and makes assumptions that are based on market conditions existing at balance date. Techniques may include reference to the actual price paid in recent sale transactions or quoted redemption prices, or through formal external valuation.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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.

Notes to the Financial Statements
for the Year Ended 30 June 2019

2. Statement of Significant Accounting Policies (continued)

Receivables

Receivables include outstanding settlements and accrued interest and dividend revenue.

Receivables are recognised and carried at original contract / invoice amount less any allowance for impairment.

Other receivables are normally due within 30 days of recognition.

Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund.

Financial liabilities and Equity Instruments Issued

Classification of debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Fund after deducting all of its liabilities. Equity instruments issued by the Fund are recognised at the proceeds received, net of direct issue costs.

Unitholder Funds are classified as equity and disclosed as such in the statement of financial position. Unitholders may only redeem their units at the discretion of the directors of the Responsible Entity.

Transaction costs (net of tax) arising on the issue of ordinary units are recognised in equity as a reduction of the unitholder proceeds received.

Revenue recognition

The Fund has adopted AASB 15 "Revenues from Contracts with Customers" with an initial application date of 1 July 2018.

The Fund has applied AASB 15 using the cumulative effective method. Therefore, the comparative information has not been restated and continues to be presented under AASB 118 and AASB 111. The Fund's income streams of interest, dividends, trust distributions, and gains/losses from financial instruments are all derived from the Fund's financial instruments and therefore fall under the scope of AASB 9. Details of the Fund's revenue recognition policies are outlined below.

Due to the nature of the Fund's revenues, the application of AASB 15 has not had a material effect on the Fund's financial statements.-

Revenue is measured at the fair value of the consideration received or receivable. Major items of revenue are recognised as follows:

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend and trust distribution income

Dividends and trust distributions are recognised when the Fund's right to receive the payment is established. This applies even if they are paid out of pre-acquisition profits.

Taxes

Income tax

The Fund is not subject to income tax provided that all taxable income is distributed to unitholders. All taxable income will be distributed to unitholders, who will pay income tax at their applicable tax rate. Tax losses cannot be distributed to unitholders and will remain within the Fund to offset future taxable income. Consequently, tax effect accounting cannot be applied by the Fund.

Goods and services tax (GST)

The Fund’s revenue from the sale of marketable securities and receipt of dividends and interest are “financial supplies” for GST purposes and are not subject to GST. The Fund’s expenses are classified as being incurred in relation to the making of a financial supply and accordingly input tax credits on expenditure cannot be claimed. The Fund is entitled to claim reduced input tax credits of 75% of the GST paid on qualifying expenditures set out in Regulation 70-5 of the GST Regulations.

Expenses and assets are recognised net of the amount of GST recoverable from the taxation authority. That part of the GST incurred on a purchase of goods and services, which is not recoverable from the taxation authority is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Comparatives

Where required by Accounting Standards comparative figures are adjusted to conform to changes in presentation for the current financial year. Details of any such changes are included in the financial report.

Notes to the Financial Statements
for the Year Ended 30 June 2019

2. Statement of Significant Accounting Policies (continued)

Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Fund's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Measurement of financial assets at fair value through profit and loss

The Fund follows the AASB 9 requirements in classifying financial assets. This classification requires significant judgment as to whether the financial assets are (a) held within a business model whose objective is to hold financial assets in order to collect contractual cashflows and (b) whether the contractual terms of the assets give rise to specified dates for cashflows that are solely payments of principal and interest. Only if neither of these conditions are satisfied can the asset be measured through either comprehensive income or amortised cost.

Management's assessment is that the Fund's equity investments and loans to other entities do not meet these criteria and consequently must be classified as measured at fair value through profit and loss. That is, all unrealised gains and losses will be credited or charged to the profit and loss, as applicable.

(ii) Significant accounting estimates and assumptions

Other financial assets held as available for sale are generally measured at fair value based on recently observed market prices. There is a significant risk that their carrying amount may change materially within the next annual reporting period, however, the changes generally do not arise from management assumptions or other estimates on uncertainty at reporting date, but rather from movement in market values.

Where there is no active market for a financial asset, fair value and net realisable value have been determined by valuation techniques, such as reference to the actual price paid in recent sale transactions or quoted redemption prices, or through formal external valuation.

The Fund has also made significant judgements relating to the various inputs used to estimate the net present value of the investment property owned by its subsidiary, CB Grand Pty Ltd. Details of these inputs are provided in Note 12.

New Standards and Interpretations

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, as per below.

Standard/Interpretation	Application date of Standard - accounting periods commencing on or after	Application date for the Fund
AASB 16 Leases requires that entities recognise operating leases for business premises on their statements of financial position as liabilities with a corresponding "right to occupy" asset. Payments made on these leases will be effectively treated as a combination of capital repayments and interest and the "asset" will be amortised	1 January 2019	1 July 2019

In respect of AASB 16, the Fund does not undertake any lease arrangements. Consequently, it will have no impact.

Notes to the Financial Statements
for the Year Ended 30 June 2019

3. Income Tax

The Fund's net income is not subject to income tax, provided that it pays out all of its net taxable income to its unitholders. During the 2019 financial year, the Fund incurred a tax loss (due to non-assessable trust distributions received) such that all distributions paid to unitholders comprised capital for income tax purposes.

	2019 $	2018 $
4. Trade and Other Receivables		
Trust distribution receivable	51,310	54,337
GST receivable	6,884	8,124
Other	890	890
	59,085	**63,351**

There were no impaired receivables, nor receivables past due not impaired, at 30 June 2019 (2018 : $nil). Refer Note 12 for information on risk exposure.

5. Financial assets

Non-current		
Financial assets		
Unlisted investments	12,596,931	14,538,964
Total non-current investments	**12,596,931**	**14,538,964**

Movements in investments were as follows

Unlisted investments		
Opening balance	14,538,964	11,425,548
Purchases	-	2,841,086
Sales / capital returns	(335,036)	(365,650)
Realised gains/losses	(3,125)	-
Unrealised gains / (losses)	(1,603,873)	637,981
Closing balance	**12,596,931**	**14,538,964**

Refer to Note 12 for further disclosure on risk exposure, fair value measurements, and classifications as they pertain to the assets listed above. ASX-listed and other traded securities are valued at their closing bid price at year end.

Unlisted investments comprise the following assets;

	2019 $	2018 $
CB Grand Pty Ltd - ordinary shares	6,214,604	5,857,764
Eighth Gate Residences Fund No.6 - stapled securities	6,341,085	6,341,085
Regional Aircraft Leasing No.1 Pty Ltd - ordinary shares	39,287	2,000,000
NRW Holdings Limited- amortising note	-	338,161
Other	1,955	1,955
Total	**12,596,931**	**14,538,964**

All unlisted investments have been classified as non-current, as the Fund does not intend to liquidate them within the next 12 months.

The principal asset of CB Grand is the "Suncorp House" building located at 103 Bolsover Street, Rockhampton, Queensland. See further Note 12.

Notes to the Financial Statements
for the Year Ended 30 June 2019

	2019	2018
	$	$
6. Loans to related parties		
Development Services Pty Ltd	30,000	30,000
Regional Aircraft Leasing Pty Ltd	969,633	-
CDIF Solar Pty Ltd	162,002	91,206
	1,161,635	**121,206**
Loans from related parties		
CB Grand Pty Ltd	190,000	40,000
Regional Aircraft Leasing No.1 Pty Ltd	-	224,000
	190,000	**264,000**

As the loans to related parties do not have fixed repayment terms nor accrue interest, they are measured at fair value through profit and loss.

Development Services Pty Ltd, CDIF Solar Pty Ltd, Regional Aircraft Leasing No.1 Pty Ltd, and CB Grand Pty Ltd are all controlled entities (100% owned) of the Fund. However, as the Fund is designated as an Investment Entity under AASB 10, none of the entities are consolidated with the Fund.

7. Trade and other payables		
Distribution payable	-	160,620
Accrued expenses	34,500	17,171
Total trade and other payables	**34,500**	**177,791**

8. Borrowings		
Current		
National Australia Bank	1,210,091	157,500
Non-current		
National Australia Bank (Loan 1)	-	984,375
National Australia Bank (Loan 2)	-	-
	-	**984,375**

National Australia Bank Loan 1 - In September 2015, the Fund borrowed $1,575,000 from the National Australia Bank for the purpose of acquiring units in the Eighth Gate Residences Fund No.6. By 30 June 2019, the principal outstanding had been reduced to $984,375. The facility was renewed in September 2018 with a maturity date of 29 September 2023.

National Australia Bank Loan 2 - This facility was established in May 2019 to provide additional financing flexibility for the Fund. It consists of a facility which may be drawn to a maximum of $1,000,000. The facility must be repaid by 31 May 2021.

The terms of the loan agreements require the Fund to meet a minimum profit to net interest ratio. Due to the loss resulting from the write down of Regional Aircraft Leasing, this covenant had been breached for the year ended 30 June 2019. Consequently, all borrowings have been classified as "current" as at that date.

9. Issued units

As at 30 June 2019, there were 17,146,784 ordinary fully paid units on issue (2018 : 16,026,036)

Unit movements were as follows:	No. of Units	$
Balance at 1 July 2018	14,056,261	11,502,210
Issue of units for cash	2,337,852	1,942,432
Capital returns paid	-	(559,364)
Redemption of units	(332,077)	(276,547)
Balance at 30 June 2018	**16,062,036**	**12,608,731**
Issue of units for cash	1,693,577	1,411,336
Capital returns paid	-	-
Redemption of units	(608,829)	(503,571)
Balance at 30 June 2019	**17,146,784**	**13,516,496**

Units allow unitholders to receive distributions from the Fund in proportion to their unitholding. Units are only redeemable at the discretion of the Responsible Entity.

Notes to the Financial Statements
for the Year Ended 30 June 2019

	2019 $	2018 $
10. Reserves		
Financial asset reserve	-	789,146
	-	**789,146**

The above reserve represents the unrealised gain / (loss) on available for sale financial assets.

Movement in reserve		
Opening balance beginning of year	789,146	151,166
Increases in value of assets	-	637,981
Transfer to retained earnings in accordance with AASB 9 requirements	(789,146)	-
Closing balance end of year	**-**	**789,146**

11. Cash and Cash Equivalents

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents comprise:

Cash at financial institutions	52,791	258,023
	52,791	**258,023**

(b) Reconciliation of profit / (loss) after income tax to net cash outflow from operating activities

Profit (loss) for the year after tax	(1,702,023)	64,191
Fair value movement in investments	1,603,873	-
Accounting loss on sale of investments	3,125	-
(Increase) / decrease in receivables	4,267	55,577
Increase / (decrease) in payables and accruals	13,437	837
Net cash inflows / (outflows) from operating activities	**(77,321)**	**120,605**

12. Financial Instruments Disclosure

(a) Capital risk management

The assets of the Fund chiefly comprise cash and unlisted securities. Via its investment in CB Grand Pty Ltd, the Fund also holds an investment property. These assets have been financed via the issue of units and borrowings.

The Responsible Entity aims to ensure that there is sufficient capital for possible redemptions by unitholders by maintaining a minimum of 5% of its total assets in cash and cash equivalents. Also, redemptions are only permitted at the discretion of the Responsible Entity.

The Fund has no restrictions or specific capital requirements on the application and redemption of units. The Fund's overall investment strategy is detailed in the Directors' report.

Financial assets

Cash at bank	52,791	258,023
Financial assets held at fair value through profit and loss	12,596,931	14,538,964
Distributions receivable	51,310	54,337
Loans to related parties held at fair value through profit and loss	1,161,635	
	121,206	13,862,667
	14,972,530	

Initial application of AASB 9

Upon adoption of AASB 9 by the Fund effective 1 July 2018, it was necessary to reclassify financial assets previously held as available for sale to financial assets held at fair value through profit and loss. This did not change the carrying value of the assets at that date.

Financial liabilities

Borrowings	1,210,091	1,141,875
Distribution payable	-	160,620
	1,210,091	1,302,495

Notes to the Financial Statements
for the Year Ended 30 June 2019

12. Financial Instruments Disclosure (continued)

The Fund's activities expose it to financial risks. These risks can be broadly classified into market risk, credit risk, and liquidity risk. Market risk itself is further comprised of price risk, interest rate risk, and currency risk. The Fund's overall risk management programme focuses on minimising potential adverse effects arising from all these risks on the financial performance of the Fund. Risk management techniques include holding a range of different investments in the portfolio, conducting reviews of existing investments, keeping borrowings to a prudent level and maintaining spare borrowing capacity, and investing only in Australian dollar denominated assets.

The Fund outsources the investment management process to the Responsible Entity, CIP Licensing Limited ("CIPLL"). CIPLL provides services to the Fund, co-ordinates access to financial markets and the local property market, and manages the financial risks relating to the operations of the Fund in accordance with an investment mandate.

Details of these risks, and the effects they have on the profit and loss and equity position of the Fund under different scenarios, are detailed under the relevant headings below.

(a) Market risk

(i) Price risk

Price risk, in the form of equity securities price risk, primarily affects financial assets of the Fund.

The Fund is exposed to fluctuations in the unit price of its investments. These fluctuations are driven by the performance of the underlying Fund or company, but are also impacted the economy generally and the performance of equity markets.

The Fund manages these risks through regular monitoring of each investment and its overall financial position. As the Fund's exposure to other price risk is not material at the end of the reporting period, no sensitivity analysis on the effect of such risk has been provided.

(ii) Interest rate risk

The Fund's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of a change in market interest rates, is minimal in respect of the Fund's assets due to the nature and composition of the assets held. Accordingly, no risk management transactions are entered into. In relation to assets, the only effect of interest rate movements would be to affect the amount of interest revenue derived by the Fund on its cash deposits.

As the Fund has both cash at bank and borrowings, it may be better or worse off from changes in interest rates, depending on how the relative proportions of each. As the Fund's cash holdings at 30 June 2019 were less than its borrowings, then interest rate increases would generally have a negative effect on the Fund's performance.

The interest rate earned on cash at bank is variable, as is the interest charged on borrowings.

The sensitivity analysis below has been calculated based on the Fund's exposure to interest rates at the reporting date and the assumed change taking place at the beginning of the financial year and held constant throughout the reporting period for cash deposits that have floating interest rates.

The effect on the Fund's profit and equity of interest rates increasing or decreasing by 50 basis points is set out below. Such a possible variation over a year is considered reasonable by the Fund.

	Interest rate risk			
2019	**increase 0.5%**		**decrease (0.5%)**	
	Operating Profit	**Equity**	**Operating Profit**	**Equity**
	$	**$**	**$**	**$**
Increase / (decrease)	(5,786)	(5,786)	5,786	5,786
Totals	**(5,786)**	**(5,786)**	**5,786**	**5,786**

Notes to the Financial Statements
for the Year Ended 30 June 2019

12. Financial Instruments Disclosure (continued)

(ii) Interest rate risk (continued)

2018	increase 0.5%		decrease (0.5%)	
	Operating Profit $	Equity $	Operating Profit $	Equity $
Increase / (decrease)	(4,419)	(4,419)	4,419	4,419
Totals	**(4,419)**	**(4,419)**	**4,419**	**4,419**

(iii) Currency risk

The Fund holds only Australian denominated assets, and hence has no currency exposure risk.

(b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets which have been recognised on the balance sheet is the carrying amount. The Fund is not materially exposed to any significant individual credit risk arising from receivables. None of these receivables are secured.

The Fund has adopted a policy of only dealing with creditworthy counter parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Credit risk of financial instruments not past due or individually determined as impaired;

	Not past due or impaired 2019	Not past due or impaired 2018
Cash at bank	52,791	258,023
Trust distributions receivable	51,310	54,337
	104,102	**312,360**

The trust distribution receivable of $51,310 was paid in full by Eighth Gate Residences Fund No.6 in August 2019.

(c) Liquidity risk

As disclosed in the Fund's Product Disclosure Statement, unitholders are not able to redeem their units in the Fund, except at the discretion of the directors of the Responsible Entity. Liquidity risk for the Fund is therefore assessed as very low. During the 2019 and prior years, some units were redeemed following investor requests. Further requests may or may not be granted.

The Fund's investments include unlisted securities, together with a property holding. The unlisted securities and the property holding are not traded in a market and may prove difficult to sell at their fair value within a short timeframe.

Liquidity risk is managed by ensuring that the Fund has sufficient borrowing facilities. The Fund has a facility with the National Australia Bank which would allow it to draw down an additional $774,284 if required. Liquidity risk is also managed by ensuring that redemption requests are not approved unless the Fund is sufficiently liquid.

Notes to the Financial Statements
for the Year Ended 30 June 2019

12. Financial Instruments Disclosure (continued)

The Fund's financial liabilities comprise borrowings, payables, and distributions due to unitholders.

	Weighted Average Interest Rate pa	Total due in less than 12 months	Total due in 12 months to 2 years	Total due in 2 to 5 years	Total due after 5 years	Indefinite
2019		$	$	$	$	$
Financial liabilities						
Trade creditors	-	-	-	-	-	-
Borrowings - National Australia Bank ("NAB")	4.70%	210,999	428,354	722,006	-	-
Total		210,999	428,354	722,006	-	-

The borrowing facility from the NAB comprises two loans. The first requires principal repayments of $13,125 per month and expires on 29 September 2023. The second is an at-call facility with a limit of $1,000,000 with no principal repayments but a facility expiry date of 31 May 2021.

The schedule above shows the amounts of principal and interest payable assuming that the borrowings are repaid as per the lending agreements. As the Fund had breached its NAB borrowing covenant at 30 June 2019, all borrowings are disclosed as "current" on the statement of financial position. If the loans had to be repaid immediately, the amount payable would be $1,210,091.

2018						
Financial liabilities						
Trade creditors	-	-	-	-	-	-
Borrowings - National Australia Bank	6.27%	224,569	214,694	584,831	359,724	-
Distribution payable	-	160,620	-	-	-	-
Total		**385,189**	**214,694**	**584,831**	**359,724**	**-**

(d) Other market risks

The Fund is exposed to fluctuations in the property market through its investment in its fully owned subsidiary, CB Grand Pty Ltd. The property investment is managed by the Responsible Entity in accordance with the Fund's constitution. The Responsible Entity manages all facets of managing the property, all administrative matters involving the tenant, and all statutory requirements.

At year end, CIPL (Holding) Limited and Suncorp occupied the majority of the premises. There is a risk that the property may not be able to be fully leased, or the actual income received will be less than expected due to lower than expected rentals. If this occurs, income from the investment, and its resultant value, will be reduced. This will result in a reduction in the value of the Fund's investment in CB Grand, and a charge against the assets and income of the Fund.

(e) Net fair values

The fair value of financial assets must be estimated for recognition and measurement or for disclosure purposes. The carrying amounts of trade receivables and payables are assumed to approximate their fair value due to their short term nature.

The Fund has adopted the amendment to AASB 7 Financial Instruments : Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy :

(a) quoted price (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

Notes to the Financial Statements
for the Year Ended 30 June 2019

12. Financial Instruments Disclosure (continued)

The following table presents the Fund's assets measured and recognised at fair value.

Fund - as at 30 June 2019

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets held at fair value through profit and loss	-	-	13,758,566	13,758,566
Total assets	-	-	13,758,566	13,758,566

Fund - as at 30 June 2018

	Level 1	Level 2	Level 3	Total
Assets				
Other financial assets held as available for sale	-	338,161	14,200,803	14,538,964
Total assets	-	338,161	14,200,803	14,538,964

The fair value of financial instruments that are not traded in an active market (for example, unlisted securities) is determined using valuation techniques. These instruments are included in Level 3. Level 3 financial assets consist of shares in CB Grand Pty Ltd ("CB Grand"), units in Eighth Gate Residences Fund No.6, and shares in Regional Aircraft Leasing No.1 Pty Ltd.

The following table presents the change in level 3 instruments.

Fund

	2019	2018
Opening balance	14,200,803	10,725,432
Securities acquired	-	2,841,086
Loans made to related parties	1,264,429	-
Loans made to related parties reclassified as Level 3 investments	(102,794)	-
Revaluations / (Decreases) in fair value	(1,603,873)	634,286
Closing balance	**13,758,565**	**14,200,803**

Valuation of investment in CB Grand Pty Ltd

The shares held by the Fund in CB Grand comprise a material investment of the Fund. Consequently, further details on the basis of the calculation of the value of these shares and the relevant underlying assumptions are provided below.

As CB Grand is 100% owned by the Fund, the fair value of its investment in CB Grand is determined by reference to the value of the net assets of CB Grand. Movements in the value of these underlying assets will directly affect the value of the Fund's investment.

As at 30 June 2019, the net assets of CB Grand were $6.214 million. This figure comprised financial assets of around $682,000, fixed assets/plant & equipment of approximately $197,000, and Suncorp House, valued at approximately $5.38 million. Details on the movement in the carrying amount of Suncorp House are provided below.

	2019	2018
Opening carrying value	5,196,416	5,212,935
Add - increase in fair value	187,996	-
Less - impairment	-	(16,519)
Carrying value at end of year	**5,384,412**	**5,196,416**

Suncorp House is situated at 103 Bolsover Street, Rockhampton, Queensland. The property's development was completed in January 2014 and tenants moved in shortly thereafter. Changes in the value of Suncorp House will directly affect the value of the CB Grand shares owned by the Fund. Details regarding the valuation of Suncorp House are set out below.

Notes to the Financial Statements for the Year Ended 30 June 2019

12. Financial Instruments Disclosure (continued)

Valuation methodology and key assumptions used to value Suncorp House

The 30 June 2019 valuation has been calculated by management via a Net Present Value ("NPV") model of the expected future cashflows from the building. This NPV methodology gave an estimated value for the property of $5,384,412 compared to a carrying value of $5,196,416. Consequently, the carrying value of the property has been increased by $187,996 to reflect the difference in the NPV calculated.

In order to estimate the NPV as at 30 June 2019, it is necessary to make several key assumptions. These are set out below;

(a) Discount rate

The discount rate selected for the NPV calculation is 7.0% (2018 - 8.0%). This is in line with the yield observed on similar properties in the Rockhampton area. It also takes into account current market interest rates. The rate has been reduced by 1.0% from 2018 to reflect the general decline in interest rates and yields since that time.

(b) Rental income & vacancy rates

At 30 June 2019, the building was fully occupied by Suncorp, CIPL (Holdings) Limited, and a restaurant. The current vacancy rate is therefore zero. The model has used current rents paid by each tenant as a starting point for estimating income.

An average vacancy rate of 8.3% (2018 - 10.5%) has been assumed over the building's life.

(c) Outgoings

These have been based on actual expenses incurred during the 2019 year, then adjusted for future increases as per below.

(d) Growth of income and expenses

Rental income has been assumed to increase at a rate of 3.4% pa, (2018 - 3.4%) as allowed by the Suncorp and CIPL leases while expenses have been assumed to rise at the CPI of 1.75% pa (2018 - 2.25%).

(e) Surplus land

There is approximately 677 sq metres of remaining land space for further development or sale. To be conservative, 298 sq metres of this land has been classified as surplus and is valued at $179,400. (2018 - $179,400).

(f) Project life

The project has been assumed to have a remaining life of 19 years. A terminal value of the building at the end of the 19 year period has been assumed as being approximately the same as the current land value.

Sensitivity of valuation to changes in assumptions

The NPV model is sensitive to changes in its input assumptions. Factors affecting the valuation of the building include future vacancy rates, rent and expense increases, the property market generally, and changes to the discount rate.

Valuation of Eighth Gate Residences Fund No.6 ("Eighth Gate") Units

Initially, 3,000,000 units in Eighth Gate were acquired over August and September 2015 for a total consideration of $3,000,000. A further 2,000,000 units were acquired for $2,000,000 by the Fund in October 2016, and 764,623 more units for $841,085 in April 2018. This brings the total cash investment in Eighth Gate to $5,841,085. Eighth Gate builds and operates affordable manufactured home estates and mixed use lifestyle communities.

In August 2019, Eighth Gate undertook a refinancing which involved the injection of additional equity from an ASX-listed entity, Ingenia. As part of this refinancing, Eighth Gate investors were able to sell up to 5% of their holdings to the ASX-listed entity. The Fund chose to accept this offer and consequently sold 5% of its holdings at a price of $1.10 per security. This price is therefore used to value the remaining units..

Valuation of Regional Aircraft Leasing No.1 ("RAL") Shares and Loan

CDIF invested $2,000,000 cash into RAL in July 2017. The funds were used to acquire an aircraft for lease to a commercial airline. The airline entered administration in early 2018 and the aircraft was repossessed by RAL. Subsequently it became apparent that considerable expenditure would be required on repairs and maintenance to bring the aircraft to a saleable condition in order to generate the best returns for unitholders.

During the 2019 financial year, CDIF loaned $1,193,634 to RAL in additional funding for this purpose. As CDIF had owed RAL $224,000 at 30 June 2018, this resulted in RAL owing CDIF $969,634 at 30 June 2019. Over the course of the maintenance work, it was determined that more work was required than initially anticipated. CDIF investigated a range of possible options including sale of the aircraft as-is (scrap value), completing repairs and leasing the aircraft under a profit-share agreement, or completing repairs and making an outright sale of the aircraft in a flyable condition.

For the purposes of preparing these financial statements, the aircraft valued at its scrap value of approximately $A1,000,000. This price is based on external offers received and the 30 June 2019 $A/$US exchange rate of 0.7013. Consequently, the shares held in RAL by CDIF have been written down from $2,000,000 to $39,287. The loan from CDIF to RAL of $969,634 has been assessed as fully recoverable based on the $1,000,000 aircraft valuation and other non-aircraft assets held in RAL.

Notes to the Financial Statements
for the Year Ended 30 June 2019

13. Auditor's Remuneration

	2019 $	2018 $
Remuneration of HLB Mann Judd, the auditor of the Fund:	-	-
Other services - tax and accounting *	-	-
	-	-

* - In 2019 and 2018, the audit fees were paid by CIP Licensing Limited and not on-charged to the Fund.

14. Events Subsequent to Balance Date

In August 2019, the Fund sold 288,231 Eighth Gate Residences Fund No.6 securities for cash proceeds of $317,054 ($1.10 per security)

In October 2019, negotiations to lease the aircraft owned by Regional Aircraft Leasing were unable to be successfully concluded. Consequently, a decision was made to sell the aircraft for parts. This resulted in a writedown of approximately $1.96m of the investment in Regional Aircraft Leasing.

Other than the above, there has not arisen in the interval between the end of the reporting year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years.

15. Contingent Liabilities

There were no contingent liabilities existing at year end (2018 - nil).

16. Commitments

There were no commitments at 30 June 2019 (2018 - nil).

17. Controlled Entities

Entity name	Country of incorporation	Percentage owned 2019	Percentage owned 2018
CB Grand Pty Ltd	Australia	100%	100%
Development Services Pty Ltd	Australia	100%	100%
Regional Aircraft Leasing No.1 Pty Ltd	Australia	100%	100%
CDIF Solar Pty Ltd	Australia	100%	100%

Although the Fund has no legal ownership of the shares in Development Services Pty Ltd, it is considered a controlled entity of the Fund. This is because; (i) David French is a director the Fund's Responsible Entity and is also the sole shareholder (as trustee on behalf of the Fund) of Development Services Pty Ltd, and, (ii) The purpose of Development Services Pty Ltd is to hold the liquor licence of the former Grand Hotel which could be used by a new restaurant or bar should one be established in the available space.

None of the controlled entities are consolidated with the Fund, as the Fund is classified as an Investment Entity under AASB 10.

18. Fund details

The Responsible Entity of the Fund is CIP Licensing Limited ACN 603 558 658, which has its registered office at Suite 1B, 103 Bolsover Street, Rockhampton QLD 4700.

Notes to the Financial Statements
for the Year Ended 30 June 2019

19. Related Party Disclosures

(a) Units held by Directors of the Responsible Entity

The number of units in the Fund held during the year by each Director in office during the year, including the directors' personally related entities, is set out below.

2019

Name	Balance at the beginning of the year	Purchased	Sold / redeemed	Balance at end of the year
David French	209,762	-	-	209,762
Owen Evans	292,806	3,187	-	295,993
Lance Livermore	11,848	-	-	11,848
Chris Heyworth	83,324	17,770	-	101,094
Nigel Allfrey	-	-	-	-

2018

Name	Balance at the beginning of the year	Purchased	Sold / redeemed	Balance at end of the year
David French	209,762	-	-	209,762
Owen Evans	286,632	6,174	-	292,806
Lance Livermore	11,848	-	-	11,848
Chris Heyworth	83,324	-	-	83,324
Nigel Allfrey	-	-	-	-

(b) Transactions with related entities

The related entities of the Fund comprised CIP Licensing Limited, Capricorn Investment Partners Pty Ltd, CB Grand Pty Ltd, CDIF Solar Pty Ltd, CIPL (Holding) Limited, Regional Aircraft Leasing Pty Ltd, and Development Services Pty Ltd. The transactions with these parties are set out below.

	2019 $	2018 $
Management services fee paid to CIP Licensing Limited	211,966	198,966
Investment in shares in Regional Aircraft Leasing No.1 Pty Ltd	2,000,000	2,000,000
Amounts owed to CB Grand Pty Ltd	190,000	40,000
Amounts owed to Regional Aircraft Leasing No.1 Pty Ltd	-	224,000
Amounts owed by Regional Aircraft Leasing No.1 Pty Ltd	969,633	-
Amount owing from Development Services Pty Ltd at year end	30,000	30,000
Amounts owed by CDIF Solar Pty Ltd	162,002	91,206

CB Grand Pty Ltd, Development Services Pty Ltd, Regional Aircraft Leasing No.1 Pty Ltd, and CDIF Solar Pty Ltd are all fully owned subsidiaries of the Fund.

Directors' Declaration

The Directors of the Responsible Entity declare that;

1. The financial statements and notes, as set out in pages 6 to 24, are in accordance with the Corporations Act 2001 and;
   a) Comply with Australian Accounting Standards, which as stated in accounting policy Note 2, comply with International Financial Reporting Standards ("IFRS") and;
   b) give a true and fair view of the Scheme's financial position at 30 June 2019 and of its performance for the year ended on that date.

2. In the Directors' opinion, there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due.

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

David French, Director, CIP Licensing Limited

24 October 2019

HLB MANN JUDD

Independent Auditor's Report to the Members of Capricorn Diversified Investment Fund

Opinion

We have audited the financial report of Capricorn Diversified Investment Fund ("the Fund") which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in net assets attributable to unitholders and the statement of cash flows 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 the Fund is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

b) 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 Fund 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.

Emphasis of Matter – Going Concern

We draw attention to Note 2: Basis of Preparation in the financial report, which indicates that as of 30 June 2019, the Fund's current liabilities exceeded its current assets. This is a result of all bank borrowings being reclassified as current liabilities due to a technical breach of a loan covenant that has not been rectified or approved by the bank prior to 30 June 2019. As Note 2 indicates, the lender has confirmed subsequent to year end that it will take no action over the breach, and the Fund may repay its borrowings as set out in the loan agreements. We draw attention to this matter in the context of the Fund continuing as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity of the Fund 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 Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using

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the going concern basis of accounting unless the directors either intend to liquidate the Fund 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 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 Responsible Entity'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 Fund's ability to continue as a going concern. 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 Fund to cease to continue as a going concern.
- 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.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants
Brisbane, Queensland
24 October 2019

Adrian

A B Narayanan
Partner