APN | Convenience Retail REIT

Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
Convenience Retail REIT No. 3 ARSN 619 527 856

ANNUAL REPORT 2021

APN | Property Group

APN Funds Management Limited
ACN 080 674 479 AFSL No 237500

APN Convenience Retail REIT is a listed Australian Real Estate Investment Trust (“REIT”) (ASX code: AQR) that wholly owns a portfolio of 98 service station and convenience retail assets located across Australia with a skew towards the eastern seaboard, independently valued at $633 million. The portfolio is leased to high-quality tenants on attractive, long-term leases. The objective of the REIT is to provide investors with sustainable and stable income and the potential for both income and capital growth through annual rental increases.

Contents

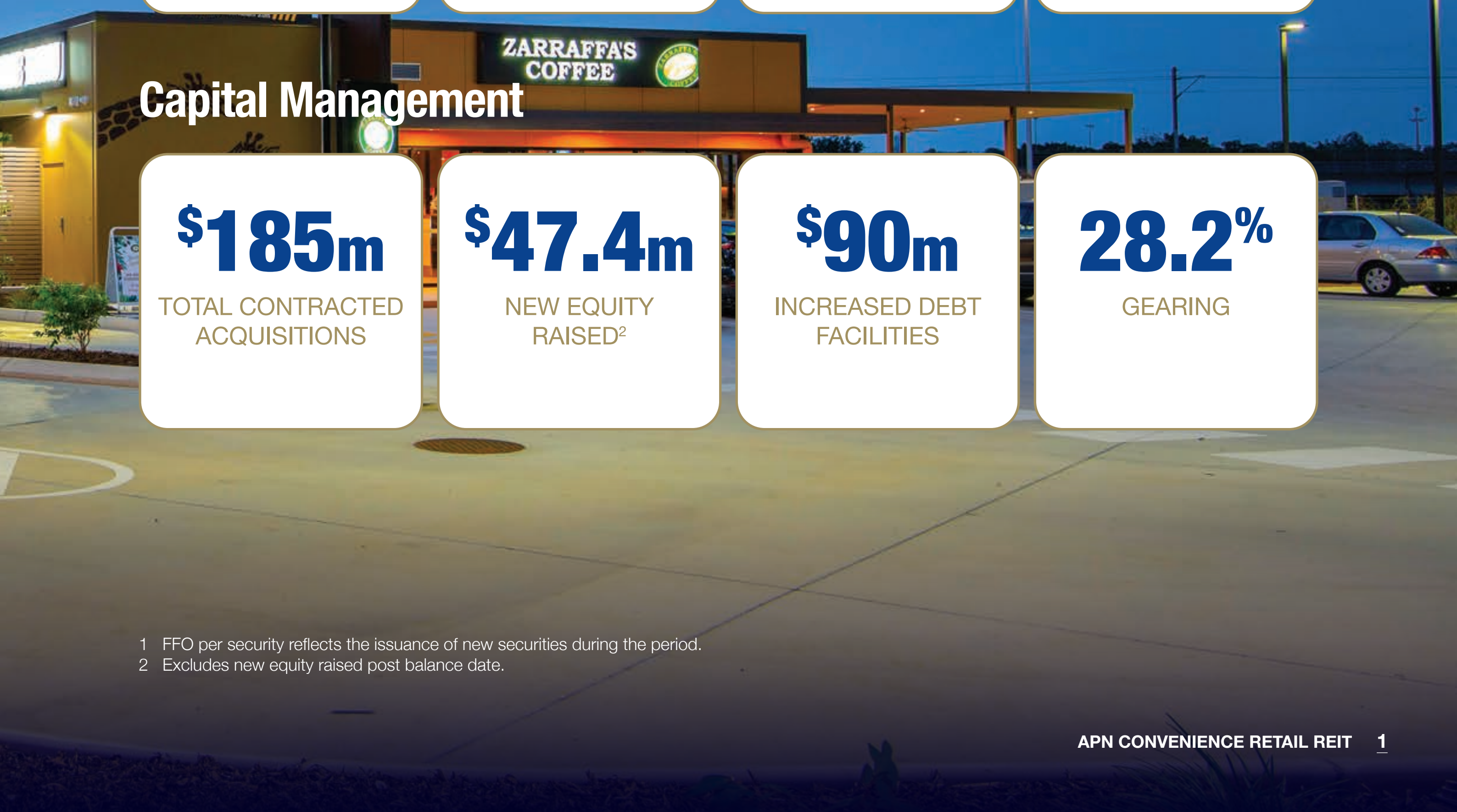
Performance snapshot

Financial Performance

21.9c DISTRIBUTION PER SECURITY ▲ 0.5% on FY2020	**21.9c** FFO PER SECURITY ▲ 1.4% on FY2020[1]	**$3.67** NTA PER SECURITY ▲ 12.2% from June 2020	**80.2%** TAX DEFERRED DISTRIBUTIONS

Portfolio Performance

$53.9m 12.1% LIKE FOR LIKE VALUATION UPLIFT	**15** NEW LONG TERM LEASES COMPLETED	**3.0%** CONTRACTED ANNUAL RENTAL GROWTH	**11.9yrs** WEIGHTED AVERAGE LEASE EXPIRY ▲ from 10.6yrs at June 2020



Capital Management

$185m TOTAL CONTRACTED ACQUISITIONS	**$47.4m** NEW EQUITY RAISED[2]	**$90m** INCREASED DEBT FACILITIES	**28.2%** GEARING

1 FFO per security reflects the issuance of new securities during the period.
2 Excludes new equity raised post balance date.

LETTER FROM THE FUND MANAGER

Dear Securityholders

It is my pleasure to present the Annual Report for APN Convenience Retail REIT (the 'Fund') for the financial year ended 30 June 2021.

In what has been another challenging year of uncertainty due to COVID-19, I'm pleased to report that APN Convenience Retail REIT has again remained resilient and in a very healthy position, with the majority of the Fund's income generated from long-term leases to well-capitalised national and international tenants that continue to provide essential services in the local communities they serve.

The Fund's investments are defensive due to their exposure to non-discretionary spending, and the portfolio is unique and considered difficult to replicate given the limited availability of strategically located land which is not impacted by zoning restrictions. These factors will ensure that this asset class continues to be a sought-after investment and reliable income source.

Financial results

During the year, APN Convenience Retail REIT recorded a statutory profit of $73.8 million.

The Fund distributed $26.4 million in FY21, or 21.9 cents per security, representing a 0.5% increase on FY20. Distributions for the year also benefitted from a high tax deferral component of 80.2%. This income combined with the Fund's security price performance has resulted in a total return for securityholders for the financial year of 12.9%.

Funds from Operations (FFO) for the year was $25.9 million, representing an increase of 34.6% on FY20. On a per security basis, FFO of 21.9 cents per security represents a 1.4% increase on FY20 due to the issuance of new securities during the year. The increase in FFO was predominately a result of a 26.1% increase in net property income which was driven by like-for-like property rental growth of 2.8% as well as the contribution from acquisitions and development projects completed during the year.

Net tangible assets (NTA) per security increased during the year by 40 cents, or 12.2%, to $3.67.

Property performance

The portfolio continues to be resilient during the COVID-19 pandemic, with all sites remaining open and trading. We expect service station and convenience retail properties to remain highly sought after as a stable and defensive asset class due to their long leases, strong lease covenants and exposure to non-discretionary spending.

The portfolio is well diversified by geography, tenant and site type. It is underpinned by long-term leases to high quality and experienced national and global tenants, with 94% of the rental income derived directly from major service station tenants.

The portfolio is 99.6% occupied and is supported by a long weighted average lease expiry (WALE) of 11.9 years. During the year, we successfully secured new long-term lease deals with major fuel tenants at 15 properties, enhancing the Fund's lease expiry profile and providing securityholders with a stronger level of income security with 92% of rental income expiring in FY30 and beyond.

The Fund is able to provide a sustainable and growing income stream with 89% of rental income being subject to annual increases of 2.75% or more and 11% being linked to CPI rental escalations, resulting in an average portfolio rental growth of 3.0% per annum.[1]

As at 30 June 2021, the total portfolio comprised 98 properties, with the total portfolio value increasing by $184.5 million, or 41.2%, during the financial year. This increase was driven by $130.6 million of completed acquisitions and developments and a $53.9 million revaluation uplift.

The portfolio's weighted average capitalisation rate tightened by 56 basis points to 6.02% with all properties being the subject of independent valuations during the year.

Continued execution of successful acquisition strategy

During the year we successfully contracted $185 million of property acquisitions of which $111.9 million settled during the financial year, while $73.1 million will settle post-financial year end.

Subsequent to financial year end, the Fund has also contracted a further $28.6 million of property acquisitions which are due to settle by the end of September 2021, and a further $8.2 million property acquisition is currently in exclusive due diligence.

These transactions have contributed to extending the portfolio WALE, improving geographic diversification and strengthening the quality and diversification of tenants. They demonstrate that we continue to be active in sourcing and executing on new investment opportunities while maintaining a focused approach to our acquisition growth strategy of developing partnerships with developers and tenants to enhance the Fund and create long-term sustainable value for securityholders.

1. Assumes CPI of 1.0% p.a

Capital management

Total drawn debt at 30 June 2021 was $181.5 million, resulting in a gearing ratio of 28.2%.

During the financial year, the Fund raised $47.4 million of new equity comprising:

- a $30 million of fully underwritten institutional placement
- $15 million from security purchase plans; and
- $2.4 million proceeds from the Fund's Distribution Reinvestment Plan (DRP) for the June 2020, September 2020 and December 2020 quarters.

Subsequent to financial year end, the DRP continued to operate for the June 2021 quarter raising a further $0.8 million.

During the year, we increased the total debt facility limit by $90 million and introduced a new financier to the banking syndicate. The new facility limit has lengthened the average debt tenor and improved funding and flexibility that will support our growth plans.

We also completed $50 million of interest rate hedge transactions during the financial year, resulting in a lower fixed interest rate and a longer hedge maturity profile.

The equity raisings and our recent capital management initiatives have supported the Fund's growth and we continue to manage our capital and debt to ensure the Fund remains well placed to deliver on our strategy of investing in strategically located convenience retail assets while maintaining a prudent level of gearing. We appreciate the ongoing strong support we receive from our securityholders and from our financiers.

Strategy and outlook

As we move into FY22, you will see a number of changes to the branding to APN Convenience Retail REIT following the acquisition of APN Property Group (the manager) by Dexus. Dexus is a Top 50 ASX listed company, with a market capitalisation of $11.2 billion, with investments across the real estate sub-sectors including office, industrial, retail and healthcare. Dexus has a like-minded investment philosophy to APN, as well as an integrated real estate management platform that has established expertise in investment and development, with an extensive track record of value creation. AQR securityholders will also gain access to a deeper pool of growth opportunities, given Dexus's reach across its $42.5 billion portfolio that is managed by over 500 employees.

From a governance perspective, the existing APN arrangements will remain, including the continuation of the independent Responsible Entity Board that has overseen the delivery of the strategy since IPO in 2017.

As a result of Dexus acquiring APN, the Fund will rebrand to Dexus Convenience Retail REIT and the ticker code will be DXC. These changes are planned to take effect on 1 October 2021.

Finally, at a time where the majority of Australia's eastern seaboard is in lockdown due to the COVID-19 Delta strain outbreak, creating significant uncertainty and disruption to many, the Fund remains in a healthy position. The portfolio is resilient providing essential services and is underpinned by long term leases to well-capitalised national and international tenants ensuring we continue delivering secure income and capital growth to securityholders.

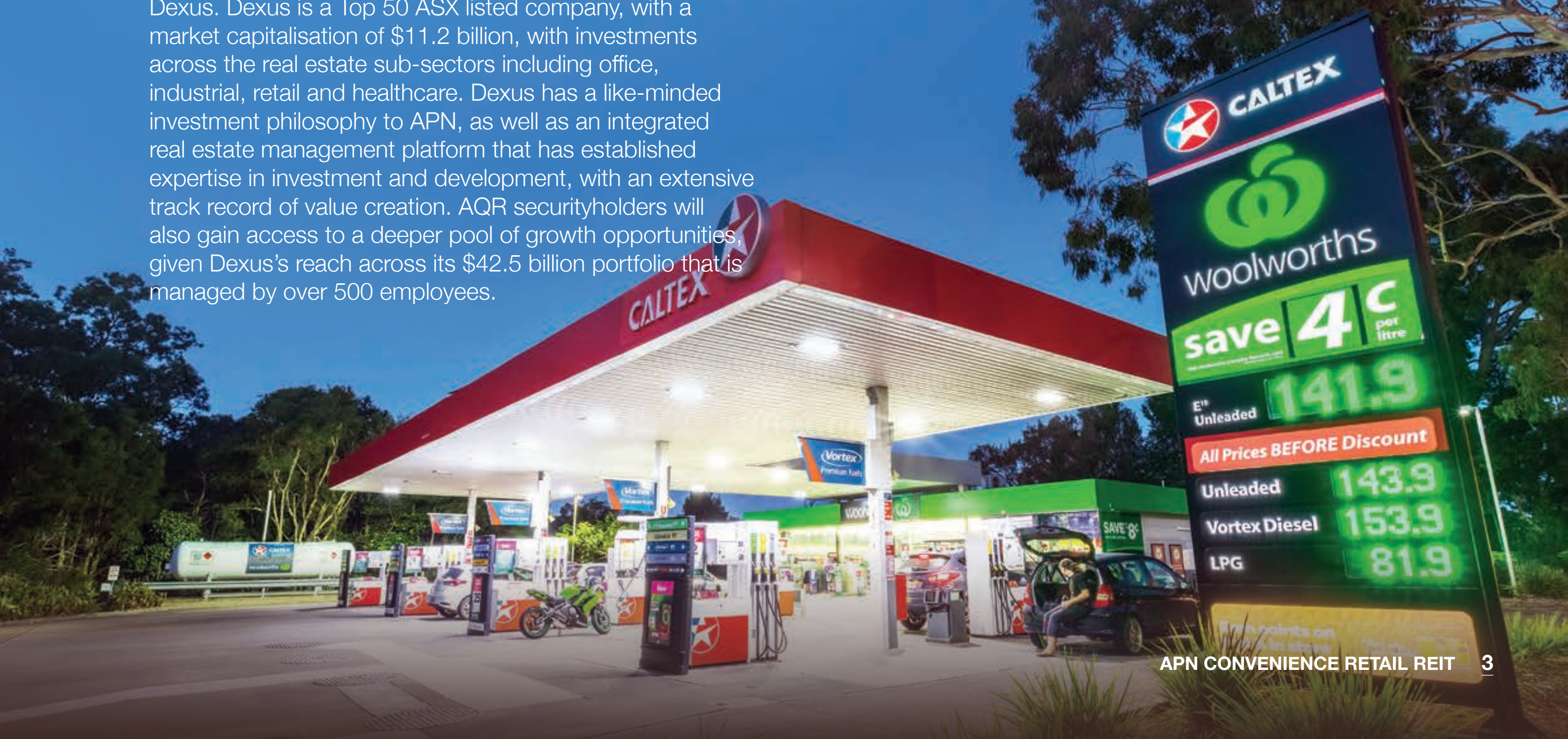
We have a clear and focused acquisition strategy backed by a strong balance sheet with capacity to pursue further accretive acquisition opportunities.

FY22 FFO and distribution guidance is 22.9 cents per security, reflecting an increase of 4.6% on FY21. This guidance is subject to current market conditions continuing and no unforeseen events.

I would like to take this opportunity to thank you for your continued support of APN Convenience Retail REIT, and we look forward to another successful year ahead.

Yours sincerely,

Chris Brockett
Fund Manager
APN Convenience Retail REIT



ABOUT THE MANAGER

Dexus - one of Australia's leading fully integrated real estate groups

The Responsible Entity and Manager of APN Convenience Retail REIT (ASX:AQR) is together APN Funds Management Limited (APN FM). The ultimate and immediate parent entity of APN FM, APN Property Group (ASX: APD), was acquired by Dexus Nominee Pty Ltd an entity controlled by Dexus on 13 August 2021.

Dexus maintains a 10% stake in the Fund, demonstrating continued alignment and the management team has been retained.

Securityholders will benefit from a like-minded investment philosophy, as well as an integrated real estate management platform:

- Established expertise in property investment and development, with an extensive track record of value creation
- Access to a deeper pool of acquisition opportunities

Existing governance arrangements will remain, including the independent Responsible Entity Board.

Strong investor alignment

- Dexus is strongly aligned to delivering investor returns – owning a co-investment stake in AQR
- Dexus provides capital capacity to make co-investments as a Top 50 entity on the ASX

Specialist leading manager of Australian real estate

- $42.5 billion under management
- Full-service platform with a track record of delivering out-performance
- Vision to be recognised as Australia's leading real estate company

Leading ESG credentials

- Delivering long-term value by focusing on issues that matter to stakeholders
- Best practice corporate governance trusted by leading global investors
- Recognised global leader in sustainability

Leveraging platform scale

- Broad Australian real estate expertise spanning office, industrial, retail and healthcare sectors
- Platform scale providing unparalleled access to leasing and acquisition deal-flow and market intelligence
- Unique customer propositions driving tenant attraction and retention translating to investment performance

SENIOR MANAGEMENT

Chris Brockett
Fund Manager

Chris joined APN in March 2016 and was previously responsible for managing the Direct Property Funds business before the listing of the Convenience Retail REIT.

Chris has over 15 years of experience in direct real estate, funds and asset management, predominately in the retail property space.

Prior to joining APN, Chris was with Vicinity Centres for over 13 years, where he held a number of senior roles including Head of their Unlisted Funds Management business (formerly known as Centro MCS Direct Property) where he was responsible for funds under management of $1.7 billion, comprising 75 properties, across a number of Australian, New Zealand and US unlisted property funds. More recently, he has been responsible for managing Vicinity Centres' key joint venture partnerships.

Chris holds a Bachelor of Business at Swinburne University and is also a member of the Institute of Chartered Accountants Australia and New Zealand.

Jessie Chen
Head of Accounting - Managed Funds

Jessie has extensive experience across financial reporting, internal controls and external audit, and leads a team that is responsible for accounting, taxation and treasury across all managed funds at APN Property Group.

Prior to joining APN, Jessie's professional career includes over eight years at Deloitte where she provided assurance and advisory services to a range of ASX listed, multinational and boutique wealth management companies reporting under international accounting standards.

She holds a Bachelor of Commerce/ Media & Communications from the University of Melbourne, and is a member of Chartered Accountants Australia and New Zealand.

Gordon Korkie
Business Manager – Direct Real Estate

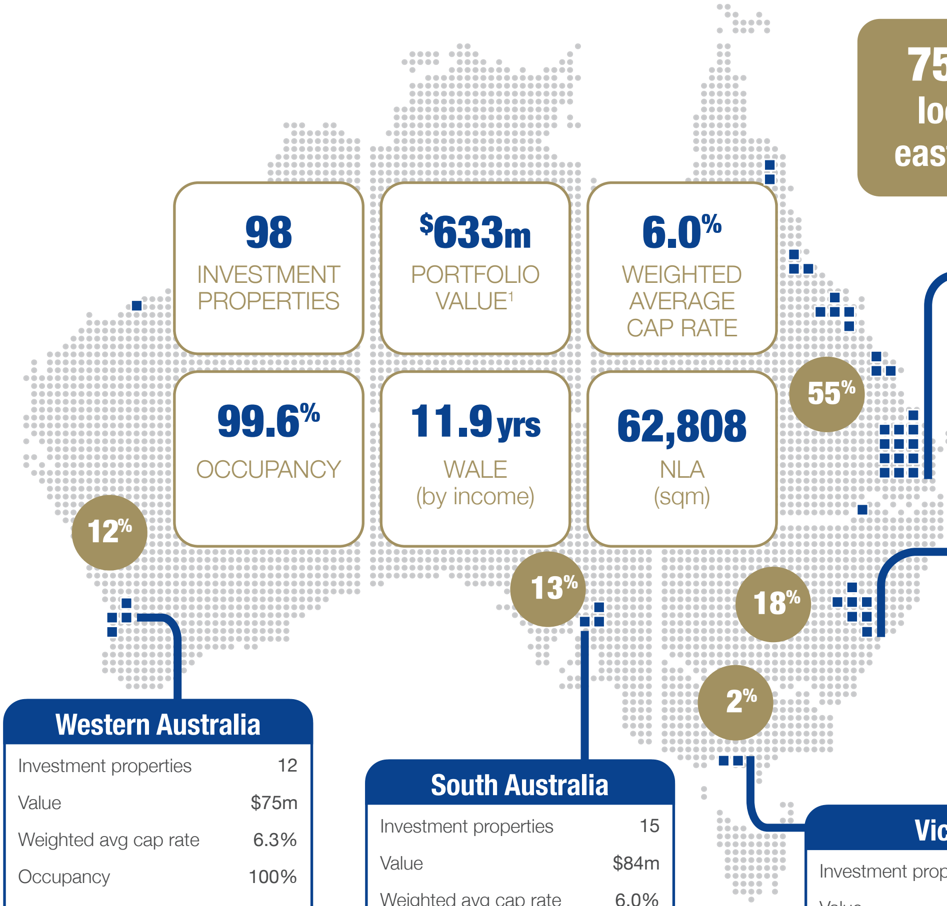
Gordon has over nine years' experience in the property industry across retail, office and industrial sectors, working across funds management, corporate advisory, investment management and investor relations. Gordon joined APN funds management in August 2016 with previous roles at Federation Centres (now Vicinity Centres) and within equity research at Credit Suisse.

Gordon holds a Bachelor of Management Studies (1st Class Honours) from the University of Waikato and a Master of Commerce from the University of New South Wales.

DIVERSIFIED PORTFOLIO

Portfolio overview as at 30 June 2021

75% of the portfolio is located in Australia's eastern seaboard states



98 INVESTMENT PROPERTIES	**$633m** PORTFOLIO VALUE[1]	**6.0%** WEIGHTED AVERAGE CAP RATE
99.6% OCCUPANCY	**11.9yrs** WALE (by income)	**62,808** NLA (sqm)

Queensland	
Investment properties	59
Value	$345m
Weighted avg cap rate	6.2%
Occupancy	99.4%
WALE (years by income)	10.9

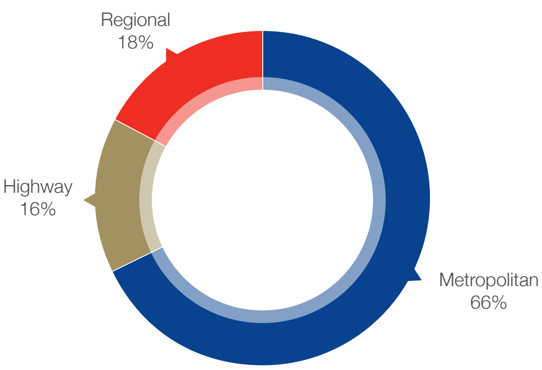
New South Wales	
Investment properties	10
Value	$113m
Weighted avg cap rate	5.5%
Occupancy	100%
WALE (years by income)	12.0

Western Australia	
Investment properties	12
Value	$75m
Weighted avg cap rate	6.3%
Occupancy	100%
WALE (years by income)	12.0

South Australia	
Investment properties	15
Value	$84m
Weighted avg cap rate	6.0%
Occupancy	100%
WALE (years by income)	16.1

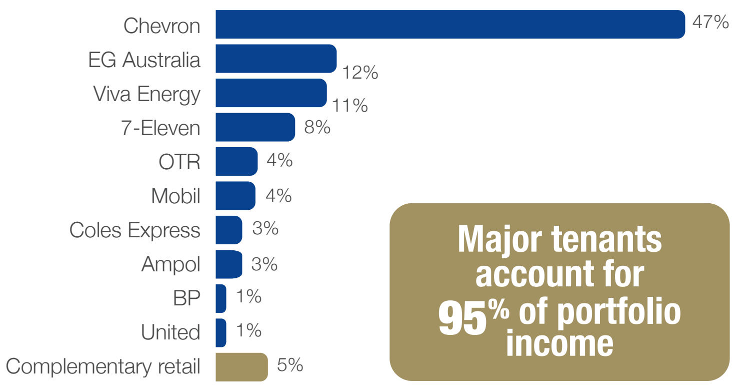
Victoria	
Investment properties	2
Value	$11m
Weighted avg cap rate	4.7%
Occupancy (by area)	100%
WALE (years by income)	9.5

Portfolio by classification



82% of the portfolio are metropolitan or highway sites

Top tenants by income



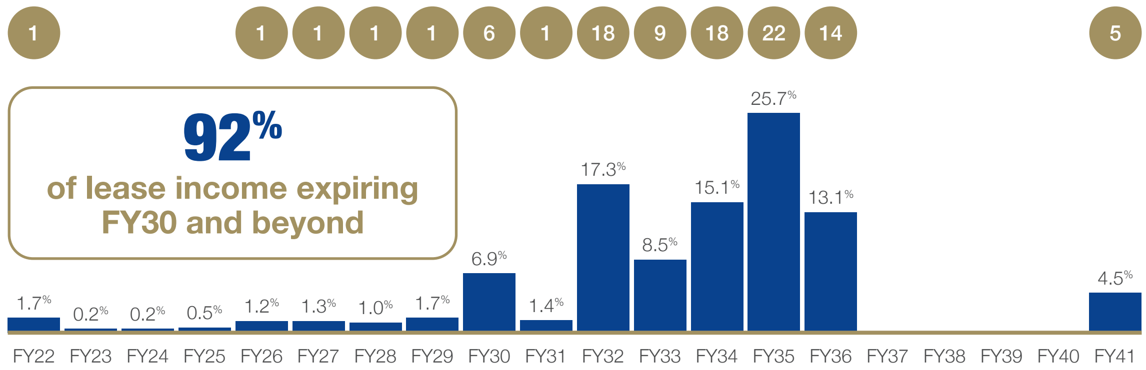
Major tenants account for 95% of portfolio income

1. Includes land held for development of $4.8 million.

STRONG LEVEL OF INCOME SECURITY

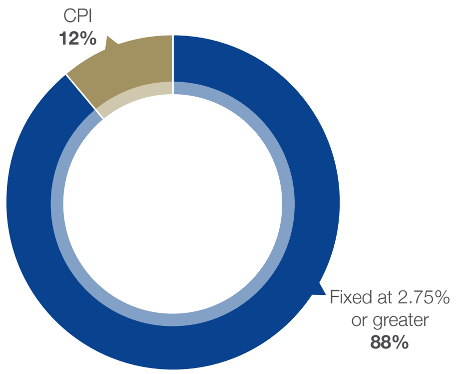
Lease expiry profile (by income)

No. of service station tenant expiries:



92%
of lease income expiring FY30 and beyond

Rent review type by income



88%
of income subject to fixed annual increases of 2.75% or more

3%
Average annual rental growth across the portfolio[1]

1 Assumes CPI of 1.0%

Financial report

'APN Convenience Retail REIT'

being Convenience Retail REIT No. 2 and its Controlled Entities ARSN 619 527 829

Stapling arrangement

The 'APN Convenience Retail REIT' stapled group ("Group") was established on 27 July 2017 by stapling the securities of the following entities:

- Convenience Retail REIT No.1;
- Convenience Retail REIT No.2; and
- Convenience Retail REIT No.3.

These consolidated financial statements represent the consolidated results of APN Convenience Retail REIT for the full financial year.

FINANCIAL REPORT

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CALTEX
Vortex
woolworths
Save
4¢ Per Litre
LPG

DIRECTORS' REPORT

The directors of APN Funds Management Limited ("APN FM"), the Responsible Entity of Convenience Retail REIT No. 2 (the "Fund") present the financial report of the consolidated entity (the "Group"), being the Fund and its controlled entities for the financial year ended 30 June 2021. The Fund is one of three entities that together comprise the stapled entity APN Convenience Retail REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "AQR").

To comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The following persons were directors of the Responsible Entity during the financial year and up to the date of this report:

DIRECTORS' REPORT

Geoff Brunsdon AM

B.Com, CA, F Fin, FAICD

Independent Chairman

- Director since 2009
- Chairman since 2012

Member of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Geoff has had a career in investment banking spanning more than 30 years. He is currently Chairman of Sims Limited and MetLife Insurance Ltd. He is a Director of The Wentworth Group of Concerned Scientists and Purves Environmental Custodians.

Geoff was previously Managing Director and Head of Investment Banking of Merrill Lynch International (Australia) Limited until 2009. Geoff was a member of the Listing Committee of the Australian Stock Exchange between 1993 and 1997, a member of the Takeovers Panel between 2007 and 2016 and Chairman of Redkite (supporting families who have children with cancer) until 2015 and is now a Patron. He is a Fellow of FINSIA, a Fellow of the Institute of Company Directors and a Fellow of Chartered Accountants Australia & New Zealand.

Howard Brenchley

BEc

Independent Director

- Director since 1998
- Independent Director since March 2018

Howard has a long history in the Australian property investment industry with over 35 years' experience analysing and investing in the sector.

Howard joined APN in 1998 and was responsible for establishing the APN Funds Management business. In this capacity he developed a suite of new property securities and direct property funds, including the flagship APN AREIT Fund and the APN Property for Income Fund, both market leading property securities funds in Australia.

Prior to joining APN, Howard was co-founder and research director of Property Investment Research Pty Limited, one of Australia's leading independent research companies, specialising in the property fund sector.

Howard is also a director of APN Property Group Limited (since 2004) and APN RE Limited (since 2019), National Storage Holdings Limited (since 2014) and National Storage Financial Services Limited (since 2015), both listed as National Storage REIT (ASX Code: NSR).

Michael Johnstone

BTRP, LS, AMP (Harvard)

Independent Director

- Director since 2009

Chairman of the Nomination & Remuneration Committee and member of the Audit, Risk & Compliance Committee.

Michael has 45 years of global experience in Chief Executive and General Management Roles and more recently in company directorships. His two principal corporate executive engagements have been with Jennings Industries Ltd and the National Australia Banking Group. At Jennings, he was successively General Manager of AVJennings Homes, General Manager Commercial Property, CEO of Jennings Properties Limited (Centro etc.) and President Jennings USA. Within NAB, he was Global Manager Real Estate responsible for commercial property lending and corporate property investment. He has extensive experience in mergers and acquisitions, capital raising, property investment and funds management. In the not for profit sector, he has chaired the Cairnmillar Institute and been a board member of the Salvation Army and Yarra Community Housing.

Michael is also a non-executive director of Charter Hall Social Infrastructure REIT (CQE) and in the private sector, a non-executive director of Dennis Family Holdings and Chairman of Dennis Family Homes.

Jennifer Horrigan

BBus, GradDipMgt, GradDipAppFin, MAICD

Independent Director

- Director since 2012

Chairman of the Audit, Risk & Compliance Committee and member of the Nomination & Remuneration Committee.

Jennifer brings 25 years' experience across investment banking, financial communications and investor relations. She was formerly the Chief Operating Officer in Australia of the independent investment bank Greenhill & Co. She has extensive experience in enterprise management, including the supervision and management of compliance, HR and financial management.

Jennifer is also a director of QV Equities (ASX: QVE), A2B Limited (ASX: A2B), Yarra Funds Management Limited, Nikko Asset Management Australia and Redkite (national cancer charity supporting children with cancer and their families).

Joseph De Rango

BCom, BBIS (IBL), MAICD

CFO and Alternate Director for Howard Brenchley

- CFO and Alternate Director since September 2019
- Executive Director for Industria Company No. 1 Limited since 2019

Joseph was appointed as Chief Financial Officer of APN Property Group and APN's Funds, Alternate Director of APN Funds Management Limited and Executive Director of Industria Company No. 1 Limited on 1 September 2019. He has over 15 years' experience in real estate, corporate advisory and investment banking.

Joseph has had broad exposure across all areas of the APN Property Group and is a member of APN's executive leadership team. He has led and been responsible for a number of significant corporate finance transactions including real estate acquisitions, equity raisings and bank financings, as well as being integrally involved with the successful IPOs of APN Convenience Retail REIT (ASX: AQR) and APN Industria REIT (ASX: ADI) in 2017 and 2013 respectively. Prior to joining APN, Joseph held leadership roles and worked on a broad range of transactions at National Australia Bank and PricewaterhouseCoopers.

Joseph is a member of the Australian Institute of Company Directors.

Chantal Churchill

BSc(Psych), DipHRM, GIA(Cert)

Company Secretary and Head of Risk and Compliance

- Company Secretary since December 2016

Chantal is the Company Secretary and Head of Risk and Compliance for the APN Property Group. Chantal is responsible for the company secretarial, corporate governance, risk management and compliance functions.

Chantal has over 16 years' professional experience in company administration, corporate governance, risk and compliance having been involved with several listed and unlisted public companies. Prior to joining APN in 2015, Chantal held various risk and compliance roles predominately in financial services and funds management including seven years at Arena Investment Management.

Chantal is a member of the Governance Institute of Australia.

DIRECTORS' REPORT

Meetings of Directors

The following table sets out the number of directors' meetings (including meetings of committees of directors for APN FM) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	APN FM Board		Audit, Risk and Compliance Committee		Nomination and Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Geoff Brunsdon AM	13	13	6	6	1	1
Jennifer Horrigan	13	13	6	6	1	1
Michael Johnstone	13	12	6	6	1	1
Howard Brenchley	13	12	N/A	N/A	N/A	N/A
Joseph De Rango[1]	13	12	6	6	N/A	N/A

1. Mr De Rango attended each Board Meeting and Audit, Risk and Compliance Meeting held in his capacity as CFO.

Principal activities

The principal activity of the Group is to own and manage a quality portfolio of convenience retail properties that offer secure income streams and have the potential for capital growth.

Convenience Retail REIT No. 2 is a registered managed investment fund domiciled in Australia and forms part of APN Convenience Retail REIT which is listed on the Australian Securities Exchange ("ASX") (ASX Ticker: "AQR"), with the parent entity being the Fund.

No significant change in the nature of these activities occurred during the financial year. The Group did not have any employees during the year.

Significant changes in the state of affairs

During the year, the Group raised a total of $45 million from the institutional placement ("Placement") announced on the ASX on 9 December 2020 and the Security Purchase Plans ("SPP") announced on 17 July 2020 and on 20 January 2021. All new stapled securities ("New Securities") issued ranks equally with the Group's existing securities.

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

Review of operations

The principal investment objective of the Group is to invest in convenience retail properties that provide investors with a high and consistent income distribution that maintains its real value for the life of the Group.

The results of the operations of the Group are disclosed in the consolidated statement of profit or loss and other comprehensive income.

The Group's total comprehensive income was $73,818,000 for the financial year ended 30 June 2021 (30 June 2020: $45,799,000). A summary of APN Convenience Retail REIT's results for the financial year is as follows:

	30 June 2021 $'000	30 June 2020 $'000
Net property income	33,232	26,352
Straight line rental income	4,492	4,175
Other income	350	111
Interest income	136	25
Total revenue	**38,210**	**30,663**
Management fees	(3,457)	(2,526)
Other expenses	(538)	(693)
Finance costs	(4,218)	(4,595)
Total expenses	**(8,213)**	**(7,814)**
Profit / (loss)	**29,997**	**22,849**
Fair value gain / (loss) on derivatives	1,603	(952)
Fair value gain on investment properties	42,218	23,902
Total comprehensive income for the year	**73,818**	**45,799**

The Responsible Entity uses the Group's Funds from Operations ("FFO") as the key performance indicator.

FFO adjusts statutory net profit for certain items that are non-cash, unrealised or capital in nature, in line with the guidelines established by the Property Council of Australia. Statutory net profit is determined in accordance with Australian Accounting Standards and includes a number of non-cash items including fair value movements, straight line lease accounting adjustments and amortisation of borrowing and leasing costs and incentives.

A reconciliation of statutory net profit / (loss) to is outlined as follows:

Funds from Operations	30 June 2021 $'000	30 June 2020 $'000
Statutory net profit / (loss)	**73,818**	**45,799**
Adjusted for:		
Reversal of straight-line lease revenue recognition	(4,492)	(4,175)
Reversal of fair value (gain) on investment properties	(42,218)	(23,902)
Reversal of fair value (gain) / loss on derivatives	(1,603)	952
Add back amortisation borrowing costs	266	483
Add back amortisation leasing costs and rent-free adjustments	157	107
FFO	**25,928**	**19,264**
Key financial performance metrics:		
FFO per security (cents)	21.91 c	21.61 c
Distributions per security (cents)	21.90 c	21.80 c
Payout Ratio (Distribution per security / FFO per security)	99.95%	100.88%
Statutory earnings per security (cents per security)	62.38 c	51.37 c
Weighted average securities on issue (thousands)	118,335	89,153
Securities on issue (thousands)	123,430	109,685
Distribution declared (thousands)	$26,372	$20,451

Operating Result

The Group's total Funds from Operations increased by $6,664,000 to $25,928,000. The key drivers of this result included:

- acquisition of additional properties during the current year;
- contractual annual rent increases which were partially offset by increases in management fees as a result of portfolio revaluation uplift and property acquisitions.

Net tangible assets and asset valuations

As at balance date, 67 properties were independently valued. Overall, the entire portfolio increased by $41,832,000 in addition to the fair value gain recognised during the half-year period ended 31 December 2020 due to annual rent increases as well as a tightening of the portfolio's weighted average market capitalisation rate.

Market Overview

Service station investments remain highly sought after as a stable and defensive asset class due to their long leases and strong lease covenants. While the COVID-19 outbreak has had an impact on global financial markets and economic conditions more generally, fuel and convenience retail businesses have continued to trade through domestic lock down periods and have played an important role in the community as an essential service, proving this asset class is one of the most resilient.

Investment yields for similar assets have compresses over the past 6 months for modern and securely leased investments. The portfolio sale and leaseback undertaken by EG Group in February 2021 provided clear evidence of the demand for securely leased convenience retail assets, with the portfolio selling on an average passing yield of 4.38% for 15-year leasebacks.

Individual and portfolio sales since this time have continued to highlight the amount of capital available for investment from both private and institutional groups. The eastern seaboard remains the most popular location with recent deals in Queensland showing less of a yield gap to Victoria and New South Wales than has historically been prevalent.

Likely developments

Current uncertainty in the financial markets and broader disruption arising from the COVID 19 outbreak remain factors which are all outside the control of the Directors, and the Board of APN Funds Management Limited continues to focus on key risks and opportunities that are within their control. Principally these include:

- Investing in strategically located services station and convenience retail assets with long term leases to quality tenants;
- Providing investors with an attractive, defensive and growing income stream, with the potential for capital growth over time;
- Maintaining a capital structure that is conservatively geared and a debt expiry profile that is staggered and reduces material bullet repayment risks;
- Operating in an environment where there is alignment of interest between management and securityholders through a meaningful co-ownership stake; and
- Ensuring the fund has appropriate compliance systems and processes in place and fosters a corporate culture consistent with investor and community expectations surrounding accountability, ownership, and a strong degree of honesty and integrity that puts customers first.

The Board believes that APN Convenience Retail REIT is well placed with regard to the above risks and opportunities, and accordingly will continue to deliver a sustainable and growing income yield over the long term.

Distributions

Distributions of $26,372,000 were declared by the Group during the financial year ended 30 June 2021 (2020: $20,451,000).

For full details of distributions paid and/or payable during the financial year, refer to note 9 of the consolidated financial statements.

Matters subsequent to the end of the financial year

Other than matters noted in note 23, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

Non-audit services

During the year, the auditor of the Group performed certain other services in addition to their statutory duties.

The directors of the Responsible Entity have considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Responsible Entity and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services relating to audit of compliance plan and other approved advisory services are set out in note 21 to the consolidated financial statements.

DIRECTORS' REPORT

Auditor's Independence Declaration

A copy of the external auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is set out on page 20.

Options granted

As the Group is an externally managed vehicle, no options were:

- granted over unissued securities in the Group during or since the end of the financial year; or
- granted to the Responsible Entity.

No unissued securities in the Group were under option as at the date on which this report is made.

No securities were issued in the Group during or since the end of the financial year as a result of the exercise of an option over unissued securities in the Group.

Indemnification of officers of the Responsible Entity and auditors

APN Funds Management Limited ("APN FM") in its capacity as the Responsible Entity of the Group has agreed to indemnify the directors and officers of APN FM and its related body's corporate, both past and present, against all liabilities to another person (other than APN FM or a related body corporate) that may arise from their position as directors and officers of APN FM and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. APN FM will meet the full amount of any such liabilities, including costs and expenses. In addition, APN FM has paid a premium in respect of a contract insuring against a liability incurred by an officer of the Group. Under the contract of insurance, disclosure of the nature of the insured liabilities and the amount of premium paid is prohibited. APN FM has not indemnified or made a relevant agreement to indemnify the auditor of the Group or of any related body (corporate) against a liability incurred by the auditor.

Fund information in the directors' report

Fees paid to the Responsible Entity during the financial year and the number of securities in the Group held by the Responsible Entity, its associates and independent directors are disclosed in note 19 to the consolidated financial statements. Other than the directors included in note 19, no other directors own securities, or rights or options over securities in the Group.

The number of securities in the Group issued, bought back and cancelled during the financial year, and the number of securities on issue at the end of the financial year is disclosed in note 8 to the consolidated financial statements.

The value of the Group's assets as at the end of the financial year is disclosed in the consolidated statement of financial position as "total assets" and the basis of valuation is disclosed throughout the notes to the consolidated financial statements.

Rounding of amounts

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the directors

Geoff Brunsdon AM
Director
Melbourne, 17 August 2021

CORPORATE GOVERNANCE STATEMENT

APN Convenience Retail REIT (**Fund**) is a triple stapled entity comprising the following three managed investment schemes (**MIS**):

- Convenience Retail REIT No. 1;
- Convenience Retail REIT No. 2; and
- Convenience Retail REIT No. 3

Securityholders in the Fund hold a unit of each of the above entities that are stapled together, such that an individual unit in one of the above entities may not be transferred or dealt with without the others. The Fund is listed on the Australian Securities Exchange (**ASX**) under the code AQR.

APN Funds Management Limited is the Responsible Entity (**APN FM or Responsible Entity**) of each of the three MIS's. APN FM has appointed Convenience Retail Management Pty Ltd (**Manager**) as the Manager of the Fund. APN FM oversees the management and strategic direction of the Fund in its role as Responsible Entity. The board of APN FM (**Board**) comprises four Independent Directors (including the Chairman).

The Responsible Entity is committed to achieving and demonstrating the highest standards of governance. The Fund's Corporate Governance Statement (**Statement**) has been prepared in accordance with the principles and recommendations set by the ASX Corporate Governance Council (Corporate Governance Principles and Recommendations 4th Edition) (**Recommendations**), and any departure from these Recommendations are stated within.

The Responsible Entity's governance framework, as summarised in the Statement, has been designed to ensure that the Fund meets its ongoing statutory obligations, discharges its responsibilities to all stakeholders and acts with compliance and integrity.

The Statement outlines the main corporate governance practices in place throughout the financial year from 1 July 2020 to 30 June 2021 (**Reporting Period**) and incorporates the requirements of market regulators, adopted codes and charters, documented policies and procedures and guidance from industry best practice. These policies and practices remain under regular review as the corporate governance environment and good practices evolve.

The full corporate governance statement is available on the fund website at: https://apngroup.com.au/fund/apn-convenience-retail-reit/about-us/corporate-governance/.

As APN FM and the Manager do not employ staff directly, the necessary management and resources for the operation of the Fund for the Reporting Period were provided by APN Property Group Limited (**APN Group**). For this reason, staff are governed by APN Group policies. To assist stakeholders in accessing key documents outlining our approach to corporate governance, the policies, charters and codes referred to in this Statement are available on the Fund's website at https://apngroup.com.au/fund/apn-convenience-retail-reit/about-us/corporate-governance/. This information is updated throughout the year, as policies and procedures are reviewed.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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17 August 2021

The Board of Directors
APN Funds Management Limited
Level 30, 101 Collins Street
MELBOURNE VIC 3000

Dear Board Members

Independence Declaration – APN Convenience Retail REIT

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of APN Funds Management Limited, the Responsible Entity, regarding the annual financial report for APN Convenience Retail REIT.

As lead audit partner for the audit of the financial report of APN Convenience Retail REIT for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the Stapled Security Holders of APN Convenience Retail REIT

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of APN Convenience Retail REIT, being Convenience Retail REIT No.2 and its controlled entities (collectively, the "Group") which comprises the consolidated statement of financial position as at 30 June 2021, consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the 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 2021 and of its financial performance for the year then ended; and
- 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 Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of APN Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of investment properties held at fair value As at 30 June 2021 the Group's investment properties represent the largest category of assets with a carrying value of $632,651k, including a $42,218k revaluation gain recognised in the consolidated statement of profit or loss and other comprehensive income as disclosed in note 6. The investment properties are measured under the fair value model. The determination of fair value requires significant judgement due to the degree of subjectivity used by management, together with their internal and external valuation specialists (the "valuers"), in estimating the inputs used in the determination of the fair value of the investment properties including, but not limited to: • net passing rentals; • net market rentals; • average market rental growth rates; • terminal yields; • discount rates; and, • capitalisation rates.	In conjunction with our valuation specialists, our procedures relating to the valuation of the investment properties included, but were not limited to: - evaluating the independence, competence and objectivity of the valuers by understanding their credentials, their experiences, their remuneration basis and the extent of their relationship to APN; - assessing the scope of the valuers' work; - assessing the timeliness of the valuation and the date at which it was given, in relation to the financial year end; - challenging the appropriateness of the valuation techniques against industry practice and approach, and assessing the reasonableness of the approaches adopted in light of COVID-19; - on a sample basis, challenging the appropriateness of the net market rentals, the average market rental growth rates, the terminal yields, the discount rates and the capitalisation rates with reference to external industry and market economic data; - testing on a sample basis, the passing rental balances by agreeing them back to tenancy schedules and signed lease agreements, and considering the impact of any rent deferrals or rent reductions thereon; - reviewed tenancy schedules in light of COVID-19 to understand the composition of the tenants, including their location, their industry and for material clients, any publicly available information on the underlying performance of those tenants; and - recalculating the mathematical accuracy of a sample of the valuation models. We have also assessed the appropriateness of the disclosures in note 6 to the financial statements.

Other Information

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

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

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

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Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

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, actions taken to eliminate threats or safeguards applied.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Brown
Partner
Chartered Accountants

Melbourne, 17 August 2021

DIRECTORS' DECLARATION

The directors of APN Funds Management Limited, the Responsible Entity of Convenience Retail REIT No. 2 , declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached consolidated financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the consolidated financial statements;

(c) in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund and the Group; and

(d) the directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

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

On behalf of the directors of the Responsible Entity, APN Funds Management Limited.

Geoff Brunsdon AM
Director
Melbourne, 17 August 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Revenue	5	36,777	29,175
Straight line rental income recognition		4,492	4,175
Other income		350	111
Total revenue from continuing operations		**41,619**	**33,461**
Other income			
Interest income		136	25
Net fair value gain on investment properties		42,218	23,902
Fair value gain / (loss) on derivatives		1,603	(952)
Total other income		**43,957**	**22,975**
Total income		**85,576**	**56,436**
Expenses			
Property costs		(3,545)	(2,823)
Management fees	19	(3,457)	(2,526)
Finance costs	11	(4,218)	(4,595)
Other expenses		(538)	(693)
Total expenses		**(11,758)**	**(10,637)**
Net profit / (loss)		**73,818**	**45,799**
Attributable to:			
Securityholders of Convenience Retail REIT No. 2		27,078	26,629
Securityholders of non-controlling interests[1]		46,740	19,170
		73,818	**45,799**
Other comprehensive income		-	-
Total comprehensive income for the year		**73,818**	**45,799**
Total comprehensive income is attributable to:			
Securityholders of Convenience Retail REIT No. 2		27,078	26,629
Securityholders of non-controlling interests[1]		46,740	19,170
		73,818	**45,799**
Earnings per security			
Basic and diluted (cents per security)	10	62.38	51.37

1 Represents the net profit and comprehensive income attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

Notes to the consolidated financial statements have been included in the accompanying pages.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	15	786	2,331
Trade and other receivables	16	720	856
Other assets		6,674	274
Total current assets		**8,180**	**3,461**
Non-current assets			
Investment properties	6	632,651	448,159
Loans and receivables	7	5,963	-
Total non-current assets		**638,614**	**448,159**
Total assets		**646,794**	**451,620**
Current liabilities			
Trade and other payables	17	(4,103)	(6,993)
Distributions payable	9	(6,758)	(5,978)
Derivative financial instruments	11	(926)	(1,190)
Total current liabilities		**(11,787)**	**(14,161)**
Non-current liabilities			
Derivative financial instruments	11	(967)	(2,305)
Borrowings	11	(180,769)	(75,826)
Total non-current liabilities		**(181,736)**	**(78,131)**
Total liabilities		**(193,523)**	**(92,292)**
Net assets		**453,271**	**359,328**
Equity			
Securityholders of Convenience Retail REIT No. 2:			
Contributed equity	8	170,572	149,718
Retained earnings		31,666	16,215
Securityholders of non-controlling interests[1]:			
Contributed equity	8	186,046	160,403
Retained earnings		64,987	32,992
Total equity		**453,271**	**359,328**
Net tangible assets ($ per security)		3.67	3.27

1 Represents the net assets attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

Notes to the consolidated financial statements have been included in the accompanying pages.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Notes	Contributed equity $'000	Retained earnings $'000	Total equity $'000	Non-controlling interests[1] $'000	Total equity $'000
Balance as at 1 July 2019		**114,004**	**(317)**	**113,687**	**120,107**	**233,794**
Net profit / (loss)		-	26,629	26,629	19,170	45,799
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		**-**	**26,629**	**26,629**	**19,170**	**45,799**
Issue of new securities	8	36,344	-	36,344	65,215	101,559
Security issuance costs	8	(565)	-	(565)	(676)	(1,241)
Securities buy-back	8	(65)	-	(65)	(67)	(132)
Distributions paid or payable	9	-	(10,097)	(10,097)	(10,354)	(20,451)
Balance as at 30 June 2020		**149,718**	**16,215**	**165,933**	**193,395**	**359,328**
Net profit		-	27,078	27,078	46,740	73,818
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		**-**	**27,078**	**27,078**	**46,740**	**73,818**
Issue of new securities	8	20,149	-	20,149	24,850	44,999
Security issuance costs	8	(410)	-	(410)	(506)	(916)
Distribution reinvestment	8	1,115		1,115	1,299	2,414
Distributions paid or payable	9	-	(11,626)	(11,626)	(14,746)	(26,372)
Balance as at 30 June 2021		**170,572**	**31,667**	**202,239**	**251,032**	**453,271**

1 Represent the equity attributable to the other stapled entities comprising the APN Convenience Retail REIT Group.

Notes to the consolidated financial statements have been included in the accompanying pages.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Net rental income received		32,276	27,701
Other income received		350	111
Interest received		138	22
Other expenses paid		(4,201)	(761)
Finance costs paid		(4,165)	(4,707)
Net cash inflow from operating activities	15	**24,398**	**22,366**
Cash flows from investing activities			
Proceeds from sale of investment properties		551	9,800
Payments for acquisition of investment properties		(134,875)	(70,080)
Advances to purchase investment properties		(12,309)	-
Payments for capital expenditure on investment properties		(5,116)	(1,525)
Net cash (outflow) from investing activities		**(151,749)**	**(61,805)**
Cash flows from financing activities			
Net proceeds from borrowings		104,891	(39,462)
Net proceeds from issue of new securities		44,999	100,712
Security issuance and liquidity offer costs paid		(906)	(1,888)
Distributions paid		(23,178)	(17,749)
Payments for securities buy-back		-	(132)
Net cash inflow from financing activities		**125,806**	**41,481**
Net (decrease) / increase in cash and cash equivalents		(1,545)	2,042
Cash and cash equivalents at the beginning of the financial year		2,331	289
Cash and cash equivalents at the end of the financial year	15	**786**	**2,331**

Notes to the consolidated financial statements have been included in the accompanying pages.

NOTES TO THE FINANCIAL STATEMENTS

About this Report

1. General information

APN Convenience Retail REIT is a stapled entity listed on the Australian Securities Exchange (trading under ASX Ticker: "AQR"), incorporated and operating in Australia. APN Convenience Retail REIT comprises Convenience Retail REIT No. 2 and its controlled entities.

APN Funds Management Limited, a public company incorporated and operating in Australia, is the Responsible Entity of Convenience Retail REIT No. 2. The registered office and its principal place of business is Level 30, 101 Collins Street, Melbourne, VIC 3000.

2. Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. Compliance with Australian Accounting Standards ensures that the consolidated financial statements and notes of the Fund and the Group comply with International Financial Reporting Standards ("IFRS").

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

The financial statements were authorised for issue by the directors on 17 August 2021.

2.1. Going concern

The Group has assessed its ability to continue as a going concern taking into account all information available for a period of 12 months from the date of issuing the consolidated financial statements. The COVID-19 pandemic impact continues to be minimal during the current year. The directors of the Responsible Entity remain confident that the Group will be able to continue trading and realise assets and discharge liabilities in its ordinary course of business despite the net current liabilities position presented in the consolidated statement of financial position. In reaching this position, the following factors have been considered:

- 100% of the Group's portfolio comprises an asset class which are classified as essential services and remain open for trading throughout the COVID-19 pandemic;
- 95% of the Group's rental income is derived from major fuel tenants who are well-capitalised national and international business with significant exposure to non-discretionary consumer expenditure;
- the Group has adequate levels of liquidity through its operating cash flows and has available debt lines to be drawn if required. Total undrawn debt facility as at the date of issuing the consolidated financial statements is $69.21 million;
- the Group has adequate levels of headroom with respect to its financial and non-financial covenants as disclosed in note 11.1 and the Group does not expect any covenants to be breached; and
- the Group's debt is hedged to a level of 55.11% of total loan facility drawn at reporting date.

Given consideration to the above, the directors of the Responsible Entity believe that the Group will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the consolidated financial statements. Therefore, the consolidated financial statements have been prepared on a going concern basis.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of investment properties and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. All amounts are presented in Australian dollars, unless otherwise noted.

The Group is an entity of the kind referred to in *ASIC Corporations (Rounding in Financials / Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Fund and its controlled entities (the "Group") – refer to note 20 for a list of controlled entities as at year end. Control is achieved where the Fund:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Responsible Entity of the Fund reassesses whether or not the Fund controls an investee if the facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Fund obtains control over the subsidiary and ceases when the Fund loses that control. Income and expenses of a subsidiary are included in the consolidated financial statements from the date the Fund obtains control until the date the Fund loses control. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4 Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the consolidated financial statements are provided throughout the notes to the consolidated financial statements.

2.5 The notes to the consolidated financial statements

The notes to these consolidated financial statements include information required to understand the consolidated financial statements that is relevant and material to the operations, financial position and performance of the Group. The notes have been collated into sections to help users find and understand inter-related information. Information is considered material and relevant if, for example:

- the amount in question is significant by virtue of its size or nature;
- it is important to understand the results of the Group;
- it helps explain the impact of significant changes in the Group's business; or
- it relates to an aspect of the Group's operations that is important to its future performance.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the directors have made judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The judgements, estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, however actual results may differ from these estimates. The critical judgements, estimates and assumptions made in the current period are contained in the following notes:

Note	Description
Note 6 – Investment properties	Fair value measurement and valuation processes

Performance

This section shows the results and performance of the Group and includes detailed information in respect to the revenues, expenses and the profitability of the Group and its reporting segments. It also provides information on the investment properties that underpin the Group's performance.

4. Segment information

The Group derives all income from investment in properties located in Australia. The Group is deemed to have only one operating segment and that is consistent with the reporting reviewed by the chief operating decision makers.

5. Revenue

Revenue from investment properties comprise of lease components (including base rent, recoveries of property tax and property insurance) and non-lease components that primarily consists of property outgoing recoveries.

	2021 $'000	2020 $'000
Rental income	34,133	26,905
Outgoing recoveries	2,644	2,270
Total revenue	**36,777**	**29,175**

Recognition and measurement

Rental income

Rental income is recognised at the fair value of consideration receivable (exclusive of GST). Rental income relating to lease components is recognised on a straight-line basis over the term of the lease for the period where the rental income is fixed and determinable. For leases where the rental income is determined based on unknown future variables such as inflation, market reviews or other variables, rental income is recognised on an accrual basis in accordance with the terms of the lease.

Rental income not received at reporting date, is reflected in the consolidated statement of financial position as a receivable or if paid in advance, as rent in advance.

Outgoing recoveries

Income from property outgoing recoveries are recognised as the costs are incurred, which is typically when the services are provided. Outgoing recoveries not received at reporting date is reflected in the consolidated statement of financial position as a receivable.

Lease incentives, commissions and other costs

Lease incentives provided to tenants, such as fit-outs or rent-free periods and leasing commissions and other costs incurred in entering into a lease, are recognised as a reduction of rental income on a straight-line basis over the non-cancellable term of the lease.

Rent concessions

Rent concessions provided to tenants that have been impacted by the COVID-19 pandemic comprised short term waivers related to future occupancy and are treated as lease modifications. Such modifications are recognised on a straight-line basis over the non-cancellable term of the modified lease. As at balance date, all waivers provided was on a short-term basis and in aggregate were insignificant to the Group's total rental income.

6. Investment properties

Investment properties represent convenience retail properties held for deriving rental income. For all investment properties, the current use equates to the highest and best use.

6.1 Reconciliation of carrying amounts

	2021 $'000	2020 $'000
(a) Properties		
Carrying amount at beginning of the financial year	444,564	358,293
Purchase of investment properties	128,111	63,528
Acquisition costs associated with purchase of investment properties	6,735	2,987
Capital additions to existing investment properties	885	1,495
Straight line rental revenue recognition	4,492	4,175
Capitalised leasing incentives and fees	898	91
Amortisation of lease incentives and fees	(157)	(107)
Disposals of investment properties	(51)	(9,800)
Net unrealised gain on fair value adjustments[1]	42,399	23,968
Net realised gain / (loss) on disposal of investment properties[2]	2	(66)
Carrying amount at end of the financial year	**627,878**	**444,564**
(b) Land held for development		
Carrying amount at beginning of the financial year	3,595	3,565
Acquisition costs associated with purchase of land held for development	29	-
Development work in progress	1,832	30
Disposal of land held for development	(500)	-
Net realised (loss) / gain on disposal of land held for development[3]	(183)	-
Carrying amount at end of the financial year	**4,773**	**3,595**

1 Net unrealised gain on fair value adjustments is wholly unrealised and has been recognised as "net gain in fair value adjustments on investment properties" in the consolidated statement of profit or loss and other comprehensive income.

2 Realised gain on disposal of investment properties results from the compulsory acquisition of a small portion of land at 225 Womma Road, Edinburgh North by the South Australian government.

3 Realised loss from disposal of land held for development relates to the disposal of unused land held for development at 473-477 North East Road & 37 Ramsay Avenue, Hillcrest.

Included within the investment property fair value is a deduction of $nil (2020: $nil) representing lease incentive commitments the Group has provided under the lease contracts.

6.2 Leasing arrangements

The majority of the investment properties are leased to tenants under long term operating leases. Rentals are receivable from the tenants monthly. Revenue from top three tenants across multiple sites represent $25,109,000 (2020: three tenants represent $26,234,000) of the Group's total revenue.

Minimum lease payments to be received under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

	2021 $'000	2020 $'000
Within one year	38,641	30,097
More than one year but not more than five years	120,655	79,298
More than five years	388,672	277,494
	547,968	**386,889**

For the year ended 30 June 2021, the Group did not have any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties.

6.3 Contractual obligations

Under some of the lease agreements applicable to investment properties, the Group is responsible for capital and structural repairs to the premises (except to the extent required due to the tenant's act, omissions or particular use). This contractual obligation can include the requirement to replace underground tanks and/or LPG tanks if they become worn out, obsolete, inoperable or incapable of economic repair.

During the year, the replacement of the underground tanks for two of four investment properties (i.e. 124 - 130 Paradise Rd, Slacks Creek, QLD and 17 - 25 Toombul Rd, Northgate, QLD) was completed. As at the reporting date, the other two investment properties that have been identified which require underground tank replacements remain outstanding. The current forecast capital expenditure required to replace the two underground tanks is $1,100,000 which has been reflected as a reduction in the valuation of the applicable investment property as at the reporting date.

6.4 Individual valuation and carrying amounts

The investment portfolio consists of 98 properties and one land held for development located throughout Australia. 67 properties were independently valued at 30 June 2021. The Group's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties being valued. Current year independent valuations were performed by CIVAS (NSW) Pty Limited ("Colliers") and Savills Valuations Pty Ltd ("Savills") (2020: Jones Lang LaSalle Advisory Services Pty Ltd and Savills).

The remaining 31 properties were subject to internal valuations performed by the Group's internal property team and have been reviewed and approved by the Board. The carrying amounts of these investment properties have been determined based on Directors' valuations.

	Latest independent valuation		Carrying amounts		Capitalisation rate	
Properties	Valuation date	$'000	2021 $'000	2020 $'000	2021 %	2020 %
397 Pacific Hwy, Belmont North, NSW	Mar-21	9,110	9,110	6,440	4.50%	6.25%
Cnr Vardys Rd & Turbo Rd, Marayong, NSW	Mar-21	9,370	9,370	9,050	4.75%	6.50%
511 Pacific Highway, South Kempsey, NSW	Jun-21	26,190	26,190	23,310	5.50%	6.00%
172 New England Highway, Rutherford, NSW	Jun-21	7,370	7,370	6,260	5.25%	6.00%
Cnr Northcote St & Main Rd, Heddon Greta, NSW	Jun-21	11,460	11,460	10,200	5.50%	6.00%
Cnr Weakleys & Glenwood Drives, Thornton, NSW	Jun-21	11,500	11,500	9,900	5.50%	6.00%
M 449 Victoria Street, Wetherill Park, NSW	Jun-21	10,500	10,500	9,230	5.25%	5.75%
1 Blueberry Road, Moree NSW[1]	Jun-20	12,270	12,270	11,910	6.50%	6.50%
2948 Old Cleveland Rd, Capalaba, QLD	Mar-21	5,410	5,410	4,990	5.50%	7.00%
Cnr Anzac Ave & Josey Rd, Mango Hill, QLD	Mar-21	6,540	6,540	3,350	5.25%	6.75%
550 -560 Samford Rd, Mitchelton, QLD	Mar-21	5,360	5,360	4,420	5.50%	7.00%
420 - 426 Mt Cotton Rd, Capalaba, QLD	Mar-21	6,640	6,640	4,120	5.50%	7.00%
1233 Wynnum Rd, Murrarie, QLD	Mar-21	5,320	5,320	5,480	5.50%	7.00%
17 - 25 Toombul Rd, Northgate, QLD	Mar-21	5,570	5,570	4,050	5.50%	7.00%
124 - 130 Paradise Rd, Slacks Creek, QLD	Mar-21	5,400	5,400	4,100	5.50%	7.00%
108 Compton Rd, Woodridge, QLD	Jun-21	6,300	6,300	5,740	6.00%	6.25%
708 Gympie Rd, Lawnton, QLD	Jun-21	4,750	4,750	4,690	7.00%	7.00%
353 Redbank Plains Rd, Redbank Plains, QLD	Jun-21	6,400	6,400	5,590	6.00%	6.25%
264 Browns Plains Rd, Browns Plains, QLD	Jun-21	6,500	6,500	5,740	6.00%	6.25%
Sovereign Avenue, Bray Park, QLD	Jun-21	4,750	4,750	4,170	6.00%	6.25%
21 Ingham Road, West End, QLD	Jun-21	6,600	6,600	5,940	6.00%	6.25%
921 Nambour Connection Rd, Nambour, QLD[1]	Jun-20	1,510	1,510	1,460	7.25%	7.25%
19038 Bruce Highway, Bowen, QLD[1]	Jun-20	4,170	4,170	4,050	6.75%	6.75%
25 Bolam Street, Garbutt, QLD	Jun-21	3,060	3,060	2,750	6.25%	6.75%
4545 Flinders Highway, Reid River, QLD[1]	Jun-20	2,910	2,910	2,830	8.50%	8.50%
71 Thompson Street, Charters Towers, QLD[1]	Jun-20	6,330	6,330	6,150	8.00%	8.00%
77-79 Bowen Road, Rosslea, QLD	Jun-21	3,330	3,330	2,970	5.75%	6.25%
900 Ingham Road, Bohle, QLD	Jun-21	7,270	7,270	6,800	6.50%	6.75%
45 Range Road, Sarina, QLD[1]	Jun-20	2,230	2,230	2,160	7.00%	7.00%
2 Mulgrave Street, Gin Gin, QLD[1]	Jun-20	4,540	4,540	4,410	7.00%	7.00%
161 Thozet Road, Koongal, QLD	Jun-21	2,520	2,520	2,270	6.25%	6.75%
74 Connor Street, Zilzie, QLD[1]	Jun-20	1,780	1,780	1,730	6.75%	6.75%
1 Flinders Street, Monto, QLD[1]	Jun-20	1,460	1,460	1,410	7.00%	7.00%
102-104 Cook Street, Portsmith, QLD	Jun-21	7,020	7,020	6,310	6.25%	6.75%
28 Supply Road, Edmonton, QLD	Jun-21	6,990	6,990	6,520	6.00%	6.25%
45 Arnold Street, Aeroglen, QLD	Jun-21	4,240	4,240	3,970	6.50%	6.75%
49 Tolga Road, Atherton, QLD	Jun-21	2,170	2,170	2,030	6.75%	7.00%
656 Bruce Highway, Woree, QLD	Jun-21	1,670	1,670	1,620	6.75%	6.75%
2215 David Low Way, Peregian Beach, QLD	Jun-21	4,050	4,050	3,640	6.25%	6.75%
10 Takalvan Street, Bundaberg, QLD	Jun-21	2,350	2,350	2,100	5.75%	6.25%
60 Hawkins Crescent, Bundamba, QLD	Jun-21	22,120	22,120	19,760	5.75%	6.25%
1129 Morandah Access Road, Moranbah, QLD[1]	Jun-20	6,930	6,930	6,720	6.50%	6.50%

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	Latest independent valuation		Carrying amounts		Capitalisation rate	
Properties	**Valuation date**	**$'000**	**2021 $'000**	**2020 $'000**	**2021 %**	**2020 %**
273-279 Gympie Rd, Kedron, QLD	Jun-21	4,150	4,150	3,730	6.00%	6.25%
34-36 Cessna Drive, Caboolture, QLD	Jun-21	7,100	7,100	7,180	6.00%	6.25%
164-170 David Low Way, Diddilibah, QLD[1]	Jun-20	3,750	3,750	3,640	7.00%	7.00%
282 Wardell Street, Enoggera, QLD	Jun-21	2,450	2,450	2,120	6.00%	6.50%
840 Steve Irwin Way, Glasshouse Mountains, QLD[1]	Jun-20	5,670	5,670	5,500	6.75%	6.75%
1977 Anzac Avenue, Mango Hill, QLD	Jun-21	4,850	4,850	4,410	6.25%	6.50%
72 Walker Street, Maryborough, QLD[1]	Jun-20	2,410	2,410	2,340	7.25%	7.25%
127 Kingston Road, Woodridge, QLD	Jun-21	6,000	6,000	5,430	6.00%	6.25%
983 Waterworks Road, The Gap, QLD	Jun-21	4,150	4,150	3,590	6.00%	6.50%
63 Raceview Street, Raceview, QLD[1]	Dec-20	9,425	9,425	9,710	6.25%	6.75%
14 Rosemary Street, Durack, QLD[1]	Dec-20	6,610	6,610	5,900	6.25%	6.75%
205 Old Gympie Road, Dakabin, QLD[1]	Dec-20	5,250	5,250	4,730	5.75%	6.50%
Cnr Edith St and Bruce Hwy, Cluden, QLD	Jun-21	16,500	16,500	13,830	6.00%	6.75%
22 Nicholson Street, Banana, QLD[1]	Jun-20	3,790	3,790	3,680	7.50%	7.50%
25 Kiernan Drive, Roseneath, QLD[1]	Jun-20	8,200	8,200	7,730	7.00%	7.00%
53793 Bruce Hwy, Mount Larcom, QLD	Jun-21	8,000	8,000	7,760	6.50%	6.50%
591 Dorset Rd, Bayswater North, VIC	Mar-21	6,240	6,240	4,810	4.50%	6.25%
Cnr Thompson Rd & Victoria St, Geelong North, VIC	Mar-21	5,180	5,180	4,670	5.00%	6.50%
753 North Lake Rd, Southlake, WA	Mar-21	8,400	8,400	6,200	5.75%	7.75%
Cnr Amherst & Nicholsons Rd, Canningvale, WA	Mar-21	7,600	7,600	6,600	5.75%	7.50%
1 Wishart Street, Gwelup, WA	Jun-21	4,700	4,700	4,080	6.00%	6.50%
224 Clontarf Road, Hamilton Hill, WA	Jun-21	5,900	5,900	5,120	6.00%	6.50%
1182 Chapman Road, Glenfield, WA[1]	Jun-20	5,360	5,360	5,200	7.75%	7.75%
1 Kakadu Road, Yanchep, WA	Jun-21	6,800	6,800	6,130	6.25%	6.75%
Lot 401 Great Northern Highway, South Hedland, WA	Jun-20	6,050	6,050	5,870	7.50%	7.50%
702 Main North Road, Gepps Cross, SA[1]	Dec-20	5,130	5,130	5,055	6.25%	6.35%
337 St Vincent Street East, Port Adelaide, SA[1]	Dec-20	5,550	5,550	5,170	5.75%	6.00%
226-228 Bridge Road, Pooraka, SA[1]	Dec-20	5,640	5,640	5,250	5.75%	6.00%
2341 Albany Highway, Gosnells, WA[1]	Dec-20	4,980	4,980	4,754	6.00%	6.10%
323 North East Road, Hampstead Gardens, SA[1]	Dec-20	4,710	4,710	4,645	6.05%	6.35%
225 Womma Road, Edinburgh North, SA	Dec-20	5,910	5,910	5,410	5.75%	6.10%
342-346 Albany Highway, Orana, WA[1]	Dec-20	6,555	6,555	6,150	6.50%	6.50%
130 Edwards Street, Ayr, QLD[1]	Dec-20	5,100	5,100	4,950	6.75%	6.75%
51-55 Aerodrome Road, Maroochydore, QLD[1]	Dec-20	7,450	7,450	6,850	6.00%	6.75%
Lot 1 / 437 Yaamba Road, Park Avenue, QLD[1]	Dec-20	6,000	6,000	5,830	6.75%	6.75%
73-77 Railway Street, Gatton, QLD	Jun-21	5,600	5,600	5,100	6.50%	6.75%
176 Otho Street, Inverell, NSW	Jun-21	5,900	5,900	5,100	6.00%	6.25%
5-9 Clare Street, Port Adelaide, SA[1 & 2]	Dec-20	5,740	5,740	-	5.75%	-
457-459 Victoria Road, Taperoo, SA[2]	Jun-21	5,480	5,480	-	5.75%	-
100 East-West Arterial Road, Hendra, QLD[2]	Jun-21	11,600	11,600	-	5.50%	-
14 Commercial Road, Sheidow Park, SA[2]	Jun-21	7,100	7,100	-	5.75%	-
1029 Ipswich Rd, Moorooka, QLD[2]	Jun-21	10,500	10,500	-	5.75%	-

	Latest independent valuation		Carrying amounts		Capitalisation rate	
Properties	Valuation date	$'000	2021 $'000	2020 $'000	2021 %	2020 %
1190 Beaudesert Road, Acacia Ridge, QLD[2]	Jun-21	11,500	11,500	-	5.75%	-
79-89 Mulgrave Road, Parramatta Park, QLD[2]	Jun-21	6,700	6,700	-	6.50%	-
49 Great Eastern Highway, Bellevue, WA[2]	Jun-21	6,150	6,150	-	6.65%	-
229 Balcatta Road, Balcatta, WA[2]	Jun-21	6,965	6,965	-	6.00%	-
303 Glen Osmond Road, Glenunga, SA[2]	Jun-21	6,065	6,065	-	5.50%	-
1 Mildred Street, Kapunda SA 5373[2]	Jun-21	5,465	5,465	-	6.25%	-
61-65 Old Princess Highway, Murray Bridge East, SA[2]	Jun-21	3,940	3,940	-	6.50%	-
1 Deviation Road, Naracoorte,SA[2]	Jun-21	8,060	8,060	-	6.25%	-
89 Military Road, West Beach, SA[2]	Jun-21	4,500	4,500	-	5.75%	-
485 Balfour Street, Southern River, WA[2]	Jun-21	5,880	5,880	-	6.00%	-
189 Wayne Goss Drive, Berrinba, QLD[2]	Jun-21	8,300	8,300	-	6.00%	-
52 Aldershot Road, Lonsdale, SA[2]	Jun-21	4,500	4,500	-	6.35%	-
36 Parkes Road, Forbes, NSW[2]	Jun-21	8,688	8,688	-	6.25%	-
690-694 Lower North East Road, Paradise, SA[2]	Jun-21	5,725	5,725	-	6.15%	-
Land held for development						
473-477 North East Road & 37 Ramsay Avenue, Hillcrest, SA[3]	N/A	N/A	4,773	3,595	N/A	N/A
Total investment properties			**632,651**	**448,159**		

1 The carrying amount of investment property that were not independently valued as at period end have been determined based on Directors' valuations.
2 New investment properties acquired during the year.
3 Fund-through development projects completed during the year.

The weighted average capitalisation rate for the financial year ended 30 June 2021 was 6.02% (2020: 6.58%).

Recognition and measurement

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes) and are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at fair value (inclusive of adjustments for straight line rental revenue recognition, unamortised lease incentives and costs and capital expenditure obligations), with gains and losses arising from changes in the fair value of investment properties included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Valuation process

The purpose of the valuation process is to ensure that assets are held at fair value and all applicable regulations (Corporations Act 2001 and ASIC regulations) and the relevant Accounting Standards are complied with.

External valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the class of investment properties being valued and are performed for each investment property on at least a three-year rotational basis. Internal valuations are performed by the Group's internal property team in the intervening periods and are reviewed and approved by the Board.

The adopted fair value is determined using the income capitalisation method where the key valuation inputs are net passing rent, net market rent and capitalisation rates based on comparable market evidence

Derecognition

An investment property is derecognised upon disposal or when it is withdrawn from use, and when no future economic benefits are expected from use. The gain or loss arising on derecognition of the property is measured as the difference between the net proceeds from disposal and its carrying amount at disposal date and is recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which the property is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

Key estimates and assumptions – fair value and the valuation process

The Group has investment properties with a net carrying amount of $632,651,000 (2020: $448,159,000), representing the estimated fair value.

The determination of the fair value of investment property is subject to a number of key estimates and assumptions. Management has considered the nature, characteristics and risks of its investment properties as well as the level of fair value hierarchy within which the fair value measurements are categorised.

The fair value of investment property is the price at which it could be exchanged between knowledgeable and willing parties in an arms' length transaction. The best evidence of fair value is current prices in an active market for comparable properties (i.e. properties with similar investment characteristics including, but not limited to, location, lettable area and land area, building characteristics, property conditions, the tenant in occupation, lease terms and income potential).

The fair value of investment property has been assessed to reflect market conditions as at the reporting date. While this represents the best estimate of fair value at the reporting date, the property market dynamics and fundamentals at the point in time the property is sold may mean that the actual price achieved is higher or lower than the most recent best estimate of that property's fair value.

The adopted valuation for investment properties, including property under development which is substantially complete and has pre-committed leases, is determined using the income capitalisation method. The income capitalisation method uses unobservable inputs (i.e. key estimates and assumptions) in determining fair value, as per the table below:

Fair Value Hierarchy	Fair value 30 June 2021 $'000	Valuation Technique	Inputs used to measure fair value	Range of unobservable inputs
Level 3	632,651	Income capitalisation method	Net passing rent (per sqm p.a.) Net market rent (per sqm p.a.) Adopted capitalisation rate	$209 - $4,562 $217 – $4,432 4.50% – 8.50%

A definition is provided below for each of the inputs used to measure fair value:

Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In the calculation of net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	Net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In the calculation of net rent, the owner recovers some or all outgoings from the tenant on a pro-rata basis (where applicable).
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.

6.5 Sensitivity information

When calculating fair value using the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

The COVID-19 pandemic has created unprecedented uncertainty, actual economic events and conditions in the future may be materially different from those estimated by the Group at the reporting date. Due to the uncertainty of the impact that the COVID-19 pandemic could have on valuations of investment properties and as required by AASB 13 Fair Value Measurement, sensitivity analysis has been performed on the fair values adopted at 30 June 2021, based on a range of potential capitalisation rate movements on the Group's investment properties portfolio as compared to the capitalisation rates adopted at 30 June 2021. Capitalisation rate is considered to be one of the key unobservable input that would have a material impact on the fair values adopted if they moved.

Outcomes of the sensitivity analysis are set out below:

	Net profit	
	0.25% decrease in capitalisation rate $'000	**0.25% increase in capitalisation rate $'000**
Investment properties	27,594	(25,348)

The results of the sensitivity analysis demonstrate that the in the event of a softening in capitalisation rates, the Group's consolidated financial position and key financial covenants required by its borrowing arrangements would not be materially impacted to the extent that its going concern assumption would need to be reconsidered.

7. Loans and 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".

Loans and receivables comprise of amounts paid to the vendor's financier to discharge their mortgage on 193-195 Jubilee Highway East, Glenburnie SA that the Group is acquiring. As the underlying title is in process of being transferred, the Group has intermittently become the vendor's mortgagee and derives interest income from the vendor at the same yield as the rental income that the Group would be earning upon completion of this acquisition.

	2021 $'000	**2020 $'000**
Loans and receivables	5,963	-

Recognition and measurement

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment allowance measured using the simplified approach based on its lifetime expected credit loss.

Capital structure, financing and risk management

This section outlines how the Group manages its capital structure and related financing activities and presents the resultant returns delivered to securityholders via distributions and earnings per security.

8. Contributed equity

8.1 Carrying amount

	2021 $'000	2020 $'000
At the beginning of the financial year	310,121	209,935
Issue of new securities	44,999	100,712
Security issuance costs	(916)	(1,241)
Securities buy-back	-	(132)
Distribution reinvestment	2,414	847
At the end of the financial year	**356,618**	**310,121**
Attributable to:		
Securityholders of Convenience Retail REIT No. 2	170,572	149,718
Securityholders of non-controlling interests	186,046	160,403
	356,618	**310,121**

8.2 Number of securities on issue

	2021 No.	2020 No.
At the beginning of the financial year	109,684,567	78,910,051
Issue of new securities	13,745,203	30,814,807
Securities buy-back	-	(40,291)
At the end of the financial year	**123,429,770**	**109,684,567**

Recognition and measurement

Issued and paid up securities are recognised at the fair value of the consideration received by the Group, net of directly incurred transaction costs.

The securities of APN Convenience Retail REIT (the "Stapled Security") comprise the stapled securities of Convenience Retail REIT No. 1, Convenience Retail REIT No. 3 and this Fund. Whilst these Funds remain stapled, their securities must only be issued, dealt with or disposed of as a Stapled Security.

9. Distributions

	2021		2020	
	Cents per security	$'000	Cents per security	$'000
Distributions paid during the year:				
Quarter ended 30 Sep	5.475	(6,191)	5.450	(4,301)
Quarter ended 31 Dec	5.475	(6,667)	5.450	(5,046)
Quarter ended 31 Mar	5.475	(6,756)	5.450	(5,126)
Distributions payable:				
Quarter ended 30 Jun	5.475	(6,758)	5.450	(5,978)
Total distributions paid / payable	**21.900**	**(26,372)**	**21.800**	**(20,451)**

No dilutive securities were issued / on issue during the year (2020: nil).

Recognition and measurement

A liability for any distribution declared on or before the end of the reporting period is recognised in the consolidated statement of financial position in the reporting period to which the distribution pertains.

10. Earnings per security

	2021	2020
Total comprehensive income for the year ($'000)	73,818	45,799
Weighted average number of securities outstanding (thousands)	118,335	89,153
Basic and diluted earnings (cents per security)	**62.38**	**51.37**

Recognition and measurement

Basic earnings per security

Basic earnings per security is calculated as total comprehensive income of the Group divided by the weighted average number of ordinary securities outstanding during the year.

Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account amounts unpaid on securities and the effect of all dilutive potential ordinary securities.

No dilutive securities were issued/on issue during the current year (2020: nil).

11. Borrowings

	2021 $'000	2020 $'000
Non-current		
Bank loans drawn balance date	(181,445)	(76,555)
Deferred borrowing costs	676	729
Total non-current bank loans - secured	**(180,769)**	**(75,826)**

Recognition and measurement

Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement or repayment of the facility for at least 12 months after the reporting date.

11.1 Summary of borrowing arrangements

The Group has entered into a revolving credit facility agreement with four banks that is secured and cross collateralised over the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement). As at reporting date, Management is in the progress of

finalising the mortgage lodgements of five of the properties acquired during the year.

	2021 $'000	2020 $'000
Loan facility limit	275,000	165,000
Amount drawn at balance date	(181,445)	(76,555)
Amount undrawn at balance date	**93,555**	**88,445**

As at 30 June 2021, the total revolving credit facility available of $275,000,000 has the following maturity dates:

- Tranche 1 $52,500,000 – repayable Feb 2023
- Tranche 2 $7,500,000 – repayable Feb 2023
- Tranche 3 $20,000,000 – repayable Feb 2023
- Tranche 4 $20,000,000 – repayable Nov 2023
- Tranche 5 $12,500,000 – repayable Feb 2024
- Tranche 6 $21,250,000 – repayable Feb 2024
- Tranche 7 $30,000,000 – repayable Jul 2024
- Tranche 8 $31,250,000 – repayable Feb 2025
- Tranche 9 $30,000,000 – repayable Jul 2025
- Tranche 10 $30,000,000 – repayable Jan 2026
- Tranche 11 $20,000,000 – repayable Feb 2023

Under the terms of this facility, each member of the Group is permitted to draw down or repay amounts subject to the overall requirement that the Group remains compliant with the facility's terms and conditions.

This facility agreement contains both financial and non-financial covenants and undertakings that are customary for secured debt facilities of this nature. The key financial covenants (with capitalised terms being defined terms in the agreement) that apply to the Group are as follows:

		2021
Loan to Value Ratio ("LVR")	At all times, LVR does not exceed 50%.	32.23%
Interest Cover Ratio ("ICR")	On 31 December and 30 June each year, ICR is not less than 2.0 times.	7.05 times

11.2 Finance costs

	2021 $'000	2020 $'000
Interest expense paid / payable	(3,158)	(3,776)
Line fees	(1,060)	(819)
Total finance costs	**(4,218)**	**(4,595)**

The weighted average 'all-in' interest rate for the Group (including bank margin, amortisation of borrowing costs and undrawn line fees) at reporting date was 3.01% (2020: 3.74%).

Recognition and measurement

Interest expense

Interest expense is recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest rate method except where it is incurred for the construction of any qualifying asset, where it is capitalised during the period of time that is required to complete and prepare the asset for its intended use.

The effective interest rate method calculates the amount to be recognised over the relevant period at the rate that exactly discounts estimated future cash receipts (including all fees that form an integral part of the financial instrument, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. There were no substantial modifications to the terms of existing financial liabilities.

11.3 Derivatives – interest rate contracts

The Group has a debt facility subject to floating interest rates. The Group uses derivative financial instruments to manage its exposure to interest rates such as interest rate swaps (to lock in fixed interest rates) and/or interest rate caps (to limit exposure to rising floating interest rates).

All derivative financial instruments are entered into on terms that provide pari-passu security and cross collateralisation rights over the Fund's and the Group's investment properties (via first registered real property mortgages) and other assets (via a first ranking general "all assets" security agreement) in conjunction with the Group's revolving credit facility.

Generally, the interest rate swap contracts settle on a quarterly basis, generally coinciding with the dates on which interest is payable on the underlying debt. The floating rate incurred on the debt is Australian BBSY. The difference between the fixed and floating interest rate is settled on a net basis by the relevant counterparty. The interest rate contracts have not been identified as hedging instruments and any movements in the fair value are recognised immediately in the consolidated statement of profit or loss and other comprehensive income.

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As at the reporting date, the fair value of interest rate contracts held by the Group was:

	2021 $'000	2020 $'000
Current liabilities		
Interest rate contracts	(926)	(1,190)
Non-current liabilities		
Interest rate contracts	(967)	(2,305)

The Group's interest rate contracts in effect at reporting date covered 55.11% (2020: 91.44%) of the principle drawn under the debt facility and the contract details are as follows:

	Notional Value $'000	Swap Effective Date	Swap Expiry Date	Weighted average interest rate
2021: Interest rate swaps				
Swap 1	10,000	23 Nov 2017	3 Feb 2025	
Swap 2	20,000	6 Nov 2017	6 Nov 2024	
Swap 3	10,000	2 Aug 2019	3 Feb 2025	
Swap 4	10,000	29 Mar 2018	2 May 2023	
Swap 5	10,000	2 Nov 2018	2 Nov 2023	
Swap 6	10,000	7 Jan 2020	9 Jan 2023	
Swap 7	15,000	3 Dec 2020	3 Dec 2025	
Swap 8	5,000	3 Dec 2020	3 Dec 2022	
Swap 9	10,000	4 Dec 2020	5 Dec 2022	
Total / Weighted average	**100,000**			**1.25%**
2020: Interest rate swaps				
Swap 1	10,000	23 Nov 2017	2 Feb 2022	
Swap 2	20,000	6 Nov 2017	6 Nov 2024	
Swap 3	10,000	2 Aug 2019	2 May 2022	
Swap 4	10,000	29 Mar 2018	2 May 2023	
Swap 5	10,000	2 Nov 2018	2 Nov 2023	
Swap 6	10,000	7 Jan 2020	7 Jan 2023	
Total / Weighted average	**70,000**			**1.96%**

Recognition and measurement

Derivatives are categorised as financial instruments at fair value through profit or loss and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date based on counterparty bank valuations. Counterparty bank valuations are tested for reasonableness by discounting the estimated future contractual cashflows and using market interest rates for a substitute instrument at the measurement date.

The resulting gain or loss is recognised immediately in the consolidated statement of profit or loss and other comprehensive income as hedge accounting has not been applied.

11.4 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured at fair value at 30 June 2021, grouped into Levels 1 to 3 based on the degree to which the fair value inputs are observable:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement as at 30 June 2021			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(1,893)	-	(1,893)

	Fair value measurement as at 30 June 2020			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities at FVTPL				
Interest rate contracts	-	(3,495)	-	(3,495)

There were no transfers between Levels during the financial year.

12. Capital risk management

The Responsible Entity's objectives when managing the capital of the Group is to safeguard its ability to continue as a going concern, so that the Group can continue to provide returns for securityholders in accordance with the Group's investment strategy, and to optimise the capital structure and therefore the Group's cost of capital on a risk adjusted basis.

The capital of the Group is maintained or adjusted through various methods including by adjusting the quantum of distributions paid, raising or repaying debt, issuing or buying back securities or selling assets.

The Group's capital position is primarily monitored through its ratio of net debt to total assets (excluding cash) ("Gearing Ratio"), where a target range of between 25% - 40% has been established.

As at 30 June 2021, APN Convenience Retail REIT's Gearing Ratio was 28.23% (2020: 16.52%).

	2021 $'000	**2020 $'000**
Total borrowings	(181,445)	(76,555)
Less: cash and cash equivalents	786	2,331
Net debt	**(180,660)**	**(74,224)**
Total assets (excluding cash and cash equivalents)	640,046	449,289
Gearing ratio	**28.23%**	**16.52%**

13. Financial and risk management

The Responsible Entity is responsible for ensuring a prudent risk management culture is established for the Group. This is reflected in the adoption of a Risk Management Framework that clearly defines risk appetite and risk tolerance limits which are consistent with the Group's investment mandate.

The Group's dedicated Fund Manager is responsible for overseeing the establishment and implementation of appropriate systems, controls and policies to manage the Group's risk. The focus is on ensuring compliance with the approved Risk Management Framework whilst seeking to maximise security holder returns.

The effective design and operation of the risk management systems, controls and policies is overseen by the Responsible Entity and its Audit, Risk and Compliance Committee.

Risk management in respect to financial instruments is achieved via written policies that establish risk appetite and tolerance limits in respect to exposure to interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity. Compliance with these policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

13.1 Financial instruments

The Group undertakes transactions in a range of financial instruments including:

- cash and cash equivalents;
- receivables;
- payables;
- borrowings; and
- derivatives.

Transactions in these instruments expose the Group to a variety of financial risks including market risk (which includes interest rate risk and other price risks), credit risk and liquidity risk. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

13.2 Market risk (including interest rate risk)

The Group is subject to market risk (the risk that borrowings or derivatives are repriced to different interest rate margins on refinance or renewal arising from changes in the debt markets) and interest rate risk (the risk that a change in interest rates may have on the Group's profitability, cashflows and/or financial position) predominately through its borrowings, derivatives and cash exposures.

The interest rates applicable to each category of financial instrument are disclosed in the applicable note to the financial statements.

Market risk sensitivity

The Group's sensitivity to an assumed 100 basis point change in interest rates or interest rate margins as at the reporting date, on the basis that the change occurred at the beginning of the reporting period, is outlined in the table below and includes both increases / decreases in interest payable / receivable and fair value gains or losses on revaluation of derivatives.

	Net profit	
	100bp increase $'000	**100bp decrease $'000**
30 June 2021		
Variable rate instruments	(1,814)	1,814
Derivative financial instruments	7,385	(6,769)
	5,571	**(4,955)**
30 June 2020		
Variable rate instruments	(766)	766
Derivative financial instruments	2,886	(2,669)
	2,120	**(1,903)**

13.3 Credit risk

The Group is subject to credit risk (the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group) predominately through its trade and other receivables, derivatives and cash exposures. The maximum exposure to credit risk at a reporting date is the carrying value of each financial asset as disclosed in the applicable note to the financial statements.

Credit risk is managed by ensuring that at the time of entering into a contractual arrangement or acquiring a property, counterparties or tenants are of appropriate credit worthiness, provide appropriate security or other collateral and/or do not show a history of default. The Group's treasury policy also requires that derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria.

13.4 Liquidity risk

The Group is subject to liquidity risk (the risk that the Group will not be able to meet its contractual or other operating obligations).

Liquidity risk is managed by continuously monitoring forecast and actual cash flows, maintaining appropriate head room under debt facilities and matching the maturity profiles of financial assets and liabilities. To help reduce liquidity risks the Group:

- has a policy which targets a minimum level of cash and cash equivalents to be maintained;
- has readily accessible standby facilities and other funding arrangements in place;
- has a debt maturity policy which targets a maximum percentage of total debt maturing in any one 12-month period; and
- has a loan covenant target to ensure that the Group can withstand a downward movement in valuations, a reduction in income and increase in interest rates without breaching loan facility covenants.

The Group's liquidity risk profile, based on the contractual maturities of key obligations but before consideration of operating cashflows available, is outlined in the following table.

	Within 1 year $'000	Between 1 and 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amounts $'000
2021					
Liabilities					
Payables – current	(4,103)	-	-	(4,103)	(4,103)
Distribution payable	(6,758)	-	-	(6,758)	(6,758)
Interest-bearing liabilities	(3,835)	(85,493)	(106,624)	(195,952)	(181,445)
Interest rate contracts	(1,492)	(1,253)	(513)	(3,258)	(1,893)
	(16,188)	**(86,746)**	**(107,137)**	**(210,071)**	**(194,199)**
2020					
Liabilities					
Payables – current	(6,993)	-	-	(6,993)	(6,993)
Distribution payable	(5,978)	-	-	(5,978)	(5,978)
Interest-bearing liabilities	(1,902)	(1,980)	(79,555)	(83,437)	(75,826)
Interest rate contracts	(1,529)	(1,424)	(1,589)	(4,542)	(3,495)
	(16,402)	**(3,404)**	**(81,144)**	**(100,950)**	**(92,292)**

13.5 Net fair values

The carrying values of the Group's financial instruments as disclosed in the consolidated statement of financial position approximate their fair values. Refer to the applicable notes to the financial statements for the recognition and measurement principles applied to each type of financial instrument.

14. Commitment and contingencies

Other than the contractual obligations disclosed in note 6, there are no other commitments and contingencies in effect at 30 June 2021 (2020: $nil).

Efficiency of operation

This section presents the Group's working capital position and the efficiency in which it converts operating profits into cash available for securityholders / the reinvestment back into the operations of the Group.

15. Cash and cash equivalents

15.1 Reconciliation of profit for the year to net cash provided by operating activities

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand and bank and short-term deposits at call.

	2021 $'000	2020 $'000
Reconciliation of cash and cash equivalent		
Cash and cash equivalents	786	2,331
Reconciliation of net profit to net cash flows from operating activities		
Net profit	73,818	45,799
Add / (less) non-cash items:		
Straight line lease revenue recognition	(4,492)	(4,175)
Impairment of rental receivables	51	57
Amortisation of borrowing costs	266	483
Movement in deferred lease incentives	(741)	28
Fair value (gain) / loss on derivatives	(1,603)	952
Fair value (gain) / loss on investment properties	(42,218)	(23,902)
Changes in assets / liabilities:		
(Increase) / decrease in trade and other receivables	(186)	(1,062)
(Decrease) / increase in payables	(497)	4,186
Net cash inflows from operating activities	**24,398**	**22,366**

Recognition and measurement

Cash and cash equivalents comprise cash on hand and cash in banks or other short term highly liquid investments, net of outstanding bank overdrafts.

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

15.2 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Notes	2021 $'000	2020 $'000
Borrowings as at beginning of the year		(75,826)	(115,400)
Net cash inflow / (outflow) from financing activities:			
Proceeds from borrowings		(144,876)	(85,567)
Repayments of borrowings		39,985	125,029
Additional capitalised borrowing costs paid		214	595
Non-cash changes:			
Amortisation of deferred borrowing costs		(266)	(483)
Borrowings as at the end of the financial year	11	**180,769**	**(75,826)**

16. Trade and other receivables

	2021 $'000	2020 $'000
Current		
Rent and recoveries receivable	720	853
Interest receivable	-	3
	720	**856**

16.1 Ageing analysis of receivables past due but not impaired

	2021 $'000	2020 $'000
31-90 days	12	15
91+ days	-	1
	12	**16**

As at 30 June 2021, rent receivable of $51,000 was impaired (2020: $57,000) and expensed in the consolidated statement of profit or loss and other comprehensive income. The Group holds $18,000 security and/or other collateral (2020: $25,000) and does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics in respect of rent receivables past due but not impaired.

There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

Recognition and measurement

Rent Receivables

Rent receivables are recorded initially at fair value (including GST) and subsequently at amortised cost, less any impairment allowances under the expected credit loss ("ECL") model.

Impairment allowances for rent receivable and other financial assets (other than those measured at fair value through profit and loss) is assessed at each reporting period and is measured using the simplified approach based on its lifetime ECL. Credit losses are measured as the difference between cash flows due to the Group in accordance with the contract and the cash flows the Group expects to receive.

The Group analyses the age of outstanding receivable balances and debts that are known to be uncollectable are written off when identified.

17. Trade and other payables

	2021 $'000	2020 $'000
Current		
Trade payables	(507)	(3,341)
Prepaid rental income	(1,799)	(2,149)
Accrued interest expenses	(960)	(518)
Accrued other expenses	(837)	(985)
	(4,103)	**(6,993)**

Recognition and measurement

Trade and other amounts payable are recorded initially at fair value (including GST) and subsequently at amortised cost. The average credit term on purchases is 30 days and they are non-interest bearing.

Other notes

18. Income taxes

Recognition and measurement

All funds that comprise APN Convenience Retail REIT are "flow-through" entities for Australian income tax purposes that have elected into the Attribution Managed Investment Trusts rules ("AMIT Funds") on and from 1 July 2017, such that the determined trust components of each AMIT Fund will be taxable in the hands of the beneficiaries (the securityholders) on an attribution basis.

Accordingly, deferred taxes associated with these AMIT Funds have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains / losses which could arise in the event of a sale of properties for the amount at which they are stated in the consolidated financial statements.

Realised capital losses are not attributed to securityholders but instead are retained within the AMIT Funds to be offset against realised capital gains. The benefit of any carried forward capital losses is also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to securityholders as noted above. For the year-ended 30 June 2021, there were no unrecognised carried forward capital losses (2020: $nil).

19. Related party transactions

19.1 Transactions with key management personnel

The Group does not employ personnel in its own right. However, it is required to have a Responsible Entity to manage the activities of the Fund and its controlled entities. As such there are no staff costs (including fees paid to directors of the Responsible Entity) included in the consolidated statement of profit or loss and other comprehensive income.

19.2 Transactions with the Responsible Entity and related bodies corporate

The Responsible Entity of Convenience Retail REIT No. 2 is APN Funds Management Limited ("APN FM") (ACN 080 674 479). Convenience Retail Management Pty Limited has been appointed as the Fund Manager (the "Manager") to provide investment management services and property management services to APN Convenience Retail REIT. The Manager is a related body corporate of APN FM and a wholly owned subsidiary of APN Property Group Limited ("APN PG") (ACN 109 846 068).

Transactions with the Responsible Entity / Manager are as follows:

	2021		2020	
	Paid $'000	**Payable $'000**	**Paid $'000**	**Payable $'000**
Management fees[1]	(3,118)	(339)	(2,297)	(230)
Custody fees	(110)	(11)	(84)	(9)
Reimbursement of costs paid	(26)	-	(27)	-
	(3,254)	**(350)**	**(2,408)**	**(239)**

1 APN FM is entitled to a base management fee of 0.65% per annum of the Gross Asset Value of the Group (reducing to 0.60% p.a. of Gross Asset Value between $500 million and $1,000 million, 0.55% p.a. of Gross Asset Value between $1,000 million and $1,500 million and 0.50% of Gross Asset Value in excess of $1,500 million). In addition, the Manager has been appointed, on a non-exclusive basis, to provide property management, financial management, leasing and rent review and project supervision services.

19.3 Security holdings and associated transactions with related parties

The below table shows the number of APN Convenience Retail REIT securities held by related parties (including managed investment schemes for which a related party is the Responsible Entity or Manager) and the distributions the related parties have received or are receivable.

	2021		2020	
	Number of securities	Distributions $	Number of securities	Distributions $
APN Property Group Limited	-	438	7,167	288,626
APD Trust	10,011,224	2,098,175	8,279,619	1,239,440
APN Funds Management Limited	2,402,816	526,217	2,393,278	628,688
APN AREIT Fund	6,869,334	1,373,034	5,529,155	663,941
APN Property for Income Fund	597,220	121,049	507,123	63,232
APN Property for Income Fund No.2	188,097	38,269	159,478	382,804
CFS AREIT Mandate	1,022,899	224,616	1,033,887	113,039
Howard Brenchley	89,914	18,322	59,331	11,209
Geoff Brunsdon AM	72,350	15,106	58,850	12,347
Chris Aylward	1,259,690	264,305	1,048,423	57,139
Tim Slattery	860	188	770	168
Joseph De Rango	7,008	1,517	6,003	1,230
Total	**22,521,412**	**4,681,236**	**19,083,084**	**3,461,863**

18.25% (2020: 17.40%) of APN Convenience Retail REIT stapled securities are held by APN PG and its related parties.

20. Controlled entities

	Country of incorporation	Percentage owned (%)	
		2021	2020
Parent entity			
Convenience Retail REIT No. 2	Australia		
Non-controlling interests			
Convenience Retail REIT No. 1	Australia	-	-
Convenience Retail REIT No. 3	Australia	-	-

Convenience Retail REIT No. 1 and Convenience Retail REIT No. 3 were acquired through a stapling arrangement, and thus no ownership has been obtained. The financial results and financial position attributable to these entities are disclosed as 'non-controlling interests' in the consolidated financial statements.

21. Remuneration of auditors

	2021 $	2020 $
Deloitte and related network firms*		
Audit or review of financial reports:		
Group	44,949	38,000
Controlled entities	29,323	31,000
	74,272	**69,000**
Statutory assurance services required by legislation to be provided by the auditor	10,200	10,200
Total	**84,472**	**79,200**

*The auditor of APN Convenience Retail REIT is Deloitte Touche Tohmatsu.

22. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2021 $'000	2020 $'000
Financial position		
Current assets	6,051	1,550
Non-current assets	245,380	194,400
Total assets	**251,431**	**195,950**
Current liabilities	(5,456)	(5,947)
Non-current liabilities	(43,737)	(24,070)
Total liabilities	**(49,193)**	**(30,017)**
Net assets	**202,238**	**165,933**
Equity		
Issued capital	170,572	149,718
Retained earnings	31,666	16,215
Total equity	**202,238**	**165,933**
Financial performance		
Profit for the financial year	27,078	26,629
Other comprehensive income	-	-
Total comprehensive income	**27,078**	**26,629**

At 30 June 2021, the parent entity had not provided guarantees (2020: $nil), has no contingent liabilities (2020: $nil), and there are no other commitments and contingencies in effect at 30 June 2021 (2020: $nil).

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23. Subsequent events

23.1 Institutional placement

On 17 August 2021, the Group announced its intention to undertake an underwritten institutional placement to raise $45 million through the issue of new stapled securities. The Placement is expected to be completed on 20 August 2021. The Group is also undertaking an underwritten security purchase plan (SPP) to eligible securityholders to raise $5 million through the issue of new stapled securities which is expected to complete on 21 September 2021.

23.2 Acquisition of investment properties

On 9 August 2021, the Group exchanged contracts to acquire 105-115 Cairns Road, Gordonvale QLD for a total purchase price of $18.40 million (excluding transaction costs) which will be funded using the Group's existing debt facility. Settlement completion is expected in late August 2021.

23.3 Acquisition of APN Property Group

On 27 July 2021, securityholders in APN Property Group (ASX: APD), the ultimate and immediate parent entity of APN Funds Management Limited, passed resolutions to approve the acquisition of APD by Dexus Nominee Pty Limited (an entity controlled by Dexus, ASX: DXS). Subsequently, on 4 August 2021 the Supreme Court of Victoria approved the scheme of arrangement and trust scheme. As a result, the transaction was implemented on 13 August 2021.

Further, on 12 August 2021, the directors of APN Funds Management Limited approved the rebranding of the stapled group to Dexus Convenience Retail REIT effective 1 October 2021.

23.4 COVID-19 related rent concessions

At the date of signing these financial statements, no additional rent relieves have been granted by the Group since the reporting date and there are no outstanding tenant discussions.

Other than those mentioned above, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of the Group, or the state of affairs of the Group in future financial years.

24. Adoption of new and revised accounting standards

24.1 New and revised AASBs affecting amounts reported and/or disclosures in the consolidated financial statements

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year. These include:

Standard / Interpretation	Impact on financial statements
AASB 2020-4 *Amendments to Australian Accounting Standards – Covid-19 Related Rent Concessions*	The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. At the reporting date, the Group has not identified any contracts for which it is a lessee. The Group is a lessor by virtue of the lease arrangements associated with its investment properties, therefore this amendment does not have any impact to the Group.
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	This Standard amends AASB 101 Presentation of Financial Statements ("AASB 101") and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and makes consequential amendments to several other pronouncements and publications. The Group has adopted these amendments for the first time in the current year and it did not have any impact to the Group. The amendments make the definition of material in AASB 101 easier to understand and are not intended to alter the underlying concept of materiality in Australian Accounting Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	The Group has adopted the amendments included in AASB 2019-1 for the first time in the current half-year. The amendments include consequential amendments to affected Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB. This amendment did not have any impact to the Group.

24.2 Standards and Interpretations on issue but not yet effective

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also on issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard / Interpretation	Impact on financial statements
AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	This Standard makes amendments to AASB 1054 *Additional Australian Disclosures* by adding a disclosure requirement for an entity intending to comply with IFRS Standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors on the potential effect of an IFRS Standard that has not yet been issued by the AASB.

SUMMARY OF SECURITYHOLDERS

Twenty largest holders of quoted equity securities as at 30 July 2021

Rank	Name	No. of fully paid ordinary shares	%IC
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	10,866,919	8.80
2	PERPETUAL CORPORATE TRUST LTD	10,011,224	8.11
3	NATIONAL NOMINEES LIMITED	9,767,931	7.91
4	CITICORP NOMINEES PTY LIMITED	7,918,792	6.42
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,000,905	4.86
6	BNP PARIBAS NOMS PTY LTD	4,577,837	3.71
7	CS THIRD NOMINEES PTY LIMITED	3,440,000	2.79
8	THE TRUST COMPANY (AUSTRALIA) LIMITED	2,965,092	2.40
9	APN FUNDS MANAGEMENT LTD	2,402,816	1.95
10	SCJ PTY LIMITED	1,447,566	1.17
11	AYLWARD MASTER PTY LTD	1,259,690	1.02
12	ONE MANAGED INVESTMENT FUNDS LTD	1,175,000	0.95
13	MR STEPHEN CRAIG JERMYN	1,009,538	0.82
14	THE CASS FOUNDATION LIMITED	1,000,000	0.81
15	NETWEALTH INVESTMENTS LIMITED	964,286	0.78
16	JAN HOLDINGS PTY LTD	650,000	0.53
17	EXLDATA PTY LTD	638,564	0.52
18	FZIC PTY LTD	633,000	0.51
19	MR MICHAEL KENNETH HANSEN & MRS ALISON BETTY HANSEN	604,917	0.49
20	STRATEGIC VALUE PTY LTD	527,152	0.43
Total		**67,861,229**	**54.98**

Distribution of holders of equity securities as at 30 July 2021

Range	Securities	No. of holders	%
100,001 and Over	76,071,484	61	61.63
10,001 to 100,000	35,681,932	1,536	28.91
5,001 to 10,000	8,449,486	1,147	6.85
1,001 to 5,000	3,133,419	990	2.54
1 to 1,000	93,449	286	0.08
Total	**123,429,770**	**4,020**	**100.00**
Unmarketable Parcels	1,599	103	0.00

Substantial Holder Notices as at 30 July 2021

Name	Date of Notice (ASX)	Number of securities	%
APN Property Group and Holus Nominees Pty Limited and Lauren Investments Pty Limited and related entities	19-Nov-20	20,794,105	18.35
Dexus Nominees Pty Limited and Dexus Funds Management Ltd as responisble entity for Dexus Diversified Trust	11-May-21	19,745,682	16.00
Moelis Australia Limited and related entities	11-Jan-21	8,346,927	6.86
B&I Capital AG	15-Dec-20	7,939,231	6.52

On-market buy back

There were no on-market buy-backs during the year.

CORPORATE DIRECTORY

APN Convenience Retail REIT

Convenience Retail REIT No. 1 ARSN 101 227 614
Convenience Retail REIT No. 2 ARSN 619 527 829
Convenience Retail REIT No. 3 ARSN 619 527 856

Responsible Entity

APN Funds Management Limited
ACN 080 674 479
AFS Licence No: 237500

Directors

Geoff Brunsdon AM, Independent Chairman
Howard Brenchley, Independent Director
Michael Johnstone, Independent Director
Jennifer Horrigan, Independent Director
Joseph De Rango, Alternate Director for Howard Brenchley

Company Secretary

Chantal Churchill

Manager

Convenience Retail Management Pty Ltd
PO Box 18011
Collins Street East
Melbourne VIC 8003

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E apnpg@apngroup.com.au

Share Registry

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Sydney South NSW 1235

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F +61 2 9287 0303
E registrars@linkmarketservices.com.au

Stock Exchange Listing

APN Convenience Retail REIT stapled securities are listed on the Australian Securities Exchange (ASX: AQR)


For Lease


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THE FOODARY
rewards
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Vortex
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