Arena Primary Infrastructure Fund

ARSN 110813851

Annual report - for the year ended 30 June 2013

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Annual report - 30 June 2013

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These financial statements cover Arena Primary Infrastructure Fund and the financial statements are presented in Australian currency.

The Responsible Entity of Arena Primary Infrastructure Fund as at 30 June 2013 was Arena Investment Management Limited (ACN 077 235 879) and its registered office is:

Arena Investment Management Limited
Level 20
600 Bourke Street
Melbourne VIC 3000

On 2 September 2013 the Responsible Entity of Arena Primary Infrastructure Fund changed from Arena Investment Management Limited to Arrow Funds Management Limited (ACN 146 671 276) and its registered office is at:

Arrow Funds Management Limited
Level 25, 360 Collins Street
Melbourne VIC 3000

Directors' report

On 2 September 2013 the Responsible Entity of Arena Primary Infrastructure Fund (the "Fund") changed from Arena Investment Management Limited (ACN 077 235 879) to Arrow Funds Management Limited (ACN 146 671 276) and the Fund has subsequently changed its name to Arrow Primary Infrastructure Fund.

The directors of Arrow Funds Management Limited, the Responsible Entity of the Fund at the date of this report, present their report together with the financial statements of the Fund for the year ended 30 June 2013.

Directors

The following persons held office as directors of Arena Investment Management Limited during the year or since the end of the year:

Bryce Mitchelson
James Goodwin
Dennis Wildenburg
Simon Parsons
David Ross (appointed 4 October 2012)

The following persons held office as directors of Arrow Funds Management Limited during the year or since the end of the year and up to the date of this report:

Andrew Ashbolt
Matthew Reid
Murray Jones

Principal activities

The Fund is an open ended unlisted property fund with investment in geographically diverse property and infrastructure assets used in the primary production industry.

The Fund has been closed for applications and redemptions since 2008.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

Review and results of operations

1. Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	30 June 2013 **$**	30 June 2012 $
Net profit for the year	**5,538,388**	107,154
Distribution paid and payable	**3,030,141**	757,535
Distribution (cents per unit)	**5.00**	1.25

The main factors contributing to the profit for the year were:

- a gain in the fair value of investment properties of $0.951 million compared to the carrying values of those properties at the end of the previous year;
- a reduction in interest expense of $1.754 million compared to the previous year due to lower interest rates, a lower margin on the Fund’s debt facility, lower rate on the swap derivative and lower amount of funds borrowed; and
- Rental income was $1.803 million less than the previous year due to the disposal of several properties in 2011/2012.

Review and results of operations (continued)

2. Value of Fund's Assets

	30 June 2013	30 June 2012
	$	$
Net assets attributable to unitholders (i)	**33,984,173**	31,475,926
Net tangible asset ("NTA") per unit (ii)	**0.5608**	0.5194

(i) The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements.

(ii) Water licences of $9.323 million (2012: $9.323 million) have been included in the calculation of NTA as they are considered an integral part of the Fund's property assets which are leased to tenants, and they are also included in the overall property valuations provided by independent valuers. If water licences are excluded the NTA would be $0.4069 (2012: $0.3655).

3. Asset Disposals and Acquisitions

On 16 July 2012, directors of the Responsible Entity executed contracts for the sale of the Fund's table grape vineyard; Treviso Farm 3, to the current lessee. The sale was made at $1.5 million on a deferred settlement basis, with rent together with a capital reduction component payable on a monthly basis until settlement on 15 October 2014. All outstanding amounts are shown as a receivable in the balance sheet.

On 26 June 2013, 970 megalitres of South Australian water entitlements owned by the Fund were sold and an equivalent volume of Victorian water entitlements acquired. This water is used on the Fund's Lake Powell properties in Victoria and the transaction was made to simplify operational activities.

There were no other asset acquisitions or disposals during the year.

4. Debt facilities

The directors of the Responsible Entity refinanced the Fund's debt facilities at the end of the previous financial year with a 3 year facility with the Commonwealth Bank of Australia (CBA). The Fund's debt facility has a maximum loan to value ratio (LVR) of 60%, and permits distributions to be paid while the Fund's LVR remains below 55%. The facility limit is currently $40,400,000 and has a maturity date of 31 July 2015.

The Fund has hedged approximately 78% of its interest rate exposure of the outstanding debt at a rate of 3.34% per annum (excludes bank margin).

Significant changes in state of affairs

In the opinion of the directors, other than the matters identified in this report, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

At a meeting held on 22 August 2013, the Fund's unit holders voted in favour of the appointment of Arrow Funds Management Limited as Responsible Entity of the Fund and Arena Investment Management Limited retired.

The change of Responsible Entity was subsequently approved by the Australian Securities and Investments Commission (ASIC) on 2 September 2013 and the name of the Fund was subsequently changed to Arrow Primary Infrastructure Fund.

Apart from the above, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2013 that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations or the state of the affairs of the Fund in future financial years, other than those matters stated in this report.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund

Indemnification and insurance of officers and auditors

During the year, the Responsible Entity has paid insurance premiums to insure each of the directors, and officers of the Responsible Entity of the Fund against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity other than conduct involving a wilful breach of duty in relation to the Responsible Entity.

The Responsible Entity also indemnified each external member of Arena's Compliance Committee against any liability incurred in carrying out the member's duties (other than a liability to the members of the schemes or the Responsible Entity) unless the liability arises out of conduct involving lack of good faith on the part of the committee member.

The contract of insurance prohibits disclosure of the nature of the liability covered and the amount of the premium.

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

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity, its directors or associates out of Fund property during the year are disclosed in note 19 to the financial statements.

The interest in the Fund held by the Responsible Entity, its directors or associates as at the end of the financial year is also disclosed in note 19 to the financial statements.

Interests in the Fund

There was no movement in the number of units on issue in the Fund during the year as disclosed in note 17 to the financial statements.

Environmental regulation

The Fund is subject to environmental regulations consistent with other primary industry land holders. There were no breaches notified during the year.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.

Andrew Ashbolt
Director

Melbourne
19 September 2013

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Arena Primary Infrastructure Fund for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Arena Primary Infrastructure Fund during the period.

Charles Christie
Partner
PricewaterhouseCoopers

19 September 2013

Statement of comprehensive income

	Notes	**30 June 2013 $**	30 June 2012 $
Revenue			
Property rental	4	**8,897,085**	10,700,226
Interest	4	**146,565**	142,764
Net gain on change in fair value of derivative financial instruments		**-**	200,545
Revaluation of investment properties	11	**951,059**	-
Gain on sale of assets		**-**	291,629
Other operating income	4	**8,726**	306,810
Total net investment income		**10,003,435**	11,641,974
Expenses			
Direct property expenses		**(500,813)**	(421,929)
Responsible Entity's management fees		**(802,444)**	(882,669)
Responsible Entity's deferred management fee		**-**	213,807
Custodian fees		**(36,356)**	(40,500)
Other administration expenses		**(235,730)**	(192,683)
Impairment loss on other receivables		**-**	(1,985)
Loss on sale of assets		**(6,511)**	-
Net loss on change in fair value of derivative financial instruments		**(125,480)**	-
Devaluation of investment properties	11	**-**	(2,918,940)
Finance costs	5	**(2,757,713)**	(4,511,507)
Impairment loss on intangible assets	12	**-**	(1,788,686)
Impairment loss on assets held for sale	8	**-**	(72,475)
Devaluation of agricultural assets	13	**-**	(917,253)
Total expenses		**(4,465,047)**	(11,534,820)
Net profit for the year		**5,538,388**	107,154
Other comprehensive income		**-**	-
Total comprehensive income		**5,538,388**	107,154
Total comprehensive income for the year is attributable to:			
Unitholders of Arena Primary Infrastructure Fund		**5,538,388**	107,154

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

	Notes	30 June 2013 $	30 June 2012 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**5,350,327**	4,944,586
Trade and other receivables	10	**251,540**	268,825
Assets held for sale	8	**-**	1,514,228
Total current assets		**5,601,867**	6,727,639
Non-current assets			
Trade and other receivables	10	**1,380,852**	-
Investment properties	11	**53,876,720**	52,206,720
Intangible assets	12	**9,323,100**	9,323,100
Agricultural assets	13	**10,430,180**	10,430,180
Total non-current assets		**75,010,852**	71,960,000
Total assets		**80,612,719**	78,687,639
LIABILITIES			
Current liabilities			
Trade and other payables	14	**370,675**	735,911
Distributions payable	7	**757,535**	757,535
Interest bearing liabilities	16	**4,917,460**	4,917,460
Total current liabilities		**6,045,670**	6,410,906
Non-current liabilities			
Derivative financial instruments	15	**323,625**	198,145
Interest bearing liabilities	16	**40,259,251**	40,602,662
Total non-current liabilities		**40,582,876**	40,800,807
Total liabilities		**46,628,546**	47,211,713
Net assets		**33,984,173**	31,475,926
Equity			
Contributed equity	17	**55,303,659**	55,303,659
Accumulated losses	18	**(21,319,486)**	(23,827,733)
Total equity		**33,984,173**	31,475,926

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Contributed equity $	Reserves $	(Accumulated losses) $	Total equity $
Balance at 1 July 2011	55,303,659	-	(23,177,352)	32,126,307
Profit for the year	-	-	107,154	107,154
Total comprehensive income for the year			107,154	107,154
Transactions with owners in their capacity as owners:				
Distributions to unitholders	-	-	(757,535)	(757,535)
Balance at 30 June 2012	55,303,659	**-**	(23,827,733)	31,475,926

	Contributed equity $	Reserves $	(Accumulated losses) $	Total equity $
Balance at 1 July 2012	**55,303,659**	**-**	**(23,827,733)**	**31,475,926**
Profit for the year	-	-	**5,538,388**	**5,538,388**
Total comprehensive income for the year			**5,538,388**	**5,538,388**
Transactions with owners in their capacity as owners:				
Distributions to unitholders	-	-	**(3,030,141)**	**(3,030,141)**
Balance at 30 June 2013	**55,303,659**	**-**	**(21,319,486)**	**33,984,173**

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

Statement of cash flows

	Notes	**30 June 2013 $**	30 June 2012 $
Cash flows from operating activities			
Property rental receipts		**8,992,273**	9,214,081
Payments to suppliers		**(1,837,966)**	(1,553,563)
Interest received		**150,482**	127,301
Finance costs paid		**(2,808,016)**	(3,954,768)
Net cash inflow/(outflow) from operating activities	20	**4,496,773**	3,833,051
Cash flows from investing activities			
Proceeds from sale of assets		**1,439,585**	14,975,126
Payments for purchase of assets		**(1,451,296)**	-
Payments for capital expenditure		**(598,280)**	(10,331)
Net cash inflow/(outflow) from investing activities		**(609,991)**	14,964,795
Cash flows from financing activities			
Repayment of borrowings		**(450,900)**	(15,606,490)
Distributions paid to unitholders		**(3,030,141)**	-
Net cash inflow/(outflow) from financing activities		**(3,481,041)**	(15,606,490)
Net increase/(decrease) in cash and cash equivalents		**405,741**	3,191,356
Cash and cash equivalents at the beginning of the financial year		**4,944,586**	1,753,230
Cash and cash equivalents at the end of the year	9	**5,350,327**	4,944,586

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

Notes to the financial statements

Contents

1 General information

These financial statements cover Arena Primary Infrastructure Fund which is an unlisted managed investment scheme registered and domiciled in Australia.

The Responsible Entity of the Fund during the financial year was Arena Investment Management Limited ("Arena").

On 2 September 2013 Arena retired as Responsible Entity of the Fund and was replaced by Arrow Funds Management Limited ("Arrow") following approval of Arrow's appointment at a general meeting of unit holders held on 22 August 2013.

The financial statements were authorised for issue by the directors of Arrow on 19 September 2013. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Arena Primary Infrastructure Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial report has been prepared on an accruals and historical cost basis except for non-current assets classified as held for sale, investment property, agricultural assets, financial assets at fair value through profit or loss and derivative financial instruments which are measured at fair value. Cost is based on the fair value of consideration given in exchange for assets. Comparative information is reclassified where appropriate to enhance comparability.

Going concern

As at 30 June 2013, the Fund had a net working capital deficiency of $0.444 million. The deficiency is due to the classification of the Fund's $4.917 million facility with its immediate parent entity. After taking into account all available information, the Directors of the Responsible Entity have concluded that there are reasonable grounds to believe the Fund will be able to pay its debts as and when they fall due and the basis of preparation of the financial report on a going concern basis is appropriate. The Directors have formed this view based on a number of factors including the Fund's net asset position attributable to investors of $33.984 million, the Fund's cash flow forecasts which support the ability of the Fund to pay its debts as and when they fall due, the underlying performance of the Fund's investment properties and the potential to sell assets.

Compliance with International Financial Reporting Standards

The financial statements of the Fund comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Investment property

Investment property is real estate investments held to earn long-term rental income and for capital appreciation. Investment properties are carried at fair value determined either by the Directors or independent valuers with changes in fair value recorded in the income statement. Investment properties are not depreciated.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the cost of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

Although integral components of investment property, water licences and agricultural assets are recognised separately as intangible assets and agricultural assets respectively. Accordingly, investment property includes only land and infrastructure.

Investment properties are valued at fair value, being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

The Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property to be independently valued by suitably qualified valuers at least once every two years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

2 Summary of significant accounting policies (continued)

(b) Investment property (continued)

The present value of net future cash flow projections are based on reliable estimates of future cash flows, derived from existing lease contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The capitalisation of net rental income projections are based on properties' estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short-term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income amount.

The principal assumptions underlying the Directors' estimation of fair value include those related to the amount of contractual rentals, maintenance and capital expenditure requirements, and appropriate discount rates. The expected future market rentals are based on current market rentals.

A direct comparison approach involves the advice from an approved external valuer to make an assessment of fair value based on market sales evidence and the current status of the individual property.

(c) Agricultural assets

Agricultural assets are measured at fair value less estimated point of sale costs. Gains or losses arising from change in the fair value of agricultural assets are recognised in the statement of comprehensive income.

The investment properties which include agricultural assets are subject to long term leases. These properties are carried at values recommended by independent valuers. The capitalisation of future cash flows method and the direct comparison summation method of valuation are used to determine the fair value less estimated point of sale costs of the agricultural assets based on the nature of tenants long term leases.

The valuation of investment properties which include agricultural assets and water licences is assessed on an aggregate basis and the independent valuer may or may not separate the valuation into components which are required to be separately disclosed in the financial statements in order to meet Australian Accounting Standards. The Fund estimates the carrying amount of each component of property value with reference to the information supplied by independent valuers. Refer to Note 2(p) for further information.

(d) Intangible assets

Water licences are recognised at cost less impairment losses. Water licences have an indefinite useful life and are thus not subject to amortisation but are tested for impairment by comparing their recoverable amount with their carrying amount. Water licences are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

(e) Assets held for sale

Assets are classified as held-for-sale when a sale is considered highly probable and their carrying amount will be recovered principally through a sale transaction rather than through continued use. Assets classified as held-for-sale are separated from the other assets in the balance sheet.

Assets classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. Changes to fair value are recorded in the statement of comprehensive income.

(f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 Summary of significant accounting policies (continued)

(g) Revenue

Rental income from operating leases is recognised as income on a straight-line basis over the lease term. Where a lease has fixed annual increases, the total rent receivable over the operating lease is recognised as revenue on a straight-line basis over the lease term. This results in more income being recognised early in the lease term and less late in the lease term compared to the lease conditions. The difference between the lease income recognised and the actual lease payments received is shown within the fair value of the investment property on the balance sheet.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, are only recognised when contractually due.

Interest income is recognised in the statement of comprehensive income using the effective interest rate method.

Other income is recognised when the right to receive the revenue has been established.

All income is stated net of goods and services tax (GST).

(h) Financial instruments

(i) Classification

Derivative financial instruments such as forward contracts, options and interest rate swaps are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

Financial instruments are designated at fair value through profit or loss at inception and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate these financial instruments on a fair value basis using related financial information.

(ii) Recognition/derecognition

Financial assets and financial liabilities are recognised on the date the Fund becomes party to the contractual agreement (trade date) and the Fund recognises changes in fair value of the financial assets or financial liabilities from that date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss:

At initial recognition, financial assets are initially recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further detail on how the fair values of financial instruments are determined is disclosed in note 3(d).

Loans and receivables:

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

2 Summary of significant accounting policies (continued)

(h) Financial instruments (continued)

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Income tax

Under current legislation, the Fund is not subject to Australian income tax provided its taxable income is fully distributed to unitholders.

(k) Distributions

In accordance with the Fund constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity. The distributions are recognised within the balance sheet and statement of changes in equity as a reduction in accumulated profit/(losses).

(l) Receivables

Receivables may include amounts for rent and interest. Interest is accrued at the end of each reporting period from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(m) Provisions

A provision is recognised when the Fund has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the Responsible Entity's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(n) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

2 Summary of significant accounting policies (continued)

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of the GST incurred is not recoverable from the relevant taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables and payables in the balance sheet.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(p) Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgements in applying the accounting policies - Interest rate swaps

The Fund follows the guidance in AASB 139: Financial Instruments: Recognition and Measurement in accounting for interest rate swaps as financial assets or financial liabilities at fair value through profit or loss (classified as held for trading). All the interest rate swaps are entered into to hedge interest rate risks by converting floating rate debt to fixed interest rates. The Directors of the Responsible Entity have decided not to follow the documentation and other requirements of AASB 139 that are necessary in order to classify the interest rate swaps as cash flow hedges. This has had the effect of recognising movements of the interest rate swaps in the statement of comprehensive income rather than equity.

(ii) Fair value of investment properties and agricultural assets
Fair value of investment property and agricultural assets are the prices at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A “willing seller” is not a forced seller prepared to sell at any price. Investment property and agricultural asset valuations are revalued at the end of each reporting period to reflect their fair value according to the Fund's accounting policy on valuing assets and applying generally accepted valuation criteria, methodology and assumptions. Assumptions used in determining fair value have been disclosed in Note 11.

(iii) Determination of components of agricultural properties

The Fund has a policy of obtaining periodic independent valuations for all properties. Generally, independent valuer advice is sought on the separate valuation components of each property: investment property, agricultural assets and water licences, which are required by Australian Accounting Standards to be separately disclosed in the financial statements. Where an independent valuer does not separate the valuation into the various components, the valuation is split between investment property and agricultural assets with reference to the independent valuation data for similar properties.

Unless specifically detailed in a contract of sale, the proceeds on disposal of a property in the Fund is calculated on a proportional basis according to the carrying value of each component.

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Fund has not adopted these standards/interpretations. The Fund's assessment of the impact of relevant new standards and interpretations is set out below:

Standard/Interpretation	Impact	Effective annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Disclosures	AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial instruments. The standard only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as a result of applying the revised rules.	01/01/2015	30/06/2016
AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13	AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. The Fund does not expect any significant changes to the way it fair values its assets, however it may impact the type of information disclosed in the notes to the financial statements.	01/01/2013	30/06/2014

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

3 Financial risk management

The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed to are market risk, credit risk and liquidity risk. The exposure to each of these risks, as well as the Fund's policies and processes for managing these risks are described below.

(a) Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk. The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The Fund's market risk is managed as required by the Responsible Entity in accordance with the investment guidelines as outlined in the Fund's Product Disclosure Statement.

(i) Price risk

Arrow Funds Management Limited, the Responsible Entity as from 2 September 2013, has undertaken not to charge a number of fees that it may become entitled to charge under the Fund's Constitution, being the withdrawal fee, asset acquisition fee, asset disposal fee and the performance fee. Accordingly, the Fund is no longer exposed to price risk in relation to fees.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Fund's cash and cash equivalents, floating rate borrowings and interest rate swaps expose it to a risk of change in the fair value or future cash flows due to changes in interest rates. The specific interest rate exposures are disclosed in the relevant notes to the financial statements.

The Fund hedges a portion of its exposure to changes in interest rates on variable rate borrowings by using floating-to-fixed interest rate swaps. By hedging against changes in interest rates, the Fund has limited its exposure to changes in interest rates on its cash flows. The portion that is hedged is set by the Responsible Entity and is influenced by the hedging requirements of the Fund's debt facility, and the market outlook. The Responsible Entity ensures the maturity of individual swaps does not exceed the expected life of assets.

The Fund's exposure to interest rate risk at reporting date, including its sensitivity to changes in market interest rates that were reasonably possible, is as follows:

	2013 $	2012 $
Financial assets		
Cash and cash equivalents - floating interest rate	**5,350,327**	4,944,586
Financial liabilities		
Derivative financial instruments (notional principal amount) - fixed rate		
- interest rate swaps	**31,500,000**	37,333,900
- Interest bearing liabilities - floating interest rate	**(40,400,000)**	(45,768,360)
	(8,900,000)	(8,434,460)
Net exposure to interest rate risk	**(3,549,673)**	(3,489,874)
Sensitivity of profit or loss to movements in market interest rates for derivative instruments with fair value risk:		
Market interest rate increased by 100 basis points (2012: 100 bp)	**(609,400)**	876,600
Market interest rate decreased by 100 basis points (2012: 100 bp)	**609,400**	(876,600)
Sensitivity of profit or loss to movements in market interest rates for financial instruments with cash flow risk:		
Market interest rate increased by 100 basis points (2012: 100 bp)	**(35,497)**	(34,899)
Market interest rate decreased by 100 basis points (2012: 100 bp)	**35,497**	34,899

The interest rate range for sensitivity purposes has been determined using the assumption that interest rates changed by +/- 100 basis points (1.0%) from year end rates with all other variables held constant. In determining the impact of an increase/decrease in equity to unitholders arising from market risk the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

3 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at reporting date.

	2013	2012
	$	$
Cash at bank	**5,350,327**	4,944,586
Trade receivables (net of impairment)	**1,709**	96,633
Other receivables	**36,024**	93,427
Maximum exposure to credit risk	**5,388,060**	5,134,646

The Fund manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Tenants for each of the properties held by the Fund are assessed for creditworthiness before commencing a lease, and if necessary rental guarantees are sought before tenancy is approved. Loans and receivables from third parties are secured against land and corporate and personal guarantees. The Responsible Entity also performs a detailed review of both related and other parties before approving advancement of funds. This is performed to ensure that they will be able to meet interest and principal repayments. There have been no changes from previous periods.

All receivables are monitored by the Responsible Entity. If any amounts owing are overdue these are followed up and if necessary, allowances are made for debts that are doubtful.

At the end of the reporting period there are no issues with the credit quality of financial assets that are either past due or impaired, and all amounts are expected to be received in full.

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due. The Fund Manager sets budgets to monitor cash flows.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows.

	Less than 12 months	**1-2 years**	**Greater than 2 years**
30 June 2013	**$**	**$**	**$**
Trade and other payables	**370,674**	**-**	**-**
Distributions payable	**757,535**	**-**	**-**
Interest rate swaps	**-**	**-**	**323,625**
Interest bearing liabilities	**4,917,460**	**-**	**40,400,000**
Contractual cash flows (excluding gross settled derivatives)	**6,045,669**	**-**	**40,723,625**
30 June 2012			
Trade and other payables	735,911	-	-
Distributions payable	757,535	-	-
Interest rate swaps	18,493	179,652	-
Interest bearing liabilities	-	-	45,768,360
Contractual cash flows (excluding gross settled derivatives)	1,511,939	179,652	45,768,360

3 Financial risk management (continued)

(d) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- 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 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2013 and 30 June 2012.

	Level 1 $	Level 2 $	Level 3 $	Total $
Financial liabilities				
Interest rate swaps – 30 June 2013	**-**	**323,625**	**-**	**323,625**
Interest rate swaps – 30 June 2012	-	198,145	-	198,145

4 Revenue

	30 June 2013 $	30 June 2012 $
Revenue includes:		
(a) Property rental from:		
Base rent	**8,776,424**	9,385,678
Other rental income (recognised on a straight line basis)	**120,661**	1,314,548
Total rental income	**8,897,085**	10,700,226
(b) Interest income arises from:		
Cash and cash deposits	**146,565**	142,764
(c) Other income:		
Cash security deposits released for benefit of the Fund	-	306,810
Other miscellaneous income	**8,726**	-
Other income	**8,726**	306,810

5 Finance costs

Interest paid or payable to related parties	**351,239**	112,332
Interest paid or payable to other persons	**2,406,474**	4,399,175
Total finance costs	**2,757,713**	4,511,507

6 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

PricewaterhouseCoopers firm		
Audit and other assurance services		
Audit and review of financial statements	**43,000**	40,750
Audit of compliance plan	**3,500**	4,000
Total remuneration of audit and other assurance services	**46,500**	44,750
Other services		
Other services	**7,935**	-
Total remuneration of PricewaterhouseCoopers	**54,435**	44,750

7 Distributions to unitholders

The distributions paid and payable by the Fund for the year were as follows:

Distributions paid	**2,272,606**	-
Distributions payable	**757,535**	757,535
	3,030,141	757,535 -

A distribution of 1.25 cents per unit was declared for the quarter ended 30 June 2013 (2012: 1.25 cents per unit).

8 Assets held for sale

The following table details the assets held for sale by the Fund at the end of the reporting period:

(a) Assets classified as held for sale

	30 June 2013 $	30 June 2012 $
Investment properties	**-**	1,586,703
Impairment loss on assets held for sale	**-**	(72,475)
Total assets of disposal group held for sale	**-**	1,514,228

9 Cash and cash equivalents

The following table details the cash and cash equivalents held by the Fund at the end of the reporting period:

Cash at bank	**5,350,327**	4,944,586

10 Trade and other receivables

The following table details the trade and other receivables at the end of the reporting period:

Current:		
Trade receivables	**1,709**	98,528
Proceeds from sale of property	**68,712**	**-**
Allowance for impairment of trade receivables	**-**	(1,895)
Prepayments	**145,095**	78,765
Other receivables	**36,024**	93,427
	251,540	268,825
Non-current:		
Proceeds from sale of property	**1,380,852**	-

(a) Impairment and ageing

The ageing of trade receivables at the end of the reporting period was:

	Gross 2013 $	**Impairment 2013 $**	Gross 2012 $	Impairment 2012 $
Not past due	**-**	**-**	96,633	-
Past due 0 - 30 days	**-**	**-**	-	-
Past due 31 - 60 days	**-**	**-**	-	-
Past due 61 - 90 days	**-**	**-**	-	-
Past due over 90 days	**1,709**	**-**	1,895	1,895
	1,709	**-**	98,528	1,895

No other class of financial asset is past due.

10 Trade and other receivables (continued)

The Fund reviews all receivables for impairment. Any receivables which are doubtful have been provided for. Based on past experience, all receivables where no impairment has been recognised are not considered to be impaired.

The nature of the receivables is in respect of rent which past history has shown the majority are settled within 30 days of the debt arising.

The movement in the allowance for impairment of trade receivables during the year is as follows:

	30 June 2013	30 June 2012
	$	$
Opening balance at 1 July	**1,895**	1,795
Increase in the provisions	-	1,985
Amount written-off against provision	**(1,895)**	(1,885)
Closing balance at 30 June	**-**	1,895

11 Investment properties

(a) Individual valuations and carrying amounts

Property	**Latest external valuation**		**Carrying amount**	
			2013	2012
	Date	**$**	**$**	$
Boronia Breeder Facility, NSW	June 12	4,000,000	**4,000,000**	4,000,000
Lynwood Breeder Facility, NSW	June 12	8,020,000	**8,020,000**	8,020,000
Woodleigh Breeder Facility, NSW	June 12	9,760,000	**9,760,000**	9,760,000
Bearii Breeder Facility, VIC	June 12	3,980,000	**4,050,000**	3,980,000
Stewarton Breeder Facility, VIC	June 12	5,870,000	**5,870,000**	5,870,000
Rhynie Breeder Facility, SA	June 12	7,650,000	**7,650,000**	7,650,000
Nagambie Broiler Facility, VIC	June 12	4,750,000	**4,750,000**	4,750,000
Eumaralla Farm, NT	June 12	2,263,710 *	**2,263,710**	2,263,710
Katherine Packing Shed, NT	June 12	1,650,000 *	**1,650,000**	1,650,000
Lake Powell Orchards Lot 2, VIC	June 12	1,434,424 *	**1,994,424**	1,434,424
Lake Powell Orchards Lots 5/6, VIC	June 12	2,828,586 *	**3,868,586**	2,828,586
Total investment properties		52,206,720 *	**53,876,720**	52,206,720

* Excludes water licences and agricultural assets which are disclosed separately in notes 12 and 13.

(b) Movements during the financial year

	30 June 2013	30 June 2012
	$	$
At fair value		
Opening balance	**52,206,720**	53,800,781
Capitalised expenditure	**598,280**	10,331
Revaluations/(devaluations)	**951,059**	(2,918,940)
Changes in fair value for straight-lining of rent adjustment	**120,661**	1,314,548
Closing balance	**53,876,720**	52,206,720

(c) Amounts recognised in profit or loss for investment properties

	30 June 2013 **$**	30 June 2012 $
Rental income	**8,776,424**	10,700,226
Direct operating expenses from property that generated rental income	**(500,813)**	(421,929)
	8,275,611	10,278,297

Direct property operating expenses includes expenses related to those properties that generated rental income during the period.

(d) Tenancy Risk

Set out below are details of the major tenants who lease properties from the Fund:

Baiada Poultry Pty Limited ("Baiada") - representing 52% of rental income
Baiada is a privately owned Australian company which provides poultry products throughout Australia. It is Australia's largest producer of poultry with business operations including Broiler & Breeder Farms, Hatcheries, Processing Plants, Feedmilling and Protein Recovery. Baiada is the tenant of six of the Fund's poultry farms.

Select Harvests Limited ("SHV") - representing 32% of rental income
SHV is a public listed company and a major almond grower and orchard manager. It is Australia's leading manufacturer, processor and marketer of a range of nuts and associated products to the Australian retail and industrial markets and exports almonds to Asia, Europe and the Middle East. SHV is the tenant of the Fund's two Lake Powell almond properties.

Seven Fields Operations Pty Ltd ("Seven Fields") - representing 8% of rental income
Seven Fields is a privately owned Australian company which grows packs and markets citrus and mangos and also operates several vineyards. Seven Fields leases the Fund's Eumaralla mango farm and packing shed in Katherine, Northern Territory.

Turi Foods Farming Division Pty Ltd ("Turi") – representing 8% of rental income
Turi is a privately owned Australian company which owns the La Ionica, Bannockburn and Golden Farms poultry brands. It is a major poultry grower and processor based in Victoria with its own feed mill, 12 poultry farms and a major processing plant at Thomastown. Turi took over the existing lease of the Fund's Stewarton Breeder Farm from Baiada on 1 July 2013.

(e) Assets pledged as security

Refer to Note 16 for information on investment properties and other assets pledged as security by the Fund.

(f) Contractual obligations and commitments

The Fund may be subject to capital expenditure requirements under lease terms to a maximum of $1.0 million (2012: $2.0 million). The Fund has set funds aside for the potential obligations, and will receive a return on the investment through increased lease payments.

(g) Valuation basis

The Fund obtains independent valuations for its investment properties at least once every two years. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The principal assumptions underlying directors' estimation of fair value include those related to the amount of contractual rentals and capitalisation rates as well as direct comparisons with similar properties in the same location and condition and subject to similar leases. The key assumptions include the following:

	30 June 2013	30 June 2012
Capitalisation rates	**9% to 11.25%**	9% to 11.25%
Rental growth rate	**2.5% to 2.75%**	2.5% to 2.75%

11 Investment properties (continued)

(h) Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

	30 June 2013 **$**	30 June 2012 $
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	**8,480,942**	8,236,698
Later than one year but not later than 5 years	**33,161,063**	34,303,544
Later than 5 years	**44,675,967**	61,859,899
	86,317,972	104,400,141

12 Intangible assets

Water licences:		
Opening net book amount	**9,323,100**	11,111,786
Impairment loss	**-**	(1,788,686)
Closing net book amount	**9,323,100**	9,323,100
Cost	**11,111,786**	11,111,786
Accumulated impairment	**(1,788,686)**	(1,788,686)
Net book amount	**9,323,100**	9,323,100

The Fund owns 10,020 megalitres (2012: 10,020 megalitres) of permanent water licences, which form an integral part of the properties under long-term leases.

Water licences have an indefinite useful life as a result of their legal form and are not amortised.

Impairment of water licences
When considering whether the intangible assets' value is impaired, the Directors have assessed the recoverable amount based on fair value less costs to sell by using observable market prices. The Directors have assessed there was no impairment as at 30 June 2013 (2012: water licences were written down by $1,788,686).

13 Agricultural assets

Trees are an integral part of the agricultural assets that are leased to tenants under long-term leases.

The Fund owned the following agricultural assets as at 30 June 2013:

(a) 43,777 mixed age mango and citrus trees; and
(b) 609 hectares of mixed age almond trees.

(a) Movement in carrying amounts Movement in the carrying amounts for agricultural assets between the beginning and end of the current financial year:	**30 June 2013** **$**	30 June 2012 $
Opening balance at 1 July	**10,430,180**	11,347,433
Revaluations/(devaluations)	-	(917,253)
Closing balance at 30 June	**10,430,180**	10,430,180

13 Agricultural assets (continued)

(b) Basis of valuations

The Fund holds agricultural investment properties which are carried at directors' valuations as at 30 June 2013. The fair value of agricultural assets is estimated according to an average tree sale rate by adopting a direct comparison approach as explained in Note 2(c).

The significant assumptions made in determining the fair value for agricultural assets are as follows:

	30 June 2013	30 June 2012
Valuation per Mango tree	**$100**	$100
Valuation per Citrus tree	**$35**	$35
Valuation per Almond orchard (hectare)	**$11,596**	$11,596

(c) Financial risk management strategies

The lessee and sub-lessees are responsible for all operating costs relating to the Fund's properties, including those related to agricultural assets, and they are the sole beneficiaries of the produce from those agricultural assets. The Fund's sole income from its investment properties (including agricultural assets) is rental revenue received under its long-term leases.

Several of the leases give the tenant the right to terminate the leases should the underlying property be adversely affected by natural disaster or disease. The Directors assess risks associated with the properties and obtain insurance coverage where appropriate and cost effective.

(d) Assets pledged as security

Refer to Note 16(a) for information on agricultural assets and other asset pledged as security by the Fund.

(e) Contractual obligations

The Fund has no commitments to purchase agricultural assets as at 30 June 2013 (2012: Nil).

14 Trade and other payables

The following table details the trade and other payables by the Fund at the end of the reporting period:

	30 June 2013	30 June 2012
	$	$
Sundry creditors and accruals	**363,793**	622,699
Related party payables	**6,882**	113,212
	370,675	735,911

15 Derivative financial instruments

The following table details the derivative financial instruments held by the Fund at the end of the reporting period:

	30 June 2013 $	30 June 2012 $
Non-current liabilities:		
Interest rate swap	**323,625**	198,145
Total derivative financial instrument liabilities	**323,625**	198,145

(a) Interest rate swaps
Interest bearing liabilities of the Fund currently carry a weighted average effective interest rate of 5.90% (2012: 5.85%). It is policy to protect part of the loans and bills from exposure to increasing interest rates. Accordingly, the Fund has entered into interest rate swap contracts under which it is obliged to receive interest rate variable rates and to pay interest at fixed rates.

A swap is currently in place over approximately 78% (2012: 91%) of the commercial bill outstanding and is timed to expire as each bill repayment falls due. The fixed interest rate of the swap is 3.34% (2012: swaps ranged between 5.88% and 8.06%).

16 Interest bearing liabilities

	30 June 2013 $	30 June 2012 $
Current		
Unsecured:		
Loan (i)	**4,917,460**	**-**
Loan due to the immediate parent entity (i)	-	4,917,460
Total current interest bearing liabilities	**4,917,460**	4,917,460
Non-current		
Secured:		
Commercial bills (ii)	**40,400,000**	40,850,900
Unamortised borrowing costs	**(140,749)**	(248,238)
Total non-current interest bearing liabilities	**40,259,251**	40,602,662

(i) On 28 March 2013 the unsecured loan was assigned from Arena Property Fund to Align Management Pty Ltd. Arena Property Fund was the immediate parent entity of the Fund as at 30 June 2013. Align Management Pty Ltd is related to Arrow Funds Management Limited, which became the responsible entity of the Fund on 2 September 2013. The Fund pays interest on the unsecured loan equivalent to the distribution rate paid to ordinary unitholders. The weighted effective interest rate for the year ended 30 June 2013 was 9.41% (2012: 2.28%). Under the loan agreement, the Fund must repay the full amount within 30 business days of receipt of a notice of demand. At the Fund's discretion, repayment can be made in cash or kind, which includes the ability to issue additional units in the Fund to the lender.

(ii) The Funds' debt facility with the Commonwealth Bank of Australia ('CBA') was refinanced on 22 June 2012 and has a limit of $40,400,000 and a maturity date of 31 July 2015.

16 Interest bearing liabilities (continued)

(a) Assets pledged as security

The bank facilities are secured by a registered first mortgage over the properties and water licences owned by the Fund.

The carrying amounts of assets pledged as security are:

	30 June 2013 $	30 June 2012 $
Investment properties	**53,876,720**	52,206,720
Water licences	**9,323,100**	9,323,100
Agricultural assets	**10,430,180**	10,430,180
Asset sold awaiting settlement (2012: Held for sale)	**1,444,364**	1,514,228
	75,074,364	73,474,228

(b) Financing arrangements

The Fund has the following facility available:

	30 June 2013			30 June 2012		
	Facility limit $	**Drawn $**	**Undrawn facility $**	Facility limit $	Drawn $	Undrawn facility $
Commercial bills	**40,400,000**	**40,400,000**	**-**	40,850,900	40,850,900	-

The current commercial bill facility may be drawn at any time.

(c) Covenants

The covenants over the commercial bill facility requires an interest cover ratio of greater than 1.5 times and a loan to market value of investment properties ratio of less than 60%. The Fund was in compliance with its covenants as at 30 June 2013 and 30 June 2012.

17 Contributed equity

(a) Units

	30 June 2013 Units	30 June 2012 Units	**30 June 2013 $**	30 June 2012 $
Ordinary units				
Fully paid	**60,602,809**	60,602,809	**55,303,659**	55,303,659

(b) Movements in ordinary units

Date	**Details**	**Number of units**	**$**
1 July 2011	Opening balance	60,602,809	55,303,659
30 June 2012	Closing balance	60,602,809	55,303,659
1 July 2012	Opening balance	60,602,809	55,303,659
30 June 2013	Closing balance	60,602,809	55,303,659

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

17 Contributed equity (continued)

(c) Capital management

The objective of the Fund is to provide unitholders with regular tax advantaged income distributions and moderate capital growth over the longer term. The Fund aims to achieve this objective mainly through investing in property and infrastructure assets used in the primary production industry, with a particular focus on Australian horticulture.

The Fund aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments. The Responsible Entity regularly reviews the performance of the Fund, including asset allocation strategies, investment and operational management strategies, investment opportunities, performance review, and risk management.

18 Accumulated losses

	30 June 2013	30 June 2012
	$	$
Movements in accumulated losses were as follows:		
Opening accumulated losses	**(23,827,733)**	(23,177,352)
Net profit for the year	**5,538,388**	107,154
Distribution paid or payable	**(3,030,141)**	(757,535)
Closing accumulated losses	**(21,319,486)**	(23,827,733)

19 Related party disclosures

Responsible entity

The Responsible Entity of Arena Primary Infrastructure Fund at 30 June 2013 was Arena Investment Management Limited.

Arrow Funds Management Limited became the Responsible Entity of the Fund on 2 September 2013.

The Responsible Entity or its related parties are entitled to receive fees from the Fund in accordance with the Fund's constitution.

	30 June 2013	30 June 2012
	$	$
The following transactions occurred with the Responsible Entity or related parties:		
Management fees for the year paid or payable by the Fund to the Responsible Entity	**802,444**	882,669
Distribution paid or payable to the immediate parent entity managed by the Responsible Entity during the year	**1,774,594**	448,511
Interest expenses paid or payable to the immediate parent entity managed by the Responsible Entity during the year	**351,239**	112,332
Amounts payable:		
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	**6,882**	880
Loan advances from the immediate parent entity managed by the Responsible Entity at the end of the reporting period	**-**	4,917,460
Interest payable to the immediate parent entity managed by the Responsible Entity at the end of the reporting period	**-**	112,332
Distribution payable to the immediate parent entity managed by the Responsible Entity at the end of the reporting period	**429,888**	448,511

19 Related party disclosures (continued)

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Arena Investment Management Limited at any time during the financial year as follows:

Bryce Mitchelson
James Goodwin
Dennis Wildenburg
Simon Parsons
David Ross (appointed 4 October 2012)

No compensation was paid directly by the Fund to Directors or to any of the key management personnel of the Responsible Entity. Payments made by the Fund to the Responsible Entity do not specifically include any amounts attributable to the compensation of key management personnel.

(b) Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(c) Other transactions with the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Related party unit holdings

The following related parties held units in the Fund during the financial year:

	Distributions paid/payable by the Fund		**Unit holding**		**Interest held**	
	2013 $	2012 $	**2013 Units**	2012 Units	**2013 %**	2012 %
Arena Property Fund	**429,888**	448,511	**34,391,070**	35,880,877	**57%**	59%

20 Reconciliation of profit to net cash inflow/(outflow) from operating activities

	30 June 2013 $	30 June 2012 $
Profit for the year	**5,538,388**	107,154
Straight lining adjustment on rental income	**(120,661)**	(1,314,548)
Amortisation of borrowing costs	**112,690**	52,916
Net changes in fair value of investment properties	**(951,059)**	2,918,940
Net changes in fair value of agricultural assets	**-**	917,253
Impairment loss on intangible assets	**-**	1,788,686
Impairment loss on assets held for sale	**-**	72,475
Net (gain)/loss on sale of assets	**6,511**	(291,629)
Net (gain)/loss on derivative financial instruments	**125,480**	(200,545)
Changes in operating assets and liabilities:		
Decrease/(increase) in receivables	**150,661**	223,705
Increase/(decrease) in payables	**(365,237)**	(227,549)
Increase/(decrease) in provision for deferred management fees/disposal fees	-	(213,807)
Net cash inflow/(outflow) from operating activities	**4,496,773**	3,833,051

21 Contingent assets and liabilities

There are no outstanding contingent assets or liabilities as at 30 June 2013 and 30 June 2012.

22 Events occurring after the reporting period

On 2 September 2013 the Responsible Entity of Arena Primary Infrastructure Fund (the "Fund") changed from Arena Investment Management Limited (ACN 077 235 879) to Arrow Funds Management Limited (ACN 146 671 276) and the Fund has subsequently changed its name to Arrow Primary Infrastructure Fund.

Apart from the above, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2013 that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations or the state of the affairs of the Fund in future financial years, other than those matters stated in this report.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 29 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the Fund's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and

(c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Andrew Ashbolt
Director

Melbourne
19 September 2013

Independent auditor's report to the unitholders of Arena Primary Infrastructure Fund

Report on the financial report

We have audited the accompanying financial report of Arena Primary Infrastructure Fund (the Fund), which comprises the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of Arrow Funds Management Limited (the Responsible Entity of the Fund) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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Independent auditor's report to the unitholders of Arena Primary Infrastructure Fund (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Arena Primary Infrastructure Fund is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Fund's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the Fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
19 September 2013