Arrow Primary Infrastructure Fund

ARSN 110813851

Interim report - for the half-year ended 31 December 2019

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These financial statements cover Arrow Primary Infrastructure Fund (the “Fund”) and are presented in Australian currency.

The Responsible Entity of the Fund is Arrow Funds Management Limited (ACN 146 671 276). Its registered office is at Level 25, 360 Collins Street, Melbourne VIC 3000.

Responsible Entity's report

The directors of Arrow Funds Management Limited, the Responsible Entity of Arrow Primary Infrastructure Fund (the "Fund"), present their report together with the financial statements of the Fund for the half-year ended 31 December 2019.

Directors

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

Andrew Ashbolt
Murray Jones
Matthew Reid
Gerald O'Byrne (Alternative director for Matthew Reid)

Principal activities

The Fund is an open ended, unlisted property trust with investments in Australian property and infrastructure assets used in the primary production industry.

During the period the Fund owned 22 properties which were leased to leading Australian primary production companies involved in the poultry, pork, almond, dried fruit, mango, citrus and glasshouse industries.

On 11 December 2019 the lease of the Fund's Colignan Farm dried fruit vineyard to Murray River Organics Pty Ltd (MRO) was cancelled and Arrow assumed operational control of the property from that date. This was an anticipated event, given the difficulties that the listed Murray River Organics Group Ltd (ASX code: MRG) had encountered over the last couple of years and their inability to manage the property to our required standard. In order to mark a new start we have renamed the property "Advinco Farm", a reversion to the property's previous name.

The Fund is entitled to receive the following compensation from MRG in relation to cancellation of the lease:

- Payment of an $824,750 bank guarantee security held under the Lease;
- Payment of a further $500,000 from MRG, conditional upon their proposed capital raising; and
- A free equity interest in the recapitalised MRG of 5%, conditional upon their proposed capital raising.

As at the date of this report MRG's proposed $25 million capital raising had been fully underwritten and the institutional entitlement component of $8.62 million has been fully subscribed. The $25 million renounceable entitlement offer to retail shareholders opens on 13 February 2020 and the capital raising will close following a book build with the underwriters on 28 February 2020.

A new company, Advinco Farm Pty Ltd, a wholly owned subsidiary of the Fund, was established on 11 December 2019 to carry out the operating activities on the Advinco Farm property. As part of the lease cancellation, the Fund inherited the dried fruit and citrus crops, which are due to commence harvesting in late-February and June respectively. Plant & equipment for the property has been acquired and planning for the dried fruit harvest is now in place. It is the Responsible Entity's intention to complete the conversion and development of the existing vineyards over the next two years so that normal benchmark yields are achievable before offering the property for lease to a third party.

The weighted average lease expiry (WALE) of the leased properties as at 31 December 2019 was 13.2 years, reflecting the December cancellation of the MRO lease with 23 years still remaining.

In addition to the above 22 properties, the Fund also owns Boombera Park, a 1,394 hectare property at Lawrence, in the northern rivers region of New South Wales, which Arrow is developing into a large-scale macadamia orchard.

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

Review and results of operations

1. Results:

The performance of the Fund for the half-year, as represented by the results of its operations, was as follows:	**31 December 2019**	31 December 2018
Net profit for the half-year	**$9,591,374**	$8,682,779
Normalised earnings (1)	**$7,975,466**	$7,071,313
Normalised earnings per unit (cents per unit) (1)	**4.76**	4.29
Distributions paid and payable	**$6,704,830**	$6,588,285
Distributions (cents per unit)	**4.00**	4.00

(1) Normalised earnings is the net profit for the year excluding statutory non-operating accounting adjustments such as accounting for fair value movements in property valuations and other financial assets, straight line lease accounting and other non-cash items such as amortisation of debt establishment fees and depreciation.

Review and results of operations (continued)

1. Results (continued)

The main factors influencing the result for the half-year period were:

- Total property rental income was $10.389 million, down by $0.644 million compared with the previous corresponding period. This was mainly due to the write-back of straight line rental income of $1.946 million recognised in previous years for the Colignan Farm, which was required to be reversed in December 2019 following cancellation of the lease with MRO.
- Rental income was comprised of the following:
  - base property rent (up by $0.770 million), following increases in capital expenditure and normal annual increases in rent;
  - proceeds from a $0.825 million bank guarantee in relation to MRO's obligations under the cancelled Colignan Farm lease
  - property expenses recoverable from tenants (down by $0.017 million); and
  - adjustment for recognising rents on a straight line basis (down by a net $1.894 million after the Colignan Farm straight-line rental write-back in relation to previous years).
- Finance costs were $0.338 million higher than the previous corresponding period due to increased borrowings. Average borrowings for the 6 months to 31 December 2019 were $104.6 million compared with $87.3 million for the previous corresponding period. The average interest rate paid on borrowed funds was 4.1% per annum compared with 4.07% per annum for the previous corresponding period.
- The administrative cost of running the Fund calculated by annualising the Indirect Cost Ratio (ICR) was 2.06% for the half-year compared to 1.83% for the previous corresponding period (up by $0.260 million).
- The "Marked to Market" movement in the Fund's interest rate derivatives resulted in a gain of $0.168 million compared to a loss of $1.614 million for the previous corresponding period. This reflects the market's expectation that future interest rate decreases may now be less than previously anticipated.
- Total revaluations of assets (investment properties & agricultural assets) for the half-year were up $4.342 million compared to $5.633 million for the previous corresponding period.

2. Value of Fund's Assets:	**31 December 2019**	30 June 2019
Total assets	**$287,738,903**	$256,701,410
Net assets attributable to unitholders	**$154,395,123**	$150,019,527
Net asset value ('NAV') per unit	**$0.9167**	$0.9020

The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements of the most recent annual financial report (30 June 2019).

The loan to valuation ratio ("LVR") was 42.3% at 31 December 2019 compared to 36.9% at 30 June 2019 and 37.6% at 31 December 2018.

3. Contributed Equity

There was no equity raising conducted by the Responsible Entity during the half-year to 31 December 2019.

Distributions for the Fund are paid from cash available from operating activities; i.e. rent and interest received less the expenses of the Fund. Distributions paid or provided for in the half year to 31 December 2019 were $6,704,830 (December 2018: $6,588,285).

During the half-year to December 2019, a total of 2,303,563 new units were issued under the DRP at a value of $2,071,412.

The DRP represents an opportunity for all unitholders to increase their holding in the Fund and unitholders have maintained a participation rate (in units) of 31.4% for the December 2019 quarterly distribution, compared to 29.5% for December 2018 quarter.

The Responsible Entity has continued to run a quarterly withdrawal facility to provide liquidity to unitholders. A total of 199,455 units in the Fund were redeemed during the half-year to 31 December 2019 with a total payout of $170,446.

As at 31 December 2019 there were 521 unitholders in the Fund.

4. Asset Acquisitions

In the six months to December 2019, the Fund finalised the purchase of the Thyra pig grow out facility at a total acquisition cost of $18.051 million and spent a total of $10.810 million on planned Capex at the Fund's following properties: Advinco Dried Fruit Farm, Boombera Park Macadamia Farm, Lake Powell Almond Farms, Katherine Packing Shed, Eumaralla Mango Farm and the Green Camel Glasshouse.

5. Debt facilities

On 30 December 2019, the Fund formally increased its borrowing Facility with its secured lender by $16.0 million to $136.0 million.

At 31 December 2019 the Fund had total borrowing facilities of $136.00 million of which $120.0 million was drawn down.

Significant changes in state of affairs

Other than the cancellation of the Colignan Farm lease with MRO mentioned above, there were no significant changes in the state of affairs of the Fund that occurred during the period ended 31 December 2019.

Matters subsequent to the end of the reporting period

As at the date of this report the Fund is yet to receive the allotment of 5% of Murray River Organics Group Ltd shares and the cash payment of $500,000, which represents part of the agreed compensation payable by MRO following the cancellation of the Colignan Farm lease. Both these items are shown in Note 10 as contingent assets.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

(i) the operations of the Fund in future financial years; or

(ii) the results of those operations in future financial years; or

(iii) the state of affairs of the Fund in future financial years.

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's constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of financial and property 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.

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 the directors.

Andrew Ashbolt
Director

Melbourne
26 February 2020

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Auditor's Independence Declaration

To the Directors of Arrow Funds Management Limited, the Responsible Entity for Arrow Primary Infrastructure Fund

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Arrow Primary Infrastructure Fund for the half-year ended 31 December 2019, 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 review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 26 February 2020

Statement of profit or loss and other comprehensive income

	Notes	31 December 2019 $	31 December 2018 $
Revenue			
Property rental	2	**10,389,673**	11,033,128
Interest revenue		**26,815**	6,914
Agistment income		**-**	1,430
Revaluation of investment properties		**5,763,257**	4,461,008
Profit on fair value of derivative financial instruments		**168,360**	-
Total revenue and other income		**16,348,105**	15,502,480
Expenses			
Direct property expenses		**(608,715)**	(544,669)
Responsible Entity's management fee		**(1,369,487)**	(1,186,296)
Custodian fee		**(23,787)**	(23,168)
Depreciation of agricultural assets		**(1,315,614)**	(1,265,386)
Depreciation of plant and equipment		**(93,255)**	(61,245)
Other expenses		**(179,524)**	(103,608)
Impairment of agricultural assets		**(158,733)**	(202,460)
Loss of fair value revaluation of agricultural assets		**(850,940)**	-
Loss on fair value of derivative financial instruments		**-**	(1,613,867)
Finance costs		**(2,156,676)**	(1,819,002)
Total expenses		**(6,756,731)**	(6,819,701)
Net profit for the half-year		**9,591,374**	8,682,779
Other comprehensive income			
Items that will not be reclassified subsequently to profit and loss			
Revaluation of agricultural assets		**(411,914)**	1,374,867
Total comprehensive income for the half-year		**9,179,460**	10,057,646
Total comprehensive income for the half-year is attributable to:			
Unitholders of Arrow Primary Infrastructure Fund		**9,179,460**	10,057,646

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

Statement of financial position

	Notes	31 December 2019 $	30 June 2019 $
Current assets			
Cash and cash equivalents		**1,643,966**	1,929,154
Trade and other receivables		**416,041**	457,955
Prepayments		**177,607**	44,643
Total current assets		**2,237,614**	2,431,752
Non-current assets			
Investment properties	3	**235,211,312**	202,620,069
Intangible assets	4	**9,377,586**	9,377,586
Agricultural assets	5	**39,839,915**	41,657,894
Plant and equipment		**1,072,476**	614,109
Total non-current assets		**285,501,289**	254,269,658
Total assets		**287,738,903**	256,701,410
Current liabilities			
Trade and other payables		**2,351,345**	1,973,729
Distributions payable		**3,362,791**	3,323,923
Derivative Financial Instruments		**-**	16,228
Total current liabilities		**5,714,136**	5,313,880
Non-current liabilities			
Derivative financial instruments		**7,495,979**	7,648,111
Interest-bearing liabilities	6	**120,133,665**	93,719,892
Total non-current liabilities		**127,629,644**	101,368,003
Total liabilities		**133,343,780**	106,681,883
Net assets		**154,395,123**	150,019,527
Equity			
Contributed equity	7	**125,877,016**	123,976,050
Asset revaluation reserve		**19,032,537**	19,444,451
Retained earnings		**9,485,570**	6,599,026
Total equity		**154,395,123**	150,019,527

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

Statement of changes in equity

	Note	Contributed equity $	Retained earnings $	Revaluation reserve $	Total equity $
Balance at 1 July 2018		121,571,210	2,904,713	16,161,761	140,637,684
Profit for the period		-	8,682,779	-	8,682,779
Other comprehensive income for the period		-	-	1,374,867	1,374,867
Total comprehensive income for the period		-	8,682,779	1,374,867	10,057,646
Transactions with owners in their capacity as owners:					
Issue of new units (net of capital raising costs)		1,817,767	-	-	1,817,767
Redemption of units		(1,056,990)	-	-	(1,056,990)
Distributions provided for or paid	7	-	(6,588,285)	-	(6,588,285)
Transfer of reserve to retained earnings			170,288	(170,288)	-
Balance at 31 December 2018		122,331,987	5,169,495	17,366,340	144,867,822

	Note	Contributed equity $	Retained earnings $	Revaluation reserve $	Total equity $
Balance at 1 July 2019		**123,976,050**	**6,599,026**	**19,444,451**	**150,019,527**
Profit for the period		**-**	**9,591,374**	**-**	**9,591,374**
Other comprehensive income for the period		**-**	**-**	**(411,914)**	**(411,914)**
Total comprehensive income for the period		**-**	**9,591,374**	**(411,914)**	**9,179,460**
Transactions with owners in their capacity as owners:					
Issue of new units (net of capital raising costs)		**2,071,412**	**-**	**-**	**2,071,412**
Redemption of units		**(170,446)**	**-**	**-**	**(170,446)**
Distributions provided for or paid	7	**-**	**(6,704,830)**	**-**	**(6,704,830)**
Balance at 31 December 2019		**125,877,016**	**9,485,570**	**19,032,537**	**154,395,123**

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

Statement of cash flows

	Notes	**31 December 2019**	31 December 2018
		$	$
Cash flows from operating activities			
Property rental receipts		**14,037,551**	11,483,441
Payments to suppliers		**(3,685,473)**	(2,262,705)
Interest received		**18,084**	7,105
Finance costs paid		**(2,108,130)**	(1,761,957)
Net cash inflow from operating activities	8	**8,262,032**	7,465,886
Cash flows from investing activities			
Payments for investment properties		**(28,722,297)**	(5,964,086)
Payments for agricultural assets		**(919,221)**	(1,247,979)
Payments for plant and equipment		**(551,622)**	(366,455)
Net cash outflow from investing activities		**(30,193,140)**	(7,578,520)
Cash flows from financing activities			
Net proceeds from equity raising/redemptions		**1,900,966**	760,777
Draw down of borrowings		**26,410,916**	5,988,260
Distributions paid to unitholders		**(6,665,962)**	(6,557,278)
Net cash inflow from financing activities		**21,645,920**	191,759
Net increase/(decrease) in cash and cash equivalents		**285,188**	79,125
Cash and cash equivalents at the beginning of the half-year		**1,929,154**	1,297,822
Cash and cash equivalents at the end of the half-year		**1,643,966**	1,376,947

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

1 Summary of significant accounting policies

(a) Basis of preparation of half-year financial report

This condensed interim financial report for the half year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

This condensed interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Arrow Primary Infrastructure Fund (the Fund) during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

All policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) New accounting standards and interpretations

Accounting standards issued but not yet effective and not been adopted early

The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Accounting standards adopted at 1 July 2019

The Fund's assessment of the impact of relevant new standards and interpretations is set out below:

AASB 16 Leases (effective from 1 January 2019)

AASB 16 replaces AASB 117 Leases and some lease-related Interpretations. The standard requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases. It also provides new guidance on the application of the definition of lease and on sale and lease back accounting. The standard largely retains the existing lessor accounting requirements in AASB 117 with new and different disclosure requirements about leases.

At December 2019 the adoption of AASB 16, has had no material effect on accounting for the Fund's properties as a lessor. At December 2019, the Fund does not lease property, however in the next six months, Arrow expects to enter into a lease on behalf of the Fund in relation to the Cobbitty Glasshouse. Arrow is currently in the process of assessing the impact on the Fund's accounting for that property when the head-lease and sub-lease commence.

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.

(c) Agricultural assets

Agricultural assets are measured at fair value less point of sale costs and subsequent depreciation.

Any revaluation surplus arising upon appraisal of the agricultural assets is recognised in other comprehensive income and credited to the asset revaluation reserve in equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income. Downward revaluations of the agricultural assets are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation surplus remaining in equity on disposal of the asset is transferred to retained earnings.

Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

The investment properties which include agricultural assets are subject to long term leases. These properties are carried at independent valuations. 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 carrying amount of each component of property is determined by independent valuers.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of the asset. The agricultural asset is depreciated over useful lives of 20 to 30 years.

2 Revenue

	31 December 2019	30 December 2018
	$	$
Revenue includes:		
(a) Property rental recognised over time from:		
Base property rent	**11,142,383**	10,371,721
Compensation for termination of Colignan Farm lease(1)	**824,750**	**-**
Rent – expenses recoverable	**316,851**	334,216
Other rental income (recognised on a straight-line basis)(2)	**(1,894,311)**	327,191
Total rental income	**10,389,673**	11,033,128

(1) Effective 11 December 2019 the Colignan Farm lease with Murray River Organics Pty Ltd (MRO) was cancelled. In consideration for terminating the lease, the Fund will receive compensation totalling $1,324,750 payable in two components:

a. $824,750 from the proceeds of a bank guarantee in relation to the lease obligations of MRO, which was received on 13 December 2019 and has been recognised a rental revenue; and
b. $500,000 from the proceeds of, and conditional on, a proposed equity capital raising to be undertaken by Murray River Organics Group Ltd (ASX code MRG). This amount has not been recognised as revenue at 31 December 2019.

(2) 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. Due to the termination of the Colignan Farm lease, an adjustment of ($1,945,753) was required to rental income to reverse the previous straight-line adjustments since the beginning of the lease. This adjustment has been included in the fair value of the investment property on the balance sheet.

3 Investment properties

	31 December 2019	30 June 2019
At fair value	**$**	$
Opening balance	**202,620,069**	181,664,422
Acquisition of new properties (including acquisition costs)	**28,722,297**	9,390,173
Revaluations	**5,763,257**	10,125,087
Changes in fair value for straight-lining of rent adjustment	(**1,894,311)**	1,440,387
Closing balance	**235,211,312**	202,620,069

4 Intangible assets

The Fund owns 5,677 megalitres (June 2019: 5,677 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 therefore not amortised.

Movement in the carrying amounts for intangible assets for the half-year/year:

	31 December 2019 $	30 June 2019 $
Opening net book amount	**9,377,586**	9,377,586
Acquisitions	-	-
Reversal of Impairment	-	-
Closing balance	**9,377,586**	9,377,586

5 Agricultural assets

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

The Fund owns the following agricultural assets as at 31 December 2019:

(a) 135.28 ha of planted mango trees;

(b) 608.74 ha of planted almond trees;

(c) 73.92 ha of planted citrus trees;

(d) 625 ha of planted vines;

(e) 92.90 ha of planted macadamia trees; and

(f) 250,550 macadamia trees being propagated in a third party nursery.

Movement in the carrying amounts for agricultural assets for the half-year/year:

Gross carrying amount		
Opening balance	**51,341,251**	46,492,362
Acquisition	**919,221**	1,768,659
Impairment of assets	**(158,733)**	(372,748)
Revaluations	**(1,262,853)**	3,452,978
Closing balance	**50,838,884**	51,341,251
Depreciation and impairment		
Opening balance	**9,683,357**	7,322,873
Depreciation	**1,315,614**	2,530,772
Reversal of accumulated depreciation	**-**	(170,288)
Closing balance	**10,998,971**	9,683,357
Carrying amount	**39,839,915**	41,657,894

6 Interest bearing liabilities

	31 December 2019 $	30 June 2019 $
Non-current		
Secured:		
Plant & equipment loans	**160,808**	219,892
Cash advance loan facility[(i)]	**120,000,000**	93,500,000
Unamortised borrowing costs	**(27,143)**	-
Total non-current interest bearing liabilities	**120,133,665**	93,719,892

(i) Effective 30 December 2019 the Fund's Facility limit was increased by $16.0 million to $136.0 million. The maturity date remains at 31 July 2021.

7 Contributed equity

Movement Year ended 30 June 2019	**Number of units**	**$**
Opening Balance	163,639,996	121,571,210
Issue of new Ordinary units – Dividend Reinvestment Plan	4,391,356	3,808,025
Redemption of units	(1,711,327)	(1,403,185)
Closing Balance	166,320,025	123,976,050

Movement for the half year ended 31 December 2019		
Opening Balance	**166,320,025**	**123,976,050**
Issue of new Ordinary units – Dividend Reinvestment Plan	**2,303,563**	**2,071,412**
Redemption of units	**(199,455)**	**(170,446)**
Closing Balance	**168,424,133**	**125,877,016**

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.

8 Distributions

Distributions paid or payable to unitholders

	31 December 2019 $	31 December 2018 $	**31 December 2019 cpu**	31 December 2018 cpu
September quarter	**3,342,039**	3,286,891	**2.000**	2.000
December quarter	**3,362,791**	3,301,394	**2.000**	2.000
Total distributions to unitholders for the half-year	**6,704,830**	6,588,285	**4.000**	4.000

9 Reconciliation of profit to net cash inflow from operating activities

	31 December 2019 $	31 December 2018 $
Profit for the period	**9,591,373**	8,682,779
Straight lining adjustment on rental income	**1,894,311**	(327,191)
Amortisation of borrowing costs	**2,857**	33,775
Net (Gain)/Loss in fair value of investment properties	**(4,912,317)**	(4,461,008)
Depreciation of Agricultural Assets	**1,315,614**	1,265,386
Depreciation of Plant and Equipment	**93,255**	61,245
Net gain on fair value of derivative financial instruments	**(168,360)**	1,613,867
Impairment of agricultural assets	**158,733**	202,460
Changes in operating assets and liabilities:		
Decrease/(Increase) in receivables	**(91,050)**	22,417
Increase/(decrease) in payables	**377,616**	372,356
Net cash inflow from operating activities	**8,262,032**	7,465,886

10 Contingent assets and liabilities and capital commitments

Contingent assets		
(a) Amount payable by Murray River Organics Group Ltd (MRG) as part compensation for termination of the Colignan Farm Lease on 11 December 2019, payable upon a MRG capital raising (in February/March 2020)	**500,000**	-
(b) Shares in MRG to be issued free to the Fund in their capital raising (in February/March 2020), which will represent 5% of the recapitalised MRG. Estimated number of shares is approx. 105,035,248 at 1.5 cents each	**1,575,529**	-
Contingent liabilities		
There were no outstanding contingent liabilities as at period end.	**-**	-
Capital commitments		
Due within next 6 months	**2,391,736**	3,210,524
Due >6 months and < 4 years	**462,000**	3,582,583

11 Events occurring after the reporting period

Other than as recorded in the Director's Report, no significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2019 or on the results and cash flows of the Fund for the half-year ended on that date.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 5 to 14 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 31 December 2019 and of its performance for the financial period 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.

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

Andrew Ashbolt
Director

Melbourne
26 February 2020

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Independent Auditor's Review Report

To the Unitholders of Arrow Primary Infrastructure Fund

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Arrow Primary Infrastructure Fund (the Fund), which comprises the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Arrow Primary Infrastructure Fund does not give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

The Directors of the Responsible Entity of Arrow Primary Infrastructure Fund are responsible for the preparation of the half year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arrow Primary Infrastructure Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

B A Mackenzie
Partner – Audit & Assurance

Melbourne, 26 February 2020