



Arrow Primary Infrastructure Fund

ARSN 110 813 851

**Annual report - for the year ended
30 June 2017**



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

The Responsible Entity of Arrow Primary Infrastructure Fund as at 30 June 2017 was 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

The directors of Arrow Funds Management Limited (ACN 146 671 276), the Responsible Entity of the Arrow Primary Infrastructure Fund (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 2017.

Directors

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

Gerald O'Byrne (Alternative director for Matthew Reid)

Principal activities

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

The Fund owns 18 properties which are leased to leading Australian primary production companies involved in the poultry meat, almond, dried fruit, mango and citrus industries. The average weighted lease expiry at 30 June 2017 was 13.8 years.

On 28 April 2017 the Fund acquired Boombera Park, a 1,415 hectare property at Lawrence, in the northern rivers region of New South Wales. Arrow plans to develop this property into a large-scale macadamia orchard to be leased on a long-term basis to a suitable leasee. Boombera Park represents 2% of the Fund's property portfolio and further diversifies the Fund's industry exposure.

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

Review of operations

1. Results

	30 June 2017	Restated ⁽²⁾ 30 June 2016
	\$	\$
Net profit for the year	19,329,602	13,947,055
Normalised earnings ⁽¹⁾	12,691,406	11,028,943
Normalised earnings per unit (cents per a unit) ⁽¹⁾	8.91	8.59
Distribution paid and payable	11,405,684	9,632,839
Distribution (cents per unit)	8.00	7.50

(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.

(2) The comparative numbers have been restated to depreciate bearer assets (trees and vines), as now required under Accounting Standards Amendment AASB 2014-6 – refer below and Note 2 of the financial statements.

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

- Base property rental income of \$17.8 million, an increase of 14% due to capital expenditure during the year and full year rents being received for Kelso Park and Colignan Farm which were acquired in October 2015 and December 2015 respectively.
- Revaluation increase of investment properties of \$8.1 million compared to \$3.0 million in the previous year;
- Despite increased borrowings, interest paid was \$0.06 million lower than the previous year due to lower interest rates (average rate 3.2% versus last year 3.7%);
- A net unrealised gain on the Fund's interest rate derivatives of \$0.3 million (2016: loss of \$0.5 million) due to the market's expectation of future interest rate increases.

Review and results of operations (continued)

2. Value of Fund's Assets

The directors review the fair value of all investment properties at the end of each reporting period (every six months) taking into account market value updates from independent expert valuers.

Arrow has adopted a valuation policy that provides for each property to be independently valued by a suitably qualified valuer at least once every three years. New formal independent valuations were conducted on 14 of the Fund's properties as at 30 June 2017 resulting in a valuation increase in asset values (investment properties and agricultural assets) of \$13.5 million in June 2017 and for the full year of \$14.1 million. Market values of prime almond and poultry properties subject to long term leases have increased significantly in the past 12 months due to increased demand by institutional and overseas investors. Following adoption of the new independent valuations, the Net Asset Value (NAV) has increased to \$0.8113 per unit at 30 June 2017, a 14% increase compared to last year's figure.

	30 June 2017	30 June 2016
	\$	\$
Net assets attributable to unitholders (i)	131,323,655	98,963,376
Net asset value ("NAV") (ii)	0.8113	0.7129

- (i) The value of the Fund's assets and liabilities is derived using the basis disclosed in note 2 of the financial statements.
- (ii) Financial Statements recognise water entitlements at cost as per ASIC guidance and accounting standards. Water licences of \$9.378 million (2016: \$9.378 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 \$0.7534 (2016: \$0.6454).

3. Capital Raising & Acquisitions

On 18 April 2017 a Public Offer was made to raise up to \$15 million of new equity in the Fund, and the amount was subsequently increased to \$16 mil on 6 June 2017. The new capital was raised to assist with capital expenditure on existing properties, the purchase of Boombera Park and provide capital for future acquisitions. The offer was fully subscribed and closed on the 16 June 2017.

At the end of the financial year there were a total of 514 unitholders in the Fund compared with 489 at 30 June 2016.

4. Disposals

There were no asset disposals during the year.

5. Withdrawal Facility

During the year Arrow ran four quarterly Withdrawal Offers, to provide liquidity to existing unitholders in the Fund. All withdrawal applications were accepted and a total of \$0.75 million was paid out to 20 unitholders and their units redeemed.

6. Debt facilities

On 30 June 2017, the debt facility limit with the Commonwealth Bank of Australia (CBA) was increased by \$15.8 million to \$100 million. The facility was extended by 1 year and now expires on 31 July 2019. The increase in the facility, together with the recent capital raising, will provide funds for future capital expenditure on existing properties and the potential to acquire further assets for the Fund.

As at 30 June 2017 the Fund has hedged 68% of its interest rate exposure under the drawn CBA debt facility via forward interest rate contracts at fixed rates. As at 30 June 2017 the Fund had forward interest rate contracts totalling \$52.5 million, with fixed interest rate cover at 1.75% (against BBSY) out to 16 July 2019. The marked to market of the Fund's future interest rate contracts as at 30 June 2017 showed an unrealised gain of \$0.1 million (2016: unrealised loss of \$0.2 million).

Significant changes in state of affairs

In the opinion of the directors, other than the matters identified in this report, there were no other 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

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2017 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 future results of the Fund's operations will be affected by a number of factors, including interest rates and 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.

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 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 by 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 18 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 18 to the financial statements.

Interests in the Fund

There were 24.2 million new units issued in the Fund and 1.1 million units redeemed during the year, as disclosed in note 16 to the financial statements. As at the date of this report there are 161.9 million units on issue compared to 138.8 million as at 30 June 2016.

Environmental regulation

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

Rounding of amounts

The Fund is a type of entity referred in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest dollar, or in certain cases, to the nearest \$1,000.

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
17 August 2017

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF ARROW FUNDS MANAGEMENT LIMITED, THE RESPONSIBLE ENTITY OF ARROW PRIMARY INFRASTRUCTURE FUND

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Arrow Primary Infrastructure Fund for the year ended 30 June 2017, 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Climpson
Partner - Audit & Assurance

Melbourne, 17 August 2017

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Arrow Primary Infrastructure Fund
Statement of profit or loss and other
comprehensive income
For the year ended 30 June 2017

Statement of profit or loss and other comprehensive income

		30 June 2017	Restated 30 June 2016
	Notes	\$	\$
Revenue			
Property rental	4	19,247,305	18,347,255
Interest	4	33,375	33,294
Agistment Income	4	8,563	-
Net gain on change in fair value of derivative financial instruments		283,060	-
Revaluation of investment properties	11	8,114,279	3,009,039
Reversal of impairment - water rights		-	978,194
Total net investment income		27,686,582	22,367,782
Expenses			
Direct property expenses		(977,682)	(758,335)
Responsible Entity's management fees		(1,865,462)	(1,593,765)
Custodian fees		(45,000)	(45,000)
Depreciation of agricultural assets		(2,668,792)	(1,985,289)
Other administration expenses		(251,822)	(175,280)
Net loss on change in fair value of derivative financial instruments		-	(457,066)
Realised loss on derivative financial instruments		-	(804,474)
Finance costs	5	(2,548,222)	(2,601,518)
Total expenses		(8,356,980)	(8,420,727)
Net profit for the year		19,329,602	13,947,055
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Revaluation of agricultural assets	13	7,617,369	5,896,965
Total comprehensive income for the year		26,946,971	19,844,020
Total comprehensive income for the year is attributable to:			
Unitholders of Arrow Primary Infrastructure Fund		26,946,971	19,844,020

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

Arrow Primary Infrastructure Fund
Statement of financial
position
As at 30 June 2017

Statement of financial position

	Notes	30 June 2017 \$	Restated 30 June 2016 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	1,578,529	4,037,370
Trade and other receivables	9	50,759	108,500
Total current assets		1,629,288	4,145,870
Non-current assets			
Derivative financial instruments	10	132,316	-
Investment properties	11	159,081,179	132,758,110
Intangible assets	12	9,377,586	9,377,586
Agricultural assets	13	37,217,429	30,402,149
Total non-current assets		205,808,510	172,537,845
Total assets		207,437,798	176,683,715
LIABILITIES			
Current liabilities			
Trade and other payables	14	987,910	4,603,850
Distributions payable	7	3,061,333	2,646,246
Total current liabilities		4,049,243	7,250,096
Non-current liabilities			
Derivative financial instruments	10	-	150,744
Interest bearing liabilities	15	72,064,900	70,319,499
Total non-current liabilities		72,064,900	70,470,243
Total liabilities		76,114,143	77,720,339
Net assets		131,323,655	98,963,376
Equity			
Contributed equity	16	120,056,226	103,237,234
Asset Revaluation Reserve		13,514,334	5,896,965
Accumulated losses	17	(2,246,905)	(10,170,823)
Total equity		131,323,655	98,963,376

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

Arrow Primary Infrastructure Fund
Statement of changes in equity
For the year ended 30 June 2017

Statement of changes in equity

	Note	Contributed Equity \$	Accumulated losses \$	Revaluation Reserve \$	Total equity \$
Balance at 1 July 2015		87,564,724	(14,485,039)	-	73,079,685
Reported profit for the period		-	19,844,020	-	19,844,020
Effect of changes in accounting policy (note 2p)		-	(5,896,965)	-	(5,896,965)
Restated profit for the period		-	13,947,055	-	13,947,055
Reported other comprehensive income		-	-	-	-
Effect of changes in accounting policy (note 2p)		-	-	5,896,965	5,896,965
Restated other comprehensive income for the period		-	-	5,896,965	5,896,965
Total comprehensive income for the period		-	13,947,055	5,896,965	19,844,020
Transactions with owners in their capacity as owners:					
Issue of new units (net of capital raising costs)		17,183,807	-	-	17,183,807
Redemption of units		(1,511,297)	-	-	(1,511,297)
Distributions provided for or paid	7	-	(9,632,839)	-	(9,632,839)
Balance at 30 June 2016 (restated)		103,237,234	(10,170,823)	5,896,965	98,963,376
Balance at 1 July 2016		103,237,234	(10,170,823)	5,896,965	98,963,376
Profit for the period		-	19,329,602	-	19,329,602
Other comprehensive income for the period		-	-	7,617,369	7,617,369
Total Comprehensive income for the period		-	19,329,602	7,617,369	26,946,971
Transactions with owners in their capacity as owners:					
Issue of new units (net of capital raising costs)		17,569,820	-	-	17,569,820
Redemption of units		(750,828)	-	-	(750,828)
Distributions provided for or paid	7	-	(11,405,684)	-	(11,405,684)
Balance at 30 June 2017		120,056,226	(2,246,905)	13,514,334	131,323,655

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

Arrow Primary Infrastructure Fund
Statement of cash flows
For the year ended 30 June 2017

Statement of cash flows

	Notes	30 June 2017 \$	30 June 2016 \$
Cash flows from operating activities			
Property rental receipts		16,835,524	18,251,155
Payments to suppliers		(5,259,626)	(4,095,651)
Interest received		31,839	34,877
Finance costs paid		(2,474,531)	(2,530,631)
Net cash inflow from operating activities	19	9,133,206	11,659,750
Cash flows from investing activities			
Payment for the redemption of derivative financial instruments		-	(804,474)
Payments for investment properties		(17,218,640)	(15,170,624)
Payments for agricultural assets		(1,866,703)	(9,005,695)
Payments for intangible assets		-	(130,600)
Net cash outflow from investing activities		(19,085,343)	(25,111,393)
Cash flows from financing activities			
Proceeds of borrowings		1,664,900	6,500,000
Proceeds from issue of units (net of capital raising costs)		17,569,820	17,183,807
Payment of redemption of units		(750,828)	(1,511,297)
Distributions paid to unitholders		(10,990,596)	(9,074,448)
Net cash inflow from financing activities		7,493,296	13,098,062
Net decrease in cash and cash equivalents		(2,458,841)	(353,581)
Cash and cash equivalents at the beginning of the financial year		4,037,370	4,390,951
Cash and cash equivalents at the end of the year	8	1,578,529	4,037,370

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

Notes to the financial statements

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1 General information

These financial statements for the full year reporting period ended 30 June 2017, cover Arrow 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 Arrow Funds Management Limited ("Arrow").

The financial statements were authorised for issue by the directors of Arrow on 17 August 2017. The directors of Arrow 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*. Arrow 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.

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 profit or loss. 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.

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 three years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

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.

2 Summary of significant accounting policies (continued)

(b) Investment property (continued)

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 independent valuations 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 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 of valuation is 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 assets are depreciated over useful lives of 20 to 30 years.

(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) Impairment of assets

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)

(f) 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 profit or loss and other 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).

(g) 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)

(g) Financial instruments (continued)

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(h) 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.

(i) Income tax

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

(j) 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).

(k) 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.

(l) 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.

(m) 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)

(n) 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 gross 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.

(o) 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 assets 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 and 13.

(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.

(iv) Useful lives of agricultural assets

The Fund reviews its estimate of the useful lives of agricultural assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to tree health and environmental factors that may change the utility of the assets.

2 Summary of significant accounting policies (continued)

(p) New accounting standards and interpretations

New and revised standards that are effective for these financial statements

AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants

AASB 2014-6 defines bearer plants and requires bearer plants to be accounted for as property, plant and equipment within the scope of AASB 116 Property, Plant and Equipment instead of AASB 141 Agriculture. AASB 2014-6 is applicable to annual reporting periods beginning on or after 1 January 2016 with prior period comparatives being restated. The adoption of this amendment resulted in the revaluation of agricultural assets recognised in other comprehensive income and credited to asset revaluation reserve. Depreciation expense is recognised on a straight-line basis over the useful lives of the assets. Changes to the accounting policy of agricultural assets as a result of the adoption of this amendment are set out in note 2(c). Impact of the change in this accounting policy resulted in restating each of the affected financial statement line items for prior periods as follows:

Statement of financial position (extract)

	30 June 2016		
	Previous amount	Adjustment	Restated amount
	\$	\$	\$
Asset revaluation reserve	-	5,896,965	5,896,965
Accumulated losses	(4,273,858)	(5,896,965)	(10,170,823)
Total equity	98,963,376	-	98,963,376

Statement of profit or loss and other comprehensive income (extract)

	30 June 2016		
	Previous amount	Adjustment	Restated amount
	\$	\$	\$
Revaluation of agricultural assets	3,911,676	(3,911,676)	-
Total revenue and other income	26,279,458	(3,911,676)	22,367,782
Depreciation of agricultural assets	-	(1,985,289)	(1,985,289)
Total expenses	(6,435,438)	(1,985,289)	(8,420,727)
Net profit for the year	19,844,020	(5,896,965)	13,947,055
Other comprehensive income	-	5,896,965	5,896,965

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods. The Fund has not adopted these standards/interpretations.

2 Summary of significant accounting policies (continued)

(p) New accounting standards and interpretations (continued)

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 (December 2014)	<p>AASB 9 <i>Financial Instruments</i> addresses the classification, measurement and derecognition of financial instruments.</p> <p>The standard allows an irrevocable election on the initial recognition to present gains or losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss).</p> <p>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.</p>	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers	<p>AASB15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:</p> <ul style="list-style-type: none"> • establishes a new revenue recognition model; • changes the basis for deciding whether revenue is to be recognised over time or at a point in time; • provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing); and • expands and improves disclosures about revenue. <p>The Fund has not yet decided when to adopt AASB 15. Management does not expect this will have a significant impact on the Fund's financial statements as a result of adopting this standard.</p>	1 January 2018	30 June 2019
AASB 16 Leases	<p>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.</p> <p>The Fund has not yet decided when to adopt AASB16. However, based on the Fund's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements of the Fund as a lessor.</p>	1 January 2019	30 June 2020

2 Summary of significant accounting policies (continued)

(p) New accounting standards and interpretations (continued)

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.

(q) Rounding of amounts

The Fund is a type of entity referred in the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in the financial report and directors' report have been rounded to the nearest dollar, or in certain cases, to the nearest \$1,000.

(r) Working capital deficiency

As presented in the Statement of Financial Position, the Fund's current liabilities exceed its current assets by \$2.4 million. Current liabilities include rental income received in advance of \$0.4 million and distributions payable of \$3.1 million, and having regard to the ongoing profitability of the Fund, the directors are satisfied the Fund will continue to be able to pay its debts as and when they fall due.

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 of the Fund, 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 not exposed to price risk in relation to fees.

(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.

3 Financial risk management (continued)

(a) Market risk (continued)

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

	2017 \$	2016 \$
Financial assets		
Cash and cash equivalents - floating interest rate	1,578,529	4,037,370
Financial liabilities		
Derivative financial instruments (notional principal amount) - fixed rate		
- interest rate swaps	(52,500,000)	(52,500,000)
- Interest bearing liabilities - floating interest rate	72,200,000	70,400,000
	19,700,000	17,900,000
Net exposure to interest rate risk	18,121,471	13,862,630
 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 (2016: 100 bp)	(986,600)	(1,530,000)
Market interest rate decreased by 100 basis points (2016: 100 bp)	986,600	1,530,000
 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 (2016: 100 bp)	181,215	(138,626)
Market interest rate decreased by 100 basis points (2016: 100 bp)	(181,215)	138,626

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.

(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.

Cash at bank	1,578,529	4,037,370
Other receivables	50,759	108,500
Maximum exposure to credit risk	1,627,288	4,145,870

3 Financial risk management (continued)

(b) Credit risk (continued)

The Responsible Entity 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. 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 2017			
Trade and other payables	987,910	-	-
Distributions payable	3,061,333	-	-
Interest rate swaps	-	-	-
Interest bearing liabilities	2,963,500	2,963,500	72,446,958
Contractual cash flows (excluding gross settled derivatives)	7,012,743	2,963,500	72,446,958
	Less than 12 months	1-2 years	Greater than 2 years
	\$	\$	\$
30 June 2016			
Trade and other payables	4,603,850	-	-
Distributions payable	2,646,246	-	-
Interest rate swaps	-	-	150,744
Interest bearing liabilities	2,286,600	2,286,600	70,590,500
Contractual cash flows (excluding gross settled derivatives)	9,536,696	2,286,600	70,741,244

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 2017 and 30 June 2016.

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial asset				
Interest rate swaps – 30 June 2017	-	132,316	-	132,316
Interest rate swaps – 30 June 2016	-	-	-	-
Financial liabilities				
Interest rate swaps – 30 June 2017	-	-	-	-
Interest rate swaps – 30 June 2016	-	150,744	-	150,744

4 Revenue

	30 June 2017	30 June 2016
	\$	\$
Revenue includes:		
(a) Property rental from:		
Base property rent	17,822,746	15,620,153
Rent – expenses recoverable	434,409	475,085
Other rental income (recognised on a straight line basis)	990,150	2,252,017
Total rental income	19,247,305	18,347,255
(b) Interest income arises from:		
Cash and cash deposits	33,375	33,294
(c) Other income:		
Agistment Income	8,563	-

5 Finance costs

Interest paid or payable to other persons	2,466,871	2,526,030
Bank fees & charges	850	1,179
Amortisation of debt establishment costs	80,501	74,309
Total finance costs	2,548,222	2,601,518

6 Remuneration of auditors

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

Audit and other assurance services

Audit and review of financial statements	46,500	42,000
Audit of compliance plan	3,000	3,000
Total remuneration of audit and other assurance services	49,500	45,000
Other services		
Taxation advice	6,050	11,620
Total remuneration	55,550	56,620

For the years ended 30 June 2017 and 30 June 2016, the auditor of the Fund was Grant Thornton.

7 Distributions to unitholders

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

Distributions paid	8,344,351	6,986,593
Distributions payable	3,061,333	2,646,246
	11,405,684	9,632,839

A distribution of 2.0 cents per unit was declared for the quarter ended 30 June 2017 (2016: 1.875 cents per unit).

8 Cash and cash equivalents

30 June 2017	30 June 2016
\$	\$

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

Cash at bank	1,578,529	4,037,370
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9 Trade and other receivables

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

Current:

Other receivables	50,759	108,500
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No other class of financial asset is past due.

10 Derivative financial instruments

The following table details the derivative financial instruments (interest rate swap agreements) held by the Fund at their market value at the end of the reporting period:

Non-current asset - Interest rate swap marked to market	132,316	-
Non-current liability - Interest rate swap marked to market	-	150,744

It is the Fund's policy to protect part of its loans 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.

The Fund is exposed to future BBSY rates (Bank Bill Swap) and at the end of the financial year the Fund had 1 interest rate swap agreement in place (2016: 1). This agreement provides a forward cover, at an average interest rate of 1.75% (2016: 2.00%), against future BBSY rates.

At 30 June 2017 an interest rate swap agreement was in place covering 68% of the Fund's interest bearing liabilities (2016: 78%).

11 Investment properties

(a) Market values of investment properties

Property	2017 \$	2016 \$
Boronia Breeder Farms, NSW ⁽¹⁾	9,300,000	5,350,000
Lynwood Breeder Farms, NSW ⁽¹⁾	9,800,000	9,250,000
Woodleigh Breeder Farms, NSW ⁽¹⁾	11,700,000	11,200,000
Bearii Breeder Farms, VIC ⁽¹⁾	4,840,000	4,600,000
Stewarton Breeder Farm, VIC ⁽¹⁾	7,560,000	7,000,000
Nagambie Broiler Farm, VIC ⁽¹⁾	5,760,000	5,600,000
Rhynie Breeder Farm, SA ⁽¹⁾	8,550,000	8,400,000
Eumaralla Farms, NT ^{(2) (5)}	3,500,000	3,450,000
Katherine Packing Shed, NT ⁽²⁾	1,590,000	1,590,000
Lake Powell Orchards Lot 2, VIC ^{(1) (6)}	3,143,400	1,697,760
Lake Powell Orchards Lots 5&6, VIC ^{(1) (6)}	6,533,500	3,608,800
Bidgee Complex ⁽¹⁾	30,000,000	22,400,000
Avenues Complex ⁽¹⁾	15,900,000	15,500,000
Bowlers Lane Farms ⁽¹⁾	10,450,000	10,450,000
Tangaratta Breeder Farm ⁽¹⁾	3,200,000	3,150,000
Glenara Park ⁽¹⁾	4,700,000	4,650,000
Kelso Park ^{(3) (7)}	9,248,655	6,067,245
Colignan Farm ^{(4) (5)}	9,172,545	8,794,305
Boombera Park ^{(3) (5)}	4,133,079	-
Total market value of investment properties	159,081,179	132,758,110

⁽¹⁾ Valued at formal independent valuation conducted June 2017.

⁽²⁾ Valued at independent desktop valuation conducted June 2017.

⁽³⁾ Valued at acquisition cost plus improvements to date.

⁽⁴⁾ Valued at independent valuation (October 2015) prior to acquisition plus improvements to date.

⁽⁵⁾ Excludes agricultural assets which are disclosed separately in note 13.

⁽⁶⁾ Excludes agricultural assets and water licences which are disclosed separately in notes 12 and 13.

⁽⁷⁾ Excludes water licences which are disclosed separately in notes 12.

(b) Movements during the financial year

	30 June 2017 \$	30 June 2016 \$
At fair value		
Opening balance	132,758,110	112,326,430
Capitalised expenditure	17,218,640	15,170,624
Revaluations	8,114,279	3,009,039
Changes in fair value for straight-lining of rent adjustment	990,150	2,252,017
Closing balance	159,081,179	132,758,110

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

Rental income	18,257,155	16,095,238
Direct operating expenses from property that generated rental income	(742,327)	(758,335)
	17,514,828	15,336,903

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

11 Investment properties (continued)

(d) Tenancy Risk

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

Baiada Poultry Pty Limited ("Baiada") - representing 61% 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, Feed milling and Protein Recovery. Baiada is the tenant of eleven of the Fund's poultry farms.

Select Harvests Limited ("SHV") - representing 16% 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 4% 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 4% 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.

Pace Farms Pty Ltd – representing 5% of rental income.

Pace Farm is a privately owned Australian company that provides fresh shell eggs and egg products to supermarkets, restaurants and food manufacturers. One of Australia's largest producer, marketer and distributor of shell eggs and egg products, Pace Farm is the tenant of Kelso Park.

Murray River Organics Pty Ltd – representing 10% of rental income

Murray River Organics is a privately owned Australian company which produces sultanas, raisins, currants, muscats and clusters. Murray River Organics is a fully integrated producer based in the Sunraysia region of Victoria, and are tenants of Fund's property Colignan Farm.

(e) Assets pledged as security

Refer to Note 15 for information on investment properties and other assets pledged as security by the Fund.

(f) Contractual obligations and commitments

As at 30 June 2017 the Fund had capital expenditure obligations under existing leases totalling \$11.4 million (2016: \$16.3 million). Subsequent to year end, Arrow has been advised that part of this expenditure may not be required or may be deferred until the 2018-2019 year and spent on different investment properties to those previously committed. The Fund has undrawn loan facilities to cover potential obligations, and will receive a return on all capital expenditure through increased rental payments.

(g) Valuation basis

The Fund obtains independent valuations for its investment properties at least once every three years. At the end of each reporting period, the directors update their assessment of the fair value of each property, using the most recent independent valuations.

The principal assumptions underlying the fair values determined by independent valuers include those related to the amount of contractual rentals, the discount rate applied to future rentals and the estimated terminal value at the end of the lease, 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 2017	30 June 2016
Discount/capitalisation rates	8.5% to 11%	9.75% to 12.5%
Rental growth rate	0.0% to 2.5%	1.95% to 2.5%

11 Investment properties (continued)

(h) Leasing arrangements

All investment properties, other than the recently acquired Boomberra Park property, are leased to tenants under long-term operating leases with rentals payable quarterly in advance. Minimum lease payments receivable on leases of investment properties are as follows:

	30 June 2017	30 June 2016
	\$	\$
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	18,534,003	16,792,885
Later than one year but not later than 5 years	74,136,013	67,171,540
Later than 5 years	162,744,909	162,914,150
	255,414,925	246,878,575

12 Intangible assets

Water licences:

Opening net book amount	9,377,586	8,268,792
Water Acquisition	-	130,600
Reversal of impairment	-	978,194
Closing net book amount	9,377,586	9,377,586
Cost	9,377,586	9,246,986
Water Acquisition	-	130,600
Accumulated impairment	-	-
Net book amount	9,377,586	9,377,586

The Fund owns 5,677 megalitres (June 2016: 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 not amortised.

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 2017:

- (a) 135.28 ha of planted mango trees;
- (b) 608.74 ha of planted almond trees;
- (c) 80.94 ha of planted citrus trees
- (d) 518.53 ha of planted vines

13 Agricultural assets (continued)

(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 2017	Restated 30 June 2016
	\$	\$
Gross carrying amount		
Opening balance	32,387,438	17,484,778
Acquisition	1,866,703	9,005,695
Revaluations	7,617,369	5,896,965
Closing balance	41,871,510	32,387,438
Depreciation and impairment		
Opening balance	1,985,289	-
Depreciation	2,668,792	1,985,289
Closing balance	4,654,081	1,985,289
Carrying amount	37,217,429	30,402,149

(b) Basis of valuations

The Fund holds agricultural investment properties which are carried at independent valuations.

In the case of vines, mango and citrus trees, the fair value of agricultural assets is estimated according to an average per hectare market value rate by adopting a capitalisation of future cash flow method as explained in Note 2(c). The assumed fair value used for mango trees was \$21,000/hectare, citrus trees \$19,000 - \$32,000/hectare, dried fruit vines \$24,500/hectare and wine grape vines \$1,000/hectare.

In the case of almond trees, the fair value of agricultural assets is estimated by deducting the estimated value of land, irrigation infrastructure and water licences from the estimated fair value of the total property including water licences. The resultant fair value derived for the almond trees, inclusive of orchard land, was \$52,209/hectare (2016: \$36,988/hectare).

(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 15(a) for information on agricultural assets and other assets pledged as security by the Fund.

(e) Contractual obligations

The Fund has committed to purchasing agricultural assets at a cost of \$5.5 million as at 30 June 2017 (2016: \$2.8 million).

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 2017	30 June 2016
	\$	\$
Sundry creditors and accruals	612,949	1,268,193
Rent received in advance	374,961	3,335,657
	987,910	4,603,850

15 Interest bearing liabilities

	30 June 2017	30 June 2016
	\$	\$
Non-current		
Secured:		
Cash Advance Loan Facility ⁽ⁱ⁾	72,200,000	70,400,000
Unamortised borrowing costs	(135,100)	(80,501)
Total non-current interest bearing liabilities	72,064,900	70,319,499

(i) The Fund's debt facility with the Commonwealth Bank of Australia ('CBA') was renegotiated on 30 June 2017 extending the facility accommodation limit. At year-end the Facility had a limit of \$100,000,000 and a maturity date of 31 July 2019.

(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:

Investment properties	159,081,179	132,758,110
Water licences	9,377,586	9,377,586
Agricultural assets	37,217,429	30,402,149
	205,676,194	172,537,845

(b) Financing arrangements

The Fund had the following loan facilities available at year-end:

Facility Limit	100,000,000	84,200,000
Drawn amount	(72,200,000)	(70,400,000)
Undrawn facility	27,800,000	13,800,000

(c) Covenants

The covenants over the Cash Advance Loan Facility require an interest cover ratio of greater than 2.5 times (2016: 2.0 times) and a loan to market value of investment properties ratio of less than 65% (2016: 65%). The Fund was in compliance with its covenants as at 30 June 2017 and 30 June 2016.

16 Contributed equity

Movement Year ended 30 June 2016	Number of units	\$
Opening Balance	115,537,565	87,564,724
Issue of new Ordinary units under December 2015 Information Memorandum	25,645,742	17,198,162
Redemption of units	(2,369,395)	(1,511,297)
Capitalised costs associated with the Product Disclosure Statement ("PDS")		(14,355)
Closing Balance	138,813,912	103,237,234

Movement Year ended 30 June 2017		
Opening Balance	138,813,912	103,237,234
Issue of new Ordinary units under April 2017 PDS	21,968,215	16,000,000
Issue of new Ordinary units – Dividend Reinvestment Plan	2,188,539	1,581,082
Redemption of units	(1,099,364)	(750,828)
Capitalised costs associated with the PDS		(11,262)
Closing Balance	161,871,302	120,056,226

The issue of new units stated above are recognised net of contribution fees of \$410,356 (2016: \$440,979).

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.

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.

17 Accumulated losses

	30 June 2017	Restated 30 June 2016
	\$	\$
Movements in accumulated losses were as follows:		
Opening accumulated losses	(10,170,823)	(14,485,039)
Net profit for the year	19,329,602	13,947,055
Distribution paid or payable	(11,405,684)	(9,632,839)
Closing accumulated losses	(2,246,905)	(10,170,823)

18 Related party disclosures

Responsible entity

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

	30 June 2017	30 June 2016
	\$	\$
The following transactions occurred with Arrow Funds Management Limited as the Responsible Entity or its related parties:		
Management fees paid or payable by the Fund to the Responsible Entity	1,865,462	1,593,765
Contribution fees received by the Responsible Entity	410,256	440,979
Asset management fees paid or payable by the Fund to Agri Management Pty Ltd ⁽¹⁾	307,918	283,250
Compliance services paid or payable to Compliance Risk Services Pty Ltd ⁽²⁾	15,000	15,000
Aggregate amounts payable at the end of the year to Arrow Funds Management Limited as the Responsible Entity or its related parties:		
Responsible Entity – management fee	12,952	147,693

(1) Agri Management Pty Ltd is a director related party.

(2) Compliance Risk Services Pty Ltd is a director related party.

Key management personnel

(a) Directors

Key management personnel include the following two executive directors of Arrow Funds Management Limited, who each held office throughout the financial year:

Andrew Ashbolt
Matthew Reid

No compensation was paid directly by the Fund to any 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.

An independent director of Arrow Funds Management Limited, Murray Jones, also acts as Chairman of the Compliance Committee and was paid a total of \$10,000 by the Fund for undertaking that role during the year ended 30 June 2017 (2016: \$10,000).

An alternative director of Arrow Funds Management Limited, Gerald O'Byrne, also acts as an independent member of the Compliance Committee. He was paid a total of \$10,000 by the Fund for undertaking that role during the year ended 30 June 2017 (2016: \$10,000).

(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.

18 Related party disclosures (continued)

(c) Other transactions with the Fund

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 with the Fund at year end.

(d) 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	
	2017 \$	2016 \$	2017 Units	2016 Units	2017 %	2016 %
Agri Management Pty Ltd	880,000	825,000	11,000,000	11,000,000	6.8%	7.5%
AH & RH Ashbolt	83,011	65,731	2,222,149	917,428	1.4%	0.7%
Reid Advisory Pty Ltd	30,872	27,191	460,249	362,545	0.3%	0.3%
MJJ Nominees Pty Ltd	15,158	12,669	263,577	168,919	0.2%	0.1%

19 Reconciliation of profit to net cash inflow from operating activities

	30 June 2017 \$	Restated 30 June 2016 \$
Profit for the year	19,329,602	13,947,055
Straight lining adjustment on rental income	(990,150)	(2,252,017)
Amortisation of borrowing costs	80,501	74,309
Net changes in fair value of investment properties	(8,114,279)	(3,009,039)
Depreciation of agricultural assets	2,668,792	1,985,289
Net changes in fair value of water rights	-	(978,194)
Net (gain)/loss on derivative financial instruments	(283,060)	1,261,540
Changes in operating assets and liabilities:		
(Increase)/ decrease in receivables	57,741	(105,900)
(Decrease)/ increase in payables	(3,615,941)	736,707
Net cash inflow from operating activities	9,133,206	11,659,750

20 Contingent assets and liabilities

There were no outstanding contingent assets or liabilities as at 30 June 2017 (2016: Nil).

21 Events occurring after the reporting period

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2017 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 5 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 2017 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
17 August 2017

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Independent Auditor's Report To the Members of Arrow Primary Infrastructure Fund

Auditor's Opinion

We have audited the financial report of Arrow Primary Infrastructure Fund (the "Fund"), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Arrow Primary Infrastructure Fund is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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Information other than the Financial Report and Auditor's Report

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's directors' report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors of the Responsible Entity for the Financial Report

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

In preparing the financial report, the Directors of the Responsible Entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_files/ar3.pdf . This description forms part of our auditor's report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Climpson
Partner – Audit & Assurance

Melbourne, 17 August 2017