SCA Unlisted Retail Fund 3

ARSN: 623 821 689

Financial Report
For the year ended 30 June 2021

SCA Unlisted Retail Fund 3 (SURF 3) is a Managed Investment Scheme. SCA Unlisted Retail Fund RE Limited (SURF RE) (ABN 42 604 416 284, AFSL 473459) is the Responsible Entity of SURF 3 and is incorporated and domiciled in Australia. The registered office of SURF RE is Level 5, 50 Pitt Street, Sydney, New South Wales.

Directors' Report

The Directors of SCA Unlisted Retail Fund RE Limited (SURF RE or the Company), the Responsible Entity for SCA Unlisted Retail Fund 3 (SURF 3 or Trust or Fund), present their report for the year ended 30 June 2021.

SURF 3 was formed and registered as a Managed Investment Scheme on 29 January 2018 and commenced operations on 10 July 2018. The prior period comparatives included in this financial report are for the year ended 30 June 2020.

1. Directors

The Directors of SURF RE at any time during the year and up to the date of this report are:

Mr Andrew Stevenson	Non-Executive Director (Chair)
Mr David Freiman	Non-Executive Director
Mr Anthony Mellowes	Executive Director
Ms Michelle Tierney	Alternate Director for Mr Anthony Mellowes (appointed 8 February)
Mr Mark Fleming	Alternate Director for Mr Anthony Mellowes (resigned 8 February)

2. Company Secretary

The Company Secretaries of SURF RE during the whole of the year and up to the date of this report are:

Ms Erica Rees
Mr Mark Lamb (resigned 1 July 2021)

3. Principal activities

SURF 3 was formed and registered as a Managed Investment Scheme on 29 January 2018. The Fund commenced operations on 10 July 2018 with the acquisition of four retail properties funded by the issue and allotment of 35,000,000 units at $1.00 per unit raising $35,000,000 in equity and the drawdown of debt.

The principal activity of the Fund during the financial year was the management of three retail properties (previously four retail properties). The Fund sold the Swansea property on 30 July 2020. SURF 3 is an unlisted closed end unit trust.

4. Financial and operational review

A summary of SURF 3's results for the year are set out below:

	30 June 2021 $'000	30 June 2020 $'000
Net profit/(loss) after income tax	**12,586**	(1,660)

Net profit after income tax measures profit/loss under Australian Accounting Standards (AASBs) and also complies with the International Financial Reporting Standards (IFRS).

Financial Position

	30 June 2021	30 June 2020
Total assets ($'000)	**51,568**	56,538
Net assets ($'000)	**38,551**	28,450
Net assets per unit ($ per unit)	**1.10**	0.81

Distributable Earnings

The Responsible Entity considers Distributable Earnings to be an important indicator of the underlying earnings of SURF 3. Distributable Earnings are detailed below.

	30 June 2021 $'000	30 June 2020 $'000
Net profit/(loss) after tax (statutory)	**12,586**	(1,660)
Adjustments to net profit/(loss) after tax (statutory) to determine Distributable Earnings		
Reverse movement in non cash items or items deemed non-recurring in nature		
- Amortisation of borrowing costs	**43**	31
- Amortisation of rent free incentives	**(4)**	(46)
- Amortisation of capital expenses	**81**	28
- Straight-lining of rental income	**(42)**	(47)
- Fair value adjustments on investment properties	**(10,021)**	3,654
- Fair value adjustments on derivatives	**(87)**	248
Disposal fees	**-**	400
Capital payments	**(265)**	(189)
Distributable earnings available from prior periods	**99**	165
Distributable Earnings	**2,390**	2,584

5. Distributions

Distributions to unitholders recognised in the year by SURF 3 are:

30 June 2021 Quarter ended	**Payment date**	**Cents per unit**	**$**
30 September 2020	30 October 2020	**1.775**	**621,250**
31 December 2020	28 January 2021	**1.775**	**621,250**
31 March 2021	22 April 2021	**1.775**	**621,250**
30 June 2021[1]	30 July 2021	**1.775**	**621,250**
Total distributions (Ordinary)		**7.100**	**2,485,000**

[1] This distribution was declared on 24 June 2021 and the payment date is expected to be on or around 30 July 2021.

The total distributions recognised in the year by SURF 3 were $2,485,000 which was more than the Distributable Earnings of $2,390,000 creating a shortfall of $95,000 which was funded by debt.

30 June 2020 Quarter ended	Payment date	Cents per unit	$
30 September 2019	16 October 2019	1.775	621,250
31 December 2019	28 January 2020	1.775	621,250
30 June 2020	3 August 2020	3.550	1,242,500
Total distributions (Ordinary)		7.100	2,485,000

6. Significant changes in the state of affairs

COVID-19 Pandemic

The events relating to COVID-19 have had an adverse impact on both the operations and financial performance of the properties owned by the Fund. These impacts have included: volatility in the retail sales performance of our tenants, government-imposed trading restrictions on some of our tenants which have varied by State, location and intensity, the enactment of legislation in each state and territory implementing the National Cabinet Mandatory Code of Conduct ("Code of Conduct") for small and medium sized enterprise tenants, an increase in rental arrears compared to prior periods by our speciality tenants directly and indirectly attributable to the COVID-19 pandemic, an increase in expenses (for example, extra cleaning and security) and volatility in the valuation of our investment properties. As these COVID-19 related impacts are expected to be ongoing, there is continued uncertainty in relation to the future financial performance of the Fund.

Until COVID-19 is controlled there remains a risk that the earnings of the Fund may decrease and/or the value of investment properties could decline. This may also include reduced distributions in future financial years.

Target Business Strategy

During 2020, Wesfarmers Group Limited ("Wesfarmers") announced that they were undertaking a strategic review of the Target business. This included an announcement made by Wesfarmers on 22 May 2020, that it would convert suitable Target stores to Kmart stores, close some Target stores and initiate discussions with landlords to support the transition to a "sustainable" store network. Wesfarmers advised in their announcement dated 3 June 2021 that the reset of the commercial model was complete. The impact of this announcement on the Fund is unclear given that one property is leased to a Target business (Warrnambool Target). This lease expires in January 2025. Wesfarmers has had some discussions with the Fund regarding Warrnambool during the year. If Target were to exit the property, this may have a material impact on the value of this property. As at the date of issue of these financial statements nothing has been formally proposed nor agreed.

The Fund continues to monitor these ongoing announcements and their impact on the valuation of the Warrnambool Target property, alongside other factors including the COVID-19 pandemic, increased expenses and increased capital expenditure expectations.

Sale of Swansea

In July 2020, the Fund sold the Swansea property for a total of $15,600,000 (before selling costs) in line with the property's carrying value. The sale settled on 30 July 2020 with the majority of the sales proceeds being used to repay a portion of the secured debt facility.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Trust during the year ended 30 June 2021.

7. Likely developments, key strategies and expected results of operations

The total distributions recognised in the year by SURF 3 were $2,485,000 which was more than the Distributable Earnings of $2,390,000 with the shortfall of $95,000 funded by debt. It is possible that distributions could be reduced in the future to be in line with the actual underlying sustainable earnings of the Fund.

The Investment Manager is also considering the value of the properties and the timing of the sale of the properties. As permitted by the Product Disclosure Statement of the Fund, the RE of the Fund may sell all the properties prior to the end of the Fund's nominal term (which ends in 2024).

Other than as set out above and in section 6 above and section 12 below, at the date of this report, and to the best of the Directors' knowledge and belief, there are no other anticipated changes in the operations of SURF 3 which would have a material impact on the future results of SURF 3. Further information on likely developments in the operations and the expected results of operations has not been included in this report as the Directors believe it would result in unreasonable prejudice to SURF 3.

8. Units in the Trust

The units on issue in the Trust are disclosed in note 9 of the financial statements. The number of ordinary units as at 30 June 2021 is 35,000,000 (30 June 2020: 35,000,000).

9. Environmental regulations

The Directors are satisfied that adequate systems are in place for the management of SURF 3's environmental responsibility and compliance with various license requirements and regulations.

Further, the Directors are not aware of any material breaches to these requirements and, to the best of their knowledge all activities have been undertaken in compliance with environmental requirements.

10. Indemnification and Insurance of Directors, Officers and Auditor

The constitution of SURF 3 requires it to indemnify all current and former officers of the Trustee out of the property of the Trust against any liability incurred by the officer in or arising out of the conduct of the business of the Trust or arising out of the discharge of the duties of the officer. SURF 3's constitution also provides that in addition to any indemnity under any law, but subject to the Corporations Act 2001, the Responsible Entity has a right of indemnity out of the assets of the Fund on a full indemnity basis, in respect of any liability incurred by the Responsible Entity in properly performing any of its powers or duties in relation to the Fund.

The auditor of the Fund is not indemnified out of the assets of the Fund or the Responsible Entity.

A related party to SURF RE has paid insurance premiums in respect of Directors and Officers. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the liabilities covered by the insurance, the limit of the indemnity and the amount of the premium paid under the contract.

11. Fees paid to and interest held in the Trust by the Responsible Entity or its Associates

Fees paid to the Responsible Entity and its associates out of the Trust property during the year are disclosed in note 13 of the financial statements. No fees were paid out of Trust property to the Directors of the Responsible Entity during the year. These costs are paid by Shopping Centres Australasia (SCA Property Group). The number of interests in the Trust issued to or held by the Responsible Entity or its associates during the year are disclosed in note 13 of the financial statements.

12. Matters subsequent to the end of the financial period

COVID-19 Pandemic

At the date these financial statements are authorised for issue, no further adjustments in respect of the impact of COVID-19 have been made. However, the COVID-19 situation continues to evolve including government-imposed trading restrictions on some of our tenants which have varied by State, location and intensity.

The full consequences on the Fund's future financial performance and the value of the Fund's investment properties continues to be uncertain. Until COVID-19 is controlled there remains a risk that the earnings of the Fund may decrease and/or the value of investment properties could decline. This may also include reduced distributions in future financial years.

Distribution

A distribution for the quarter ended 30 June 2021 of 1.775 cents per unit was declared on 24 June 2021 and is proposed to be paid on or around 30 July 2021. This distribution has been reflected as a payable in the statement of financial position as at 30 June 2021. Refer to notes 14 and 15 for details.

The Directors are not aware of any other matters or circumstances that have arisen since 30 June 2021 that have significantly affected or may significantly affect the operations of SURF 3, the result of those operations, or state of SURF 3's affairs in future financial periods.

13. 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 7.

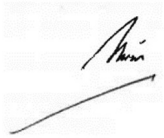
14. Audit and non-audit fees

Details of the amounts paid or payable to the auditor for audit and non-audit services provided are detailed in note 16 of the financial statements.

15. Rounding of amounts to the nearest thousand dollars

The amounts contained in this report and in the financial statements have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Trust under ASIC Corporations (Rounding in the Financial Directors' Reports) Instrument 2016/191. The Trust is an entity to which this Legislative Instrument applies.

This report is made in accordance with a resolution of the Directors.



Director
Sydney
22 July 2021

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DECLARATION OF INDEPENDENCE BY ELYSIA ROTHWELL TO THE DIRECTORS OF SCA UNLISTED RETAIL FUND RE LIMITED, AS RESPONSIBLE ENTITY OF SCA UNLISTED RETAIL FUND 3

As lead auditor of SCA Unlisted Retail Fund 3 for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

Elysia Rothwell
Director

BDO Audit Pty Ltd

Sydney, 22 July 2021

SCA Unlisted Retail Fund 3
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2021

	Notes	**30 June 2021 $'000**	30 June 2020 $'000
Revenue			
Rental income		**4,793**	5,753
		4,793	5,753
Expenses			
Administration costs		**(158)**	(138)
Base management fees		**(110)**	(149)
Investment management fees		**(197)**	(268)
Property expenses		**(1,482)**	(1,570)
Disposal costs		**-**	(400)
		(1,947)	(2,525)
Unrealised fair value gain / (loss)			
- Investment properties	3	**10,021**	(3,654)
- Derivatives	7	**87**	(248)
		10,108	(3,902)
Earnings before interest and tax (EBIT)		**12,954**	(674)
Interest income		**-**	2
Finance cost	4	**(368)**	(988)
		(368)	(986)
Profit/(loss) before income tax expense		**12,586**	(1,660)
Income tax expense		**-**	-
Profit/(loss) after income tax expense		**12,586**	(1,660)
Other comprehensive income		**-**	-
Total comprehensive income		**12,586**	(1,660)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 3
Statement of Financial Position
As at 30 June 2021

	Notes	30 June 2021 $'000	30 June 2020 $'000
Current assets			
Cash and cash equivalents		**781**	132
Trade and other receivables	5	**587**	806
Investment property held for sale	3	**-**	15,600
Total current assets		**1,368**	16,538
Non-current assets			
Investment properties	3	**50,200**	40,000
Total non-current assets		**50,200**	40,000
Total assets		**51,568**	56,538
Current liabilities			
Trade and other payables	6	**809**	2,431
Distribution payable	14	**621**	1,243
Derivative financial instrument	7	**-**	855
Total current liabilities		**1,430**	4,529
Non-current liabilities			
Borrowing	8	**11,587**	23,559
Total non-current liabilities		**11,587**	23,559
Total liabilities		**13,017**	28,088
Net assets		**38,551**	28,450
Equity			
Contributed equity	**9**	**34,784**	34,784
Accumulated profit / (loss)		**3,767**	(6,334)
Total equity		**38,551**	28,450

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 3
Statement of Changes in Equity
For the year ended 30 June 2021

	Notes	Contributed equity $'000	Accumulated profit / (loss) $'000	Total equity $'000
Balance at 1 July 2020		**34,784**	**(6,334)**	**28,450**
Profit after income tax expense		**-**	**12,586**	**12,586**
Other comprehensive income		**-**	**-**	**-**
Total comprehensive income		**-**	**12,586**	**12,586**
Distributions declared	14	**-**	**(2,485)**	**(2,485)**
Balance at 30 June 2021		**34,784**	**3,767**	**38,551**
Balance at 1 July 2019		34,784	(2,189)	32,595
Loss after income tax expense		-	(1,660)	(1,660)
Other comprehensive income		-	-	-
Total comprehensive income		-	(1,660)	(1,660)
Distributions declared	14	-	(2,485)	(2,485)
Balance at 30 June 2020		34,784	(6,334)	28,450

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

SCA Unlisted Retail Fund 3
Statement of Cash Flows
For the year ended 30 June 2021

	Notes	30 June 2021 $'000	30 June 2020 $'000
Cash flows from operating activities			
Rental revenue received (including GST)		**5,203**	6,441
Property expenses paid (including GST)		**(1,580)**	(1,371)
Interest received		**-**	2
Finance and borrowing costs paid		**(471)**	(966)
Administration costs paid (including GST)		**(194)**	(132)
Management fees paid (including GST)		**(802)**	-
Taxes paid including GST		**(441)**	(273)
Net cash flow from operating activities	11	**1,715**	3,701
Cash flows from investing activities			
Payments for capital improvements		**(354)**	(138)
Sale of investment property		**15,600**	-
Disposal fees paid		**(439)**	-
Net cash flow from/(used) in investing activities		**14,807**	(138)
Cash flow from financing activities			
Proceeds from borrowings		**1,100**	700
Repayment of borrowings		**(13,100)**	(2,500)
Payment for termination of derivative financial instrument		**(767)**	-
Distributions paid to unitholders	14	**(3,106)**	(1,863)
Net cash flow used in financing activities		**(15,873)**	(3,663)
Net change in cash and cash equivalents held		**649**	(100)
Cash and cash equivalents at the beginning of the year		**132**	232
Cash and cash equivalents at the end of the year		**781**	132

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. Corporate information

SCA Unlisted Retail Fund 3 (SURF 3 or Trust or Fund) was formed on 29 January 2018 and was registered as a Managed Investment Scheme with the Australian Securities & Investments Commission on 29 January 2018. SURF 3 is an unlisted closed end unit trust constituted in Australia. On 10 July 2018 SURF 3 commenced activities with the acquisition of four retail properties funded by the raising and allotment of equity and debt.

The nature of its operations and principal activity are described in the Directors' Report.

The financial statements are presented in Australian dollars, which is SURF 3's functional and presentation currency.

SCA Unlisted Retail Fund RE Limited (SURF RE or the Responsible Entity) is the Responsible Entity of SURF 3. SURF RE is a public company incorporated in Australia. The address of its registered office and principal place of business is:

Level 5, 50 Pitt Street
Sydney NSW 2000

SURF RE is a wholly owned subsidiary of Shopping Centres Australasia (SCA Property Group). SCA Property Group is listed on the Australian Stock Exchange (ASX) (ASX Code: SCP).

SURF RE has appointed Shopping Centres Australasia Property Group RE Limited to act as custodian of SURF 3's assets. The custodian must only act on instructions from the Responsible Entity.

The Directors of the Responsible Entity have authorised the Financial Report for issue on 22 July 2021. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The principal accounting policies which have been adopted in the preparation of these financial statements have been set out below. These policies have been consistently applied during the year and comparative period.

2. Significant accounting policies

(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 (AASB) and the Corporations Act 2001.

SURF 3 is a for-profit unit trust for the purpose of preparing the financial statements. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Where necessary, the figures for the comparative period have been reclassified to facilitate comparison.

Historical cost convention

The financial statements have been prepared on the basis of historical cost, except for, where applicable, the revaluation of investment properties, derivative financial instruments and performance fee liability.

Going concern

The Financial Statements have been prepared on the going concern basis. In preparing the Financial Statements the Directors note the Trust is in a net current asset deficiency position due primarily to the provision for distribution and trade and other payables and minimal cash and cash equivalents as it is the practice to use surplus cash to reduce debt drawn on the revolving debt facility. As at 30 June 2021 the Trust has the ability to drawdown funds of $3,400,000 (30 June 2020: $5,350,000) on the debt facility which is greater than the current asset deficiency.

Rounding

The Fund is a kind referred to in Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

Application of new and revised Accounting Standards

The accounting policies adopted by SURF 3 are consistent with those of the previous financial year. New and amended standards and interpretations have been adopted where applicable. The adoption of these accounting standards did not have a material effect on the Financial Report.

New and revised Accounting Standards not yet effective

SURF 3 does not expect that the adoption of any Australian Accounting Standards that are issued but not yet effective or adopted will have a material impact on the financial statements of the Fund in future periods. The significant standards and interpretations which are in issue but are not effective include:

Standard / amendment	Effective for annual reporting periods beginning on or after
AASB 2020-1 Amendments to Australian Standards – Classification of Liabilities as current and non-current	1 January 2022
AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments	1 January 2022
AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates	1 January 2023

(b) Significant accounting estimates, judgements and assumptions

The preparation of financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The significant judgements and estimates used in the preparation of these financial statements are outlined below:

Estimate - Valuation of investment properties

Critical judgements are made by the Directors in respect of the fair value of investment properties. The fair value of these investments is reviewed regularly by management with reference to independent property valuations, recent open market transactions and market conditions existing at the reporting date, using generally accepted market practices. The major critical assumptions underlying estimates of fair values are those relating to the capitalisation rate and the discount rate adopted for each property.

The COVID-19 pandemic has impacted the activity of the property market which would ordinarily be a strong source of evidence for valuations of investment properties. The valuation assessment undertaken for financial reporting purposes has therefore faced an unprecedented set of circumstances on which to base a judgement. The COVID-19 situation continues to evolve and the full consequences on the value of the property portfolio value and its tenants are therefore inevitably uncertain.

Other assumptions include retail trading environment, lease renewal or extension including incentives (including for the Warrnambool property where the current lease term for Target, the major tenant, expires in January 2025), gross market rent, net market rent, average market rental growth, operating expenses, capital expenditure and terminal yield.

If there is any change in the assumptions used or economic conditions, a change in the fair value of the investment properties may occur. See further disclosure regarding assumptions used in valuation of investment properties in note 3.

Estimate - Valuation of derivative financial instruments

The fair value of derivative assets and liabilities are based on assumptions of future events and involve significant estimates. The value of derivatives may differ in future reporting periods due to the passing of time and / or changes in market rates including interest rates, foreign exchange rates and market volatility.

Rental waivers and deferrals – Accounting treatment

Waivers granted to tenants proportionate to the decrease in their sales during the pandemic period are recognised as a loss on derecognition of the lease receivable immediately. These waivers linked to the tenant's turnover are variable in nature and therefore straight lining income is not revised. Where a waiver of future rent has been agreed before the reporting date, this has resulted in a lease modification in line with AASB 16 Leases.

Deferrals granted in the current period without a change in the lease term do not change straight lining income receivable. This means that deferred rent has been recognised as rental income, and a corresponding receivable has also been raised.

Expected credit loss

The unpaid rent of $89,000 (30 June 2020: $186,000) has been recognised as rental income, and a corresponding receivable has also been raised. However, for the portion of this unpaid rent that is not expected to be recovered in a future period an equivalent "expected credit loss" provision (ECL) of $nil (30 June 2020: $36,000) has been raised in line with AASB 9 Financial Instruments. Any amounts that are successfully recovered in future periods will result in the release of the ECL provision in that period.

(c) Revenue recognition

Rental income from investment properties is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the period in which it is earned. If not received at balance sheet date, revenue is reflected in the statement of financial position as receivable and carried at its recoverable value. Recoveries from tenants are recognised as income in the year the applicable costs are accrued.

Certain tenant allowances that are classified as lease incentives are recorded as part of investment properties and amortised over the term of the lease. The amortisation is recorded against property income.

All other revenues are recognised when control of the underlying goods or services is transferred to the customer over time or at a point in time. Revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits;
- The customer controls the assets as the entity creates or enhances it; or
- The Fund's performance does not create an asset for which the Fund has an alternative use and there is a right to payment for performance to date.

Where the above criteria are not met, revenue is recognised at a point in time.

(d) Expenses

All expenses are brought to account on an accruals basis.

Under the Constitution of SURF 3, all expenses reasonably and properly incurred by SURF RE as Responsible Entity in connection with the Trust or in performing its obligations under the Trust's Constitution are payable or can be reimbursed out of SURF 3.

(e) Finance costs

Finance costs include interest payable on borrowings, payments on derivatives and amortisation of ancillary costs incurred in connection with arrangement of borrowings. Finance costs are expensed as incurred.

(f) Taxation

Under current income tax legislation, SURF 3 is not liable for income tax, provided that the taxable income is fully distributed to unitholders each year. SURF 3 fully distributes its taxable income, calculated in accordance with the Trust Constitution and applicable legislation, to unit holders who are presently entitled to income under the constitution.

(g) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST (or equivalent tax in overseas locations) except where the GST incurred on purchases of goods and services is not recoverable from the tax authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amounts of GST included. The net amount of GST receivable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short term deposits with an original maturity of 90 days or less that are readily convertible to known amounts of cash and which are subject to a insignificant risk of changes in value.

(i) Trade and other receivables

Trade and other receivables are carried at original invoice amount, less provision for expected credit loss, and are usually due within 30 days.

Collectability of trade and other receivables is reviewed on an ongoing basis. Individual debts that are determined to be uncollectable are written off when identified.

The provision for expected credit loss is recognised by applying the expected credit loss (ECL) model whereby the age of outstanding balances is analysed and the provision is determined by applying historical default percentages adjusted for other current observable data.

(j) Investment properties

Investment properties comprise investment interest in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income, including properties that are under construction for future use as investment properties.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are stated at fair value. Fair value of investment properties is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Gains and losses arising from changes in the fair values of investment properties are recognised in profit and loss in the period in which they arise.

At each reporting date, the carrying values of the investment properties are assessed by the Directors and where the carrying value differs from the Directors' assessment of fair value, an adjustment to the carrying value is recorded as appropriate.

The Directors' assessment of fair value of each investment property takes into account latest independent valuations, with updates taking into account any changes in estimated yield, underlying income and valuations of comparable properties. In determining the fair value, the capitalisation of net income method and / or the

discounting of future net cash flows to their present value have been used, which are based upon assumptions and judgements in relation to future rental income, property capitalisation rate or estimated yield and make reference to market evidence of transaction prices for similar properties.

Incentives such as cash, rent-free periods, lessee or lessor owned fit outs may be provided to lessees to enter into an operating lease. Leasing fees may also be paid for the negotiation of leases. These incentives and lease fees are capitalised to the investment property and are amortised on a straight-line basis over the lesser of the term of the lease and the useful life of the fit out, as a reduction of rental income. The carrying amounts of the lease incentives and leasing fees are reflected in the fair value of investment properties.

(k) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Changes in the fair value of any derivative instruments are recognised immediately in the statement of profit or loss and other comprehensive income.

(l) Recoverable amount of assets

At each reporting date, an assessment is made as to whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the recoverable amount is estimated and if the carrying amount of that asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(m) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted.

Distributions payable are recognised in the reporting period in which they are declared, determined or recommended by the Directors. Where such distributions have not been paid at reporting date they are recognised as a distribution payable.

The Trust distributes its distributable income, in accordance with the Trust's Constitution, to unitholders by cash or reinvestment. All distributions will be paid out of retained earnings / accumulated losses, whether they are capital or income in nature from a tax perspective.

(n) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are deferred and expensed over the term of the respective agreement.

(o) Performance fee liability

The Investment Manager (Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity) is entitled to a performance fee of 20% of the portion of outperformance of SURF 3 over an IRR of 10%. The performance fee calculation period is from 10 July 2018 (10 July 2018 was the date SURF 3 commenced operation) to the first performance fee calculation date. The performance fee calculation dates include the termination of SURF 3 or the sale of the last property of SURF 3. A performance fee liability is recognised when the amount can be reliably measured.

(p) Contributed equity

Applications received for units in the Trust are recognised as contributed equity at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary units are recognised in equity as a reduction of the proceeds received.

(q) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in a normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in a normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(r) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

3. Investment properties

	30 June 2021 $'000	30 June 2020 $'000
Movement in total investment properties		
Opening balance	**40,000**	59,000
Straight-lining of rental income	**42**	65
Additions to investment properties net of amortisation	**137**	189
Fair value movement on investment properties	**10,021**	(3,654)
Transfer to investment property held for sale	**-**	(15,600)
Closing balance	**50,200**	40,000

	30 June 2021 $'000	30 June 2020 $'000
Total investment property held for sale[1]	**-**	15,600

1 The Swansea property was sold on 30 July 2022 for a consideration of $15,600,000.

	Cost[2] $'000	Book value cap rate[1] 30 June 2021	Book value 30 June 2021 $'000	Book value 30 June 2020 $'000
Property details[3]				
Woodford	**12,600**	**5.50%**	**15,900**	13,400
Swansea Woolworths	**15,300**	**N/A**	**-**	15,600
Moama Marketplace	**14,000**	**5.00%**	**22,000**	14,300
Target Warrnambool	**16,000**	**9.00%**	**12,300**	12,300
Total Investment Properties	**57,900**		**50,200**	55,600

1 Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal.

2 The cost disclosed is the same as the external valuation of these properties as at March 2018

3 Properties were acquired on the 10 July 2018

Valuation process

All properties are required to be internally valued every six months. In addition, all properties are required to be externally valued at least every 3 years, with the exception of Warrnambool Target, which is required to be valued every 12 months. All properties were externally independently valued as at 30 June 2021.

The internal valuations are performed by utilising the information from a combination of existing leases and forecasting tools. Appropriate capitalisation rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation based valuation and a discounted cash flow valuation. If there are any changes in these assumptions or economic conditions, the fair value of the investment properties may differ.

The internal valuations are prepared by the Investment Manager. The Investment Manager is Shopping Centres Australasia Property Operations Pty Ltd, a related party to the Responsible Entity.The Investment Manager recommends each property's valuation to the Directors in accordance with the Fund's internal valuation policy. The valuation of the investment properties are Director valuations as at 30 June 2021 based on valuations prepared by external independent valuers and the Investment Manager.

Fair value measurement, valuation technique and inputs

The investment properties fair values presented are based on market values, which are derived using the capitalisation and / or the discounted cash flow methods.

Capitalisation method

Capitalisation rate (or cap rate) is an approximation of the ratio between the net operating income produced by an investment property and its fair value. This excludes consideration of costs of acquisition or disposal. The net operating income is determined considering the estimated gross passing income after adjustment for anticipated operating costs, potential future income from existing vacancies and an on-going vacancy and bad debt allowance.

This produces a net income on a fully leased basis which is capitalised in perpetuity from the valuation date at an appropriate investment yield. The adopted percentage rate investment yield reflects the capitalisation rate (cap rate) and includes consideration of a number of other factors including the property type, location and tenancy profile together with market sales.

Discounted cash flows (DCF)

Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate discount rate is applied to establish the present value of the income stream associated with the real property. The discount rate is the rate of return used to convert a monetary sum, payable or receivable in the future, into present value. The rate is determined with regards to market evidence and the prior independent valuation.

Fair value is assessed with reference to reliable estimates of future cash flows, status of the development and the associated risk profile. The table below summarises the valuation techniques used and the key input including the range of key inputs used to measure fair value.

Category	Fair value hierarchy	Carrying value 30 June 2021 $'000	Valuation technique	Key inputs used to measure fair value	Range of unobservable inputs
Investment Properties	Level 3	50,200	Income capitalisation and discounted cash flow	Cap rate Discount rate	5.00%-9.00% 6.00%-8.00%

All property investments are categorised as level 3 in the fair value hierarchy (refer note 12 for additional information in relation to the fair value hierarchy). There were no transfers between hierarchy levels.

Sensitivity information

The key inputs to measure fair value of investment properties are disclosed below along with sensitivity to a significant increase or decrease. The following sensitivity to significant inputs applies to investment properties (refer note 2(r)).

Significant Input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Capitalisation rate	Decrease	Increase
Discount rate	Decrease	Increase

Sensitivity analysis

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

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate at which the terminal value is discounted to the present value. The impact on the fair value of an increase (softening) in the adopted discount rate could potentially offset the impact of a decrease (tightening) in the adopted terminal yield. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield.

A directionally similar change in the adopted discount rate and the adopted terminal yield would magnify the impact to the fair value.

Other inputs or factors also impact a valuation. These factors are many and include market rental reversion, current rental, property expenses, capital expenditure, and tenant incentives.

The Investment Manager has considered these factors and believes the most significant input to fair value of investment properties at balance date is the capitalisation rate as the capitalisation rate is in line with the Investment Manager's understanding of the market practice at which the price is determined for similar properties. Notwithstanding that capitalisation rate is the most significant input, movements in one or more of other factors above may impact the valuation.

Sensitivity analysis – capitalisation rate

A sensitivity analysis of the impact on the investment property valuations of movements in the capitalisation rate is disclosed below as the capitalisation rate method is the primary method for conducting the valuation. While other factors do also impact a valuation, at the current time, the Investment Manager considers that the valuations are most sensitive to movements in the capitalisation rate.

The following sensitivity analysis shows the effect on profit/loss after tax and on equity of a 25 basis points (bps) increase/decrease in capitalisation rates at balance sheet date with all other variables held constant.

	Profit after tax		**Equity**	
	25 bps increase $'000	**25 bps decrease $'000**	**25 bps increase $'000**	**25 bps decrease $'000**
30 June 2021 Investment Properties	(2,136)	2,318	(2,136)	2,318
30 June 2020 Investment Properties	(2,048)	2,200	(2,048)	2,200

4. Finance costs

	30 June 2021 $'000	30 June 2020 $'000
Interest expense on borrowings including swap costs	**325**	958
Amortisation of establishment fees	**43**	30
	368	988

5. Trade and other receivables

	30 June 2021 $'000	30 June 2020 $'000
Trade receivables	**89**	186
Allowance for expected credit loss	**-**	(36)
	89	150
GST receivable	**61**	209
Other receivables	**437**	447
	587	806

The Fund writes off a rental receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over 120 days due, whichever occurs earlier. In the prior year there was an allowance for expected credit loss of $36k.

6. Trade and other payables

	30 June 2021 $'000	30 June 2020 $'000
Trade payables	**79**	267
Accrued expenses	**344**	275
Accrued disposal costs	**-**	400
Rent received in advance	**202**	285
GST payable	**122**	415
Management fees payable	**30**	452
Finance costs payable	**21**	151
Other payables	**11**	186
	809	2,431

7. Derivative financial instruments

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observable market rates.

The following table represents financial liabilities that were measured and recognised at fair value at reporting date.

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Interest rate swap	**-**	855

The value of the interest rate swaps at 30 June 2021 was $nil (30 June 2020: $855,000). The Fund terminated the interest rate swap in August 2020 after the sale of the Swansea property. Movements in the market value of the interest rate swaps until disposal have been included in the Fund's Statement of Profit or Loss through changes in fair value. The Fund's Swap had a notional principal value of $24,000,000 at a fixed rate of 1.94%.

The three different fair value measurement levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs from the assets or liability that are not based on observable market data (unobservable inputs).

Interest rate derivatives are financial instruments that use valuation techniques with observable market data and are included as Level 2 in the hierarchy above.

SURF 3 does not have any Level 3 financial instruments. There were no transfers between levels during the period.

8. Borrowing

Unrestricted access was available at the reporting date to the secured bank loan. Details of this loan are below:

	30 June 2021 $'000	30 June 2020 $'000
Non-current Liabilities		
Bank loan	**11,600**	23,600
Establishment fees	**(13)**	(41)
Total non-current borrowings	**11,587**	23,559

	30 June 2021 $'000	30 June 2020 $'000
Total bank loan facility limit	**15,000**	28,950
Less: Amounts drawn at the reporting date	**(11,600)**	(23,600)
Net borrowing facility available	**3,400**	5,350

A major Australian bank has provided SURF 3 with a debt facility for the purpose of partially funding the acquisition of the property portfolio. The secured debt facility is revolving and multi-purpose. The loan is secured by that bank over the property of the Fund. The loan limit was reduced from $28,950,000 to $15,000,000 when Swansea was sold in July 2020 with the majority of the sales proceeds being used to repay a portion of the secured debt facility. The loan expires in October 2022.

Debt Covenants

The Fund is required to comply with certain financial covenants and obligations in respect of the secured debt facility. The major financial covenants and obligations can be summarised as follows:

(a) Interest Cover Ratio (ICR): is at least 1.75 times. ICR is defined as being EBITDA (excluding non-recurring amounts and non-cash amounts) to net interest expense.
(b) Loan to Value Ratio (LvR): is not more than 55%. LvR is defined as being based on the amounts drawn as a percentage of the most recent external property valuations.

The Fund was in compliance with its financial covenants and other obligations for the year ended and as at 30 June 2021.

9. Contributed equity

	30 June 2021 $'000	30 June 2020 $'000
Units fully paid 35,000,000	**35,000**	35,000
Less: equity raising costs	**(216)**	(216)
Closing balance	**34,784**	34,784

SURF 3 was formed on 29 January 2018 with 2 initial units of $1.00 each. The value of the initial units has been rounded. When the Fund commenced activities on 10 July 2018 these units were redeemed and 35,000,000 units were issued at $1.00 each.

10. Operating leases

All investment properties owned by the Trust (detailed in note 3) are subject to operating leases. The investment properties are leased to anchor tenants under long term leases with rentals payable monthly. Other lease terms can vary for each lease.

The main tenants of the three remaining properties are Woolworths Limited trading as Woolworths Supermarkets and Target. The rent paid (excluding outgoings) by the single largest customer of the Fund (Woolworths Limited) is $1,735,000 or greater than 62% of total rent paid.

For the Woolworths Limited and Target leases in place at the date of this report, the key terms are as follows:

Property	Tenancy	Lease expiry date	Remaining lease options
Woodford	Woolworths Limited trading as Woolworths Supermarkets	November 2027	4 * 10 year options
Moama Marketplace	Woolworths Limited trading as Woolworths Supermarkets and Woolworths BWS	March 2035	4 * 10 year options
Target Warrnambool	Target Australia Pty Ltd	January 2025	2 * 10 year options

The Swansea property was sold on 30 July 2020.

Additionally the base rent for the Woodford Woolworths tenancy is subject to fixed periodic increases of 5% every five years.

All leases the Fund has with Woolworths Limited and Target include provision for additional rent in the form of sales turnover rent. Where sales turnover rent applies, it is payable annually in arrears where the sum of the initial rent and the turnover rent percentage amount for a year exceeds the sum of the base rent.

For other tenancies lease terms would commonly be for shorter periods such as five years with provisions for annual reviews which typically comprise either CPI based increases, fixed percentage increases or market reviews. Optional lease extensions exercisable by the tenant are also relatively common. Specialty leases incorporate provisions for reporting of sales turnover and may include payment of turnover rent if appropriate.

Minimum Lease payments receivable (excluding outgoings) under non-cancellable operating leases of investment properties are shown in the following table.

	30 June 2021 $'000	30 June 2020 $'000
Within one year	**3,831**	3,829
Between one and five years	**11,414**	12,921
After five years	**9,900**	12,742
	25,145	29,492

11. Notes to the statement of cash flows

Reconciliation of profit / (loss) to net cash flows from operating activities is as follows:

	30 June 2021 $'000	30 June 2020 $'000
Net profit / (loss) after income tax	**12,586**	(1,660)
Non-cash flows		
- Fair value movement on investment properties	**(10,021)**	3,654
- Fair value movement on financial liabilities	**(87)**	248
- Straight lining of rental income	**(42)**	(47)
- Amortisation of rent free incentives	**(4)**	(46)
- Amortisation of capitalised expenses	**81**	28
- Write back of bad debt provision	**(20)**	-
- Disposal fees presented as investing activities	**439**	-
Change in assets / liabilities		
Movement in borrowings – amortisation of borrowing costs	**43**	31
Movement in trade and other receivables	**219**	(141)
Movement in trade and other payables	**(1,479)**	1,634
Net cash flows from operating activities	**1,715**	3,701

12. Financial instruments

Financial risk and capital management

(a) Capital risk management

The Fund's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The capital structure of the Fund consists of cash and cash equivalents, interest-bearing loans and borrowings and contributed equity of the Fund (comprising contributed equity and retained earnings).

The Fund assesses the adequacy of its capital requirements, cost of capital, LvR and gearing (i.e. debt/equity mix).

The Fund continuously reviews its capital structure to ensure:

- Sufficient funds and financing facilities, on a cost effective basis, are available to assist the Fund's business; and
- Sufficient liquidity buffer is maintained.

The Fund can alter its capital structure by issuing new units.

(b) Financial risk management

The Fund's activities expose it to a variety of financial risks, including:

(i) credit risk
(ii) liquidity risk
(iii) market risk (including foreign exchange risk and interest rate risk)

The Fund seeks to minimise the effects of these risks by monitoring its exposure to these risks and assessment of market forecasts.

(b)(i) Financial risk management - credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the Fund. The Fund has exposure to credit risk on all financial assets included in its statement of financial position.

The Fund is exposed to credit risk from cash placed with a financial institution. This financial institution has a credit rating of AA- (Standard & Poor's).

Exposure to customer credit risk is also monitored. Woolworths Limited is a major tenant of the Fund representing greater than 62% of rent received (after excluding the disposed Swansea property). Woolworths credit rating is BBB (Standard & Poor's). Other tenants represent the remainder of rent received.

The Fund's exposure to credit risk is summarised in the following table:

	30 June 2021 $'000	30 June 2020 $'000
Cash and cash equivalents	**781**	132
Receivables	**587**	806
	1,368	938

The maximum exposure of the Fund to credit risk as at 30 June 2021 is the carrying value of the financial assets in its statement of financial position.

(b)(ii) Financial risk management - liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund aims at having flexibility in funding by keeping sufficient cash and/or committed credit lines available whilst maintaining a low cost of holding these facilities. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Fund manages liquidity risk through monitoring its net expected funding needs including the maturity of its debt portfolio. The Fund also manages liquidity risk by maintaining a liquidity buffer of cash and undrawn debt facilities.

The debt facility is a bank secured debt facility. Details of the debt facility, including debt facility available are at note 8.

Refinancing risk, also part of liquidity risk, is the risk that the maturity profile of the debt makes it difficult to refinance maturing debt, and/or that the cost of refinancing exposes the Fund to potentially unfavourable market conditions at any given time. The Fund is exposed to refinancing risks arising from the availability of finance as well as the interest rates and credit margins at which financing is available. The Fund intends to manage this risk, where appropriate, by refinancing borrowings in advance of the maturity of the borrowing and by securing longer term facilities.

Non-derivative financial instruments

The contractual maturities of the Fund's non-derivative financial liabilities at year end are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest, margin, and line fees at the reporting date. Interest rates are based on the interest rates as at the reporting date.

	1 year or less $'000	Between 1 to 3 years $'000	Total $'000
30 June 2021			
Trade and other payables	**809**	**-**	**809**
Distribution payable	**621**	**-**	**621**
Borrowings	**-**	**11,600**	**11,600**
	1,430	**11,600**	**13,030**
30 June 2020			
Trade and other payables	2,431	-	2,431
Distribution payable	1,243	-	1,243
Borrowings	-	23,600	23,600
	3,674	23,600	27,274

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

(b)(iii) Financial risk management - market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Fund's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk within acceptable parameters, while optimising the return.

Market risk - foreign exchange risk

The Fund has no foreign currency denominated assets or liabilities at the reporting date and therefore the Fund is not exposed to any significant foreign exchange risk.

Market risk - interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates.

The Fund is exposed to interest rate risk as it borrow funds at floating interest rates. This risk can be managed through the use of interest rate swap contracts. Hedging activities are evaluated regularly.

The Fund's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. Exposure to cash and cash equivalents is limited to $781,000 (30 June 2020: $132,000).

Interest rate swap contracts

The Fund's interest rate risk arises from borrowings and cash holdings. Interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates or from fixed to floating. The Fund terminated the interest rate swap in August 2020 after the sale of the Swansea property. Movements in the market value of the interest rate swaps until disposal have been included in the Fund's Statement of Profit or Loss through changes in fair value. The Fund's Swap had a notional principal value of $24,000,000 at a fixed rate of 1.94%.

The Fund's secured debt facility is at floating rates. Borrowings with floating rates expose the Fund to cash flow interest rate risk.

The requirements under Australian accounting standards in respect of documentation, designation and effectiveness for hedge accounting cannot be met in all circumstances. As a result the Fund does not apply hedge

accounting for any derivatives as at 30 June 2021. The fair value of the interest rate swap is determined by discounting the future cash flows using the forward market interest rate curve at reporting date.

The Fund's exposure to interest rate risk and the effective interest rates on financial assets and liabilities at reporting date are in the table below.

	Interest Rate Floating	1 year or less $'000	Between 1 to 3 years $'000	Total $'000
30 June 2021				
Financial Assets				
Cash and cash equivalents	**0.0%**	**781**	**-**	**781**
Trade and other receivables	**-**	**587**	**-**	**587**
Financial Liabilities				
Trade and other payables	**-**	**809**	**-**	**809**
Borrowings	**1.9%**	**-**	**11,600**	**11,600**
Distribution payable	**-**	**621**	**-**	**621**
Total net financial liabilities		**62**	**11,600**	**11,662**
30 June 2020				
Financial Assets				
Cash and cash equivalents	0.0%	132	-	132
Trade and other receivables	-	806	-	806
Financial Liabilities				
Trade and other payables	-	2,431	-	2,431
Borrowings	2.0%	-	23,600	23,600
Distribution payable	-	1,243	-	1,243
Total net financial liabilities		2,736	23,600	26,336

Sensitivity analysis – interest rate risk

The following sensitivity analysis shows the effect on profit/(loss) after tax and equity if the interest on the debt (net of the swap) had been 100 basis points higher/lower for a full year with all other variables held constant.

	Profit after tax		Equity	
	100bp higher $'000	100bp lower $'000	100bp higher $'000	100bp lower $'000
30 June 2021 – Effect of market rate interest movement	(108)	108	(108)	108
30 June 2020 – Effect of market rate interest movement	(5)	5	(5)	5

(c) Accounting classifications and fair values

The fair value of interest rate derivatives is determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observing market rates.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The following table represents financial assets and liabilities that were measured and recognised at fair value as at 30 June 2021. The interest rate swap was terminated in August 2020.

	30 June 2020 $'000	30 June 2020 $'000
Current liabilities		
Interest rate swap	**-**	855

Fair value hierarchy

The Fund is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement.

Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed can be subjective.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis of the use of observable inputs that require significant adjustments based on unobservable inputs.

There were no transfers between levels during the period.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The interest rate swap is an interest rate derivative and is also a financial instrument not quoted in active markets. For the interest rate swap the Fund uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Interest rate derivatives are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above.

The Fund does not have any Level 1 or 3 financial instruments. Details of level 3 assets (investment properties) during the financial period and details of unobservable inputs and sensitivity are set out in note 3.

13. Related party transactions

The Responsible Entity of SURF 3 is SCA Unlisted Retail Fund RE Limited (ABN 42 604 416 284) (SURF RE). SURF RE is part of the SCA Property Group. The SCA Property Group comprises Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as responsible entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust). All fees and charges from the Responsible Entity and its related parties are in accordance with the Product Disclosure Statement (PDS) dated April 2018 and the Trust's constitution. Transactions with entities associated with SCA Property Group are disclosed below. Transactions with related parties have taken place at arm's length and in the ordinary course of business.

On 10 July 2018 SURF 3 acquired a portfolio of four retail properties in New South Wales, Queensland and Victoria from Shopping Centres Australasia Property Group RE Limited (ABN 47 158 809 851) as Responsible Entity of Shopping Centres Australasia Property Management Trust (ARSN 160 612 626) and Shopping Centres Australasia Property Retail Trust (ARSN 160 612 788) (Retail Trust) for $57,900,000. The purchase was in line with market values based on independent valuations of the property portfolio as at March 2018.

(a) Investment Management Fees

Investment management fees are 0.45% per annum of gross asset value payable monthly in arrears. During the period investment management fees of $197,247 (excluding GST) were payable to Shopping Centres Australasia Property Operations Pty Limited (ACN 160 890 433) as the Investment Manager of SURF 3 (30 June 2020: $268,106).

Total accrued investment management fees of $19,314 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2020: $290,493).

(b) Base management fees

Base management fees are 0.25% per annum of gross asset value payable monthly in arrears. During the period base management fees of $109,582 (excluding GST) were payable to the Responsible Entity during the financial year (30 June 2020: $148,948).

Total accrued base management fees of $10,730 (excluding GST) are recognised in trade and other payables in the statement of financial position (30 June 2020: $161,385).

(c) Recharge of expenses

SURF RE and the Investment Manager have the right to recover from the Fund the expenses properly incurred by SURF RE or the Manager from the Fund. The Investment Manager is part of SCA Property Group. In practice the Fund has paid all such expenses directly except for certain formation expenses which were recharged. The relevant formation expenses have been recognised as part of the transaction and establishment costs in the Fund's statement of profit or loss and other comprehensive income.

(d) Performance fee

The Investment Manager will be entitled to a performance fee of 20% of the portion of the outperformance of SURF 3 over an IRR of 10% per annum. A performance fee liability has not been recognised as at 30 June 2021 (30 June 2020: $Nil) as any potential performance fee cannot be reliably measured.

(e) Directors fees

No fees were paid or are payable by SURF 3 to the directors of the Responsible Entity during the period. These costs are paid by SCA Property Group. Refer to note 17.

(f) Related Party Unit Holdings and Distributions

Holdings of units by related parties:

	30 June 2021 $'000	30 June 2020 $'000
Shopping Centres Australasia Property Retail Trust	**9,161,000**	9,161,000

The units held by the Shopping Centres Australasia Property Retail Trust rank pari passu with the other units on issue in SURF 3 and have been held by the Retail Trust since allotment (10 July 2018). The distributions paid or payable to the Retail Trust for the period are in the table below:

30 June 2021 Period Ended	**30 Sep 2020**	**31 Dec 2020**	**31 Mar 2021**	**30 Jun 2021**
Number of units held	**9,161,000**	**9,161,000**	**9,161,000**	**9,161,000**
Distribution per unit - cents	**1.775**	**1.775**	**1.775**	**1.775**
Amount paid or payable - $	**162,608**	**162,608**	**162,608**	**162,608**
Date paid or payable	**30 Oct 2020**	**28 Jan 2021**	**22 Apr 2021**	**30 Jul 2021[1]**

[1] This distribution was declared on 24 June 2021 and the payment date is expected to be on or around 30 July 2021

30 June 2020 Period Ended	30 Sep 2019	31 Dec 2019	31 Mar 2020	30 Jun 2020
Number of units held	9,161,000	9,161,000	9,161,000	9,161,000
Distribution per unit - cents	1.775	1.775	-	3.550
Amount paid or payable - $	162,608	162,608	-	325,216
Date paid or payable	16 Oct 2019	28 Jan 2020	-	3 Aug 2020

The Fund did not hold any interests in related parties at the reporting date or throughout the current year.

(g) Custodian expense

The Responsible Entity has appointed Shopping Centres Australasia Property Group RE Limited (SCAPG RE) to provide custody services for SURF 3. SCAPG RE is a related party of SURF RE. The agreement to provide custody services by SCAPG RE has been made on standard commercial terms and in accordance with the Responsible Entity's Related Party Transactions Policy. The fee for the custodian services is the minimum of 0.015% of assets or $15,000 per annum. The fee for the year ending 30 June 2021 is $15,000 (30 June 2020: $15,000) (excluding GST).

(h) Rent Guarantee

The accrued rental guarantee of $400,000 was received from SCA Property Group during the year. As at 30 June 2021 $nil was accrued in liabilities in the Statement of Financial Position (30 June 2020: liability of $95,000 to support a contracted fit out allowance, that has now been utilised). The rent guarantee amount was capped at $400,000 to support both rental shortfalls and fit out or incentive allowances for vacant premises.

(i) Disposal fee

The Investment Manager has the right to charge the Fund a Disposal fee which is based on 1% of the gross sale price of any Property of the Fund where it is sold. During the year ended 30 June 2021, disposal fees were $Nil (30 June 2020: $156,000; as Swansea sold for a gross sale price of $15,600,000).

14. Distribution paid or payable

30 June 2021 **Quarter ended**	**Payment date**	**Cents per unit**	**$**
30 September 2020	30 October 2020	**1.775**	**621,250**
31 December 2020	28 January 2021	**1.775**	**621,250**
31 March 2021	22 April 2021	**1.775**	**621,250**
30 June 2021[1]	30 July 2021	**1.775**	**621,250**
Total distributions (Ordinary)		**7.100**	**2,485,000**

[1] This distribution was declared on 24 June 2021 and the payment date is expected to be on or around 30 July 2021

30 June 2020 Quarter ended	Payment date	Cents per unit	$
30 September 2019	16 October 2019	1.775	621,250
31 December 2019	28 January 2020	1.775	621,250
31 March 2020	-	-	-
30 June 2020	3 August 2020	3.550	1,242,500
Total distributions (Ordinary)		7.100	2,485,000

15. Commitments and contingencies

The Trust has a distribution payable of $621,250 as at 30 June 2021 (30 June 2020: $1,242,500) which is expected to be paid on or around 30 July 2021.

As at 30 June 2021 the Trust has no other capital commitments, contingent liabilities or assets (30 June 2020: $nil).

16. Auditors remuneration

During the year, all amounts paid or payable to the auditor of the Fund, BDO Audit Pty Ltd, by SCA Unlisted Retail Fund 3 for the year were:

	30 June 2021 **$'000**	30 June 2020 $'000
Audit and review of financial statements	**29**	29
Assurance and compliance services	**4**	3
	33	32

17. Key management personnel

Key management personnel of the Responsible Entity are those persons having authority and responsibility for planning directing and controlling the activities of the Fund, directly or indirectly, including any Director.

Key management personnel are employed by a related company to the Fund, Shopping Centres Australasia Property Operations Pty Limited. No compensation is paid by the Fund to any of the key management personnel of the Responsible Entity.

18. Events after the reporting period

COVID-19 Pandemic

At the date these financial statements are authorised for issue, no further adjustments in respect of the impact of COVID-19 have been made. However, the COVID-19 situation continues to evolve including government-imposed trading restrictions on some of our tenants which have varied by State, location and intensity.

The full consequences on the Fund's future financial performance and the value of the Fund's investment properties continues to be uncertain. Until COVID-19 is controlled there remains a risk that the earnings of the Fund may decrease and/or the value of investment properties could decline. This may also include reduced distributions in future financial years.

Distribution

A distribution for the quarter ended 30 June 2021 of 1.775 cents per unit was declared on 24 June 2021 and is proposed to be paid on or around 30 July 2021. This distribution has been reflected as a payable in the statement of financial position as at 30 June 2021. Refer to notes 14 and 15 for details.

The Directors are not aware of any other matters or circumstance that have arisen since 30 June 2021 that have significantly affected or may significantly affect the operations of SURF 3, the result of those operations, or state of SURF 3's affairs in future financial periods.

* * *

Directors' Declaration

For the year ended 30 June 2020

In the opinion of the Directors of SCA Unlisted Retail Fund RE Limited, the Responsible Entity of SCA Unlisted Retail Fund 3 (SURF 3):

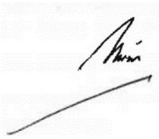
(a) The attached financial statements and notes are in accordance with the Corporations Act 2001, including;
   (i) giving a true and fair view of SURF 3's financial position as at 30 June 2021 and of its performance for the financial year then ended; and
   (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations), the Corporations Regulations 2001, and other mandatory professional reporting requirements;

(b) There are reasonable grounds to believe that SURF 3 will be able to pay its debts as and when they become due and payable.

The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors



Director
Sydney
22 July 2021

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INDEPENDENT AUDITOR'S REPORT

To the members of SCA Unlisted Retail Fund 3

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of SCA Unlisted Retail Fund 3 (the Fund), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of SCA Unlisted Retail Fund 3, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(ii) 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SCA Unlisted Retail Fund RE Limited, as responsible entity for SCA Unlisted Retail Fund 3, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors of the responsible entity of the Fund are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors Report, 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 on the other information obtained prior to the date of this auditor's report, 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 for the Financial Report

The directors of the responsible entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors 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 the directors of the responsible entity either intend 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 (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

Rothwell

Elysia Rothwell
Director

Sydney, 22 July 2021