



Eclipse Prudent Mortgage Fund

ARSN 090 994 326

2018 Financial Report

27 September 2018

Responsible Entity and Issuer
Eclipse Prudent Mortgage Corporation Limited
(ACN 089 265 270, AFSL 238546)

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DIRECTORS' REPORT

The Directors of Eclipse Prudent Mortgage Corporation Limited ACN 089 265 270, the Responsible Entity of the Eclipse Prudent Mortgage Fund (**the Fund**) present their report together with the financial report of the Fund for the year ended 30 June 2018.

Directors

The following persons were the Directors of the Responsible Entity and who held office at any time the financial year and up to the date of this report (unless otherwise stated):

Andrew McCasker	(resigned 13 December 2017)
George Kostas	
Raymond Fazzolari	(resigned 22 December 2017)
James McNally	(appointed 13 December 2017)
Dr Robert Edgar	(appointed 22 December 2017)

Principal activities

The principal activity of the Fund during the financial period was the conduct of a registered managed investment scheme. The Fund operates as a contributory mortgage scheme and aims to provide Members with stable and recurring income with capital stability and low volatility from mortgage investments secured by a registered mortgage over legal interests in real property.

Operating results

The operating profit of the Fund for the period after provision for income tax was \$nil. All amounts were distributed to Members.

Distributions paid or recommended

During the year the Fund distributed interest to its Members' of \$11,920,017 (2017: \$12,462,752)

Review of operations

The Fund was established to act as a registered mortgage Fund known as the Eclipse Prudent Mortgage Fund in accordance with the constitution of that fund and the requirements of the Australian Securities and Investment Commission. The Directors consider that the Fund operated satisfactorily during the year ended 30 June 2018 in accordance with its obligations.

Significant changes in the state of affairs

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

Information on Directors

George Kostas, in his role as RF Capital Chief Executive Officer, is responsible for all investments undertaken by the Roberts Family and the operational performance of the various businesses it owns. That includes alternative asset management company RF Capital, Roberts Constructions, Australian Construction Company Roberts Pizzarotti and specialist real estate fund manager and investor CorVal. Prior to this, George was chief executive of the largest privately held real estate group in the Middle East North Africa (MENA) region, the USD \$10 billion Majid Al Futtaim Properties Group.

DIRECTORS' REPORT

Dr Robert Edgar retired as Deputy Chief Executive Officer of the ANZ Banking Group in 2009. In a 25 year career at ANZ, he also held the positions of Chief Operating Officer, Managing Director, Institutional Financial Services and Chief Economist. Dr Edgar is a Non-executive Director of Transurban Limited, Djerriwarrh Investments Limited and Linfox Armaguard Pty Limited. He also serves as the Chair of the Hudson Institute of Medical Research and was a former Chair and a Non-executive Director of Federation Centres Limited. He was previously a Non-executive Director of Asciano Limited, Nufarm Limited and three Asian banks connected with ANZ.

James McNally is a former executive and founding director of ALE Property Group (having resigned on the 8 August 2018), which is an ASX listed hotel property trust with funds under management of \$1.1 billion across 86 properties located in Australia. He has over 20 years' experience in the funds management industry, having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry.

Meetings of Directors

The following table sets out the number of meetings of the Directors held during the year ended 30 June 2018 and the number of meetings attended by each Director.

Directors	Number Eligible to Attend	Attended
Andrew McCasker (resigned 13 December 2017)	5	5
George Kostas	9	9
Ray Fazzolari (resigned 22 December 2017)	6	6
James McNally (appointed 13 December 2017)	3	3
Dr Robert Edgar (appointed 22 December 2017)	3	3

Matters subsequent to the end of the financial year

No matter or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in a future financial period.

Likely developments and expected results of operations

The particular information required by section 299(1) (e) of the *Corporations Act 2001 (the Act)* has been omitted from the report because the Directors believe that it would result in unreasonable prejudice to the Fund.

The investment objective of the Fund is to provide Members with stable and recurring income with capital stability and low volatility from mortgage investments secured by a registered Mortgage over legal interests in real property. The Fund will continue to be managed in accordance with these investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Environmental regulation

The Fund's operations are not subject to environmental regulation under Australian Commonwealth or State law.

DIRECTORS' REPORT

Special rules for registered Funds

- (a) Fees paid by the Fund to the Responsible Entity from Fund property during the financial year amounted to \$3,426,749 (2017: \$3,034,931).
- (b) There is one Member interest in the Fund held by the Responsible Entity and its associates as at the end of the financial year, the total value of \$565,000 (2017: \$150,000).
- (c) The total Member interest in the Fund is 503 Members, total year amounted to \$33,253,863 (2017: \$39,401,059).
- (d) Withdrawals of interest in the Fund during the financial year amounted to \$49,198,769 (2017: \$19,809,192).
- (e) The value of the Fund's assets at the end of the financial year was \$165,153,828 (2017: \$181,527,347) and the basis of valuation is the carrying amount of those assets, net of any allowance for impairment, as disclosed in the statement of financial position.
- (f) The value of the interests in the Fund at year-end amounted to \$161,781,159 (2017: \$177,726,065).

Indemnity and insurance of officers and auditor

The Responsible Entity has paid professional indemnity insurance premiums for the Directors and key management personnel against liabilities incurred by them in matters arising in acting for the Responsible Entity of the Fund. No insurance premiums are paid for out of the assets of the Fund. During and since the end of the financial period the Fund has not given any indemnity or entered into any agreement to indemnify the Directors or auditor of the Fund.

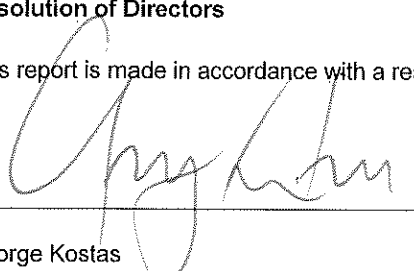
So long as the Directors of the Responsible Entity act in accordance with the Fund's Constitution and the Law, the Directors remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Act is set out on the following page.

Resolution of Directors

This report is made in accordance with a resolution of Directors, pursuant to section 298(2) (a) of the Act.



George Kostas
Director

Sydney, 27 September 2018

DECLARATION OF INDEPENDENCE BY KIERAN GOULD TO THE DIRECTORS OF ECLIPSE PRUDENT MORTGAGE CORPORATION LIMITED

As lead auditor of Eclipse Prudent Mortgage Fund for the year ended 30 June 2018, 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.



Kieran Gould
Partner

BDO East Coast Partnership

Sydney, 27 September 2018

FINANCIAL REPORT

30 June 2018

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General information

The financial report covers Eclipse Prudent Mortgage Fund (**the Fund**) as an individual entity. The Responsible Entity of the Fund is Eclipse Prudent Mortgage Corporation Limited ACN 089 265 270 (**the Responsible Entity**).

The financial report consists of the financial statements, notes to the financial statements and the declaration by the Directors of the Responsible Entity and is presented in Australian dollars.

The Fund is a registered managed investment scheme. The Responsible Entity is incorporated and domiciled in Australia and its registered office and principal place of business is:

Level 54
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

The financial statements were authorised for issue by the Directors of the Responsible Entity on 27 September 2018. The Directors of the Responsible Entity have the power to amend and reissue the financial report.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2018

	Note	2018 \$	2017 \$
Revenue	3	15,346,766	15,497,683
Expenses			
Mortgage interest paid to Members		(11,282,113)	(12,233,903)
Bank interest paid to Members		(637,904)	(228,849)
<i>Responsible Entity fees</i>			
Administration fees		(3,311,053)	(2,912,987)
Management fees		(115,696)	(121,944)
	4	(15,346,766)	(15,497,683)
Profit before income tax expense		—	—
Income tax expense	5	—	—
Profit after income tax expense for the year		—	—
Other comprehensive income for the year, net of tax		—	—
Total comprehensive income for the year		—	—

STATEMENT OF FINANCIAL POSITION

as at 30 June 2018

	Note	2018 \$	2017 \$
Assets			
Cash and cash equivalents	7	40,477,732	25,233,726
Trade and other receivables	8	906,925	1,663,821
Financial assets	9	123,769,171	154,629,800
Total assets		165,153,828	181,527,347
Liabilities			
Trade and other payables	10	2,976,846	3,801,282
Funds held in trust	13	395,823	-
Financial liabilities	11	161,781,159	177,726,065
Total liabilities		165,153,828	181,527,347
Net assets		-	-
Total equity		-	-

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2018

	Retained Profits \$	Total Equity \$
Balance at 1 July 2016	—	—
Total comprehensive income for the year	—	—
Balance at 30 June 2017	—	—
Total comprehensive income for the year	—	—
Balance at 30 June 2018	—	—

Mortgage investments shown as Financial Assets in the Balance Sheet are not held collectively for all Members of the Fund. Total amount of investment funds held within the Fund by individual Members are classified as Financial Liabilities, consequently there is no equity for financial reporting purposes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2018

	Note	2018 \$	2017 \$
Cash flows from operating activities			
Cash receipts in course of operations (including GST)		177,364,293	143,255,734
Interest received		753,600	350,793
Cash payments in course of operations (including GST)		(162,873,887)	(131,005,059)
Net cash from operating activities		15,244,006	12,601,468
Cash flows from investing activities			
Net cash used in investing activities		—	—
Cash flows from financing activities			
Net cash used in financing activities		—	—
Net increase in cash and cash equivalents	14	15,244,006	12,601,468
Cash and cash equivalents at the beginning of the financial year		25,233,726	12,632,258
Cash and cash equivalents at the end of the financial year	7	40,477,732	25,233,726

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

1. SIGNIFICANT ACCOUNTING POLICIES

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

New, revised or amending Accounting Standards and Interpretations adopted

The Fund has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the Fund from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant Fund's accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Fund.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the AASB and the Act. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (**IASB**).

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable:

- the revaluation of available-for-sale financial assets
- the financial assets and liabilities at fair value taken through profit or loss
- the investment properties; and
- certain classes of property and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Revenue recognition

i. Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

ii. Provision of services and other revenue

All revenue from the rendering of a service is recognised on the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

Income tax

All profits are distributed to the Members of the Fund and consequently there is no income tax expense applicable to the Fund.

Cash and cash equivalents

Cash and cash equivalents include includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised 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 60 days overdue) are considered indicators that the trade receivable may be 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.

Other receivables are recognised at amortised cost, less any provision for impairment.

Financial instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Fund becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Classification and Subsequent Measurement

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

ii. Held-to-maturity investments

These investments have fixed maturities, and it is the Fund's intention to hold these investments to maturity. Any held-to-maturity investments held by the Fund are stated at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

iii. Financial liabilities

Non-derivative financial instruments are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

iv. Trade and other payables

The amounts represent the principal amounts outstanding at reporting date. The amounts are unsecured and are usually paid within 30 days of recognition.

Impairment

At each reporting date, the Fund assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Fund no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Member funds

An interest in the Fund provides Members with the right to require redemption for cash held in the Fund Account. A Member who has an interest in a mortgage investment by way of investment through a Syndicate Supplementary Product Disclosure Statement (**Syndicate PDS**) is entitled to a redemption for cash only upon termination of each Syndicate which gives rise to a financial liability.

Finance costs

In accordance with the Fund's constitution, the Fund distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to Members by cash or reinvestment. The distributions are recognised in the income statement as finance costs attributable to Members.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. 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 balance sheet are shown inclusive of GST.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

1. SIGNIFICANT ACCOUNTING POLICIES (CONT)

New accounting standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Fund for the annual reporting period ended 30 June 2018. The Fund's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Fund, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and constitutes solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income (**OCI**). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an expected credit loss (**ECL**) model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The Fund has considered the time value of money and the impact of delayed collections. Based on the current loan book the Directors have determined that none of the loans in arrears need to be classified differently.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key estimates – Impairment

The Directors assess impairment at each reporting date by evaluating conditions specific to the Fund that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Judgements performed in assessing recoverable amounts incorporate a number of key economic variables.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

3. REVENUE

	2018 \$	2017 \$
Fee income	3,311,053	2,912,987
Mortgage interest	11,282,113	12,233,903
Interest received	753,600	350,793
	15,346,766	15,497,683

4. ITEMS INCLUDED IN PROFIT

Profit from ordinary activities before income tax has been determined after the following expenses:

<i>Finance costs</i>		
Mortgage interest paid to Members	(11,282,113)	(12,233,903)
Bank interest paid to Members	(637,904)	(228,849)
<i>Responsible entity fees</i>		
Administration fees	(3,311,053)	(2,912,987)
Management fees	(115,696)	(121,944)
	(15,346,766)	(15,497,683)

5. INCOME TAXES

Under current legislation, the Fund is not subject to income tax provided the distributable income of the Fund is fully distributed to its Members. Consequently there is no liability for income tax.

6. KEY MANAGEMENT PERSONNEL

(a) Directors

The names of the Directors of the Responsible Entity are included in the Directors' report.

(b) Other key management personnel

Michael Vella was appointed as Chief Executive Officer of the Responsible Entity, effective from 21 March 2018.

There were no other persons responsible for planning, directing and controlling the activities of the Fund, directly or indirectly during the period.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

6. KEY MANAGEMENT PERSONNEL (CONT)

(c) Remuneration

Key management personnel do not receive any remuneration directly from the Fund. They receive remuneration from the Responsible Entity or its related parties. Consequently, the Fund does not pay any compensation (as defined in Accounting Standard AASB 124 *Related Parties*) to its key management personnel.

7. CASH AND CASH EQUIVALENTS

	2018 \$	2017 \$
Cash at Bank	40,477,732	25,233,726
<i>Reconciliation to cash at the end of the financial year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balance as per statement of cash flows	40,477,732	25,233,726

Cash at Bank amount includes restricted cash of \$6,624,329, allocated across several controlled bank accounts, being retained until further conditions are met to access the undrawn loan funds. This applies to construction loans in the Fund, where borrowers are paying interest and Members are receiving interest.

8. TRADE AND OTHER RECEIVABLES

Other receivables	906,925	1,663,821
Less allowance for impairment	–	–
	906,925	1,663,821

The total receivables include interest and fee income. Interest receivable is non-interest bearing and receivable in accordance with the terms of the mortgage. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Reconciliation of allowance for impairment of receivables	–	–
Opening balance	–	–
Increase in allowance for impairment of receivables	–	–
Amounts written off during the year	–	–
Closing balance	–	–

The Fund had debts that were past due but not impaired.

These receivables comprise interest in relation to mortgage investments that have a good debt history, are secured by real property and are considered recoverable. An ageing analysis is included in note 13.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

9. FINANCIAL ASSETS

	2018 \$	2017 \$
Loans and receivables		
Mortgage investments	123,769,171	154,629,800
Less allowance for impairment	—	—
	123,769,171	154,629,800
Analysis of loans and receivables		
Current	116,294,171	138,487,800
Non-current	7,475,000	16,142,000
	123,769,171	154,629,800

Mortgage investments shown in the Statement of Financial Position are not held collectively for all Members of the Fund. The Fund operates as a contributory mortgage scheme and offers investment in a mortgage investment secured by a registered Mortgage over legal interest in real property. Members of the Fund may hold an interest in a particular mortgage investment by way of an investment through the Syndicate PDS (**Syndicate Members**). The Syndicate Members hold the legal and beneficial interest in the Mortgage as tenants in common. The mortgage investment is an asset of the Syndicate Members and not an asset of the Fund. It is an ASIC requirement that the mortgage investments are disclosed as assets of the Fund.

Unless otherwise disclosed in the Syndicate PDS, the Mortgage is a first registered Mortgage, with priority over any subsequent registered or unregistered mortgage and any other non-secured creditor of the Borrower. In the event of a default, the Mortgage authorises the mortgagee a right to exercise a power of sale of the security property.

The total balance of Mortgage Investments is \$130,393,500, which comprises \$123,769,171 of loan funds advanced to borrowers and the balance of \$6,624,329 being loan funds that have been drawn down but will not be advanced until that borrower has satisfied certain covenants and conditions of the Mortgage, upon which those loan funds drawn down are released (either wholly or partially) to the borrower.

Interest is collected and paid on the total balance of Mortgage investments of \$130,393,500

10. TRADE AND OTHER PAYABLES

Sundry creditors	2,976,846	3,801,282
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All sundry creditors are expected to be paid within 6 months.

11. FINANCIAL LIABILITIES

Members' funds	161,781,159	177,726,065
Analysis of total financial liabilities		
Current	154,306,159	161,584,065
Non-current	7,475,000	16,142,000
	161,781,159	177,726,065

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

11. FINANCIAL LIABILITIES (CONT)

	2018 \$	2017 \$
Movements in Members' funds		
Interests in the Fund at the beginning of the period	177,726,065	158,134,198
Interests issued during the period	33,253,863	39,401,059
Withdrawals from the Fund during the period	(49,198,769)	(19,809,192)
Interests in the Fund at the end of the period	161,781,159	177,726,065

Members' funds are classified as a liability and accordingly the Fund has no equity for financial statement preparation purposes. Members of the Fund may hold an interest in a particular mortgage investment by way of an investment through the Syndicate PDS. Each mortgage investment is independent for accounting and security purposes.

12. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated:

(a) Responsible Entity

Fees paid to the Responsible Entity during the year in accordance with the constitution and as disclosed in the PDS and individual syndicate PDS	3,426,749	3,034,931
Amounts payable (unsecured) to Responsible Entity at year end	426,350	692,310
Investments in mortgages of Eclipse Prudent Mortgage Fund	565,000	150,000

(b) Directors of the responsible entity and their associates/related entities:

Investments in mortgages of Eclipse Prudent Mortgage Fund *	378,000	16,821,420
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*Note that the significance variance in related party investments from 2017 to 2018 relates to the completion of the acquisition by RF Capital of the business from the founder during FY 2018.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

13. FINANCIAL RISK MANAGEMENT

The principal financial instruments of the Fund comprise of receivables, payables, mortgage investment and Members' funds. These instruments expose the Fund to a variety of financial risks such as market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The Directors of the Responsible Entity manage the different types of risks to which the Fund is exposed to by considering risk and monitoring levels of exposure to interest rates and property values and by being aware of market forecasts and movements of interest rates and the impact on property markets. Ageing analysis and monitoring of specific credit allowances combined with strict procedures in relation to mortgage defaults are undertaken to manage credit risk. Liquidity risk is monitored within the Fund's Trust account.

The Fund holds the following financial instruments:

	2018 \$	2017 \$
Financial assets		
Cash and cash equivalents	40,477,732	25,233,726
Trade and other receivables	906,925	1,663,821
Loans and receivables	123,769,171	154,629,800
Total Financial Assets	165,153,828	181,527,347
Trade and other payables	2,976,846	3,801,282
Funds held in trust ¹	395,823	-
Member funds	161,781,159	177,726,065
Total financial liabilities	165,153,828	181,527,347
Net Exposure	-	-

The carrying value of the financial instruments approximates their fair value.

Mortgage investments are for limited terms and reviewed annually. Mortgage defaults are monitored and reported to the Board on a monthly basis. The Fund has strict default procedures as disclosed in the Fund's Product Disclosure Statement (**PDS**), which are designed to protect the Syndicate Members in each mortgage investment.

Risk exposures and responses

Interest rate risk

The Fund's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. It mainly relates to the funds at call as interest rates on each individual mortgage are fixed. The effect of volatility of interest rates within expected reasonable possible movements would not be material.

¹ Funds held in trust represent monies held on behalf of borrowers that cannot be used for lending or investment purposes, due to legal matters.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

13. FINANCIAL RISK MANAGEMENT (CONT)

Foreign currency risk

At 30 June 2018 the Fund had no exposure to foreign currency.

Credit risk exposures

The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is the carrying amount of those assets, net of any allowance for impairment of receivables and mortgage investments, as disclosed in the statement of financial position and notes to the financial statements.

The Fund does not have any material credit risk exposure to any single borrower or group of borrowers.

In addition, any receivable balances are monitored on an ongoing basis and are secured by a mortgage over real property. Credit risk levels for each individual mortgage investment is monitored through the Loan to Value Ratio (LVR) using a valuation supplied by a Licensed Valuer for mortgage purposes. Details of each valuer and LVR levels are disclosed in each Syndicate PDS.

The ageing of the Fund's receivables at the reporting date was:

	2018		2017	
	Gross	Impairment	Gross	Impairment
Not past due	448,457	—	781,395	—
Past due 0-30 days	188,166	—	298,711	—
Past due 31-60 days	163,404	—	234,108	—
Past due 61-90 days	21,222	—	81,555	—
Past due 90 days to one year	85,676	—	261,139	—
More than one year	-	—	6,913	—
Total	906,925	—	1,663,821	—

Price risk

The Fund has no exposure to commodity and equity securities price risk.

Liquidity risk

The Fund manages liquidity risk by matching the individual maturity profiles of financial assets and liabilities to each Syndicate.

Maturity analysis

All payables will be paid within 6 months (or as interest in arrears is recovered from borrowers).

Member funds in the Fund will mature in accordance with the following profile:

- Uncommitted cash on deposit is available on request
- Funds invested in mortgages are available on maturity of the individual syndicate investments or discharge of the mortgage.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

13. FINANCIAL RISK MANAGEMENT (CONT)

The Board and the Risk and Compliance Sub-Committee reviews the liquidity requirements of the Fund on a quarterly basis through the following Compliance Plan rules:

- Rule 2 Applications
- Rule 3 Income and distribution
- Rule 4 Withdrawals and repayments
- Rule 12 Accounts and record keeping.

Collateral

The market value of security pledged as collateral for financial assets is \$310,571,082 for the year ended 30 June 2018 (2017: \$402,126,371). This amount is based on the most recent valuations obtained for each financial asset.

Allowance for impairment loss

The Fund is not a pooled fund but operates as a contributory mortgage scheme. Therefore impairment loss is limited to the Syndicate Members of the individual mortgage investment. Based on the current market value of collateral held, the Directors have determined that no impairment loss is required.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

13. FINANCIAL RISK MANAGEMENT (CONT)

Defaults in relation to financial assets

As at balance date the Fund had the following mortgage investments in default (i.e. past due for principal repayment):

	Number of assets	2018 Gross asset value	Impairment	Number of assets	2017 Gross asset value	Impairment
Past due 0-30 days	1	4,703,000	—	6	9,394,000	—
Past due 31-60 days	8	14,747,000	—	11	19,861,000	—
Past due 61-90 days	-	-	—	5	6,739,000	—
Past due 90 days to one year	9	9,743,000	—	8	5,853,000	—
More than one year	-	-	—	3	2,624,000	—
Total	18	29,193,000	—	33	44,471,000	—

The proportion of mortgage investments in default in relation to the total fund mortgages is 22.39% (2017: 27.82%) by value and 22.5% (2017: 25.0%) by number of loans.

The maturity date of each Mortgage is registered into the Fund's automated system and monitored on an ongoing basis. Default proceedings are commenced once a Mortgage renewal extends past the maturity date by 60 days, if they have not previously commenced. The Responsible Entity monitors all mortgage defaults on an ongoing basis, which is reported monthly to the Board.

An allowance for impairment has been recognised in relation to any financial assets in default where evidence indicates that the loan exposure exceeds the available equity in the security held (less any anticipated costs associated with realising the security). Exposure to the impaired loan is limited to the Syndicate Members of the individual mortgage investment.

Capital risk strategy

The Fund manages its Members' funds as capital, notwithstanding the Member's funds are classified as a liability for the purposes of presentation of the financial statements. The Fund's objectives when managing capital are:

- To safeguard the individual Member's interest in each Syndicate and the overall Fund
- To continue as a going concern so that the Fund can continue to provide returns to the Members and the Responsible Entity as disclosed in the Fund's PDS and individual Syndicate PDS.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

14. CASH FLOW INFORMATION

Reconciliation of Cash Flow from Operations with profit from ordinary activities after income tax.

	2018 \$	2017 \$
Profit from ordinary activities, after income tax	—	—
Decrease/(increase) in trade and other receivables	756,896	(747,485)
(Decrease)/increase in trade and other payables	(428,613)	1,255,086
Decrease in financial assets	30,860,629	19,591,867
Decrease in Members funds	(15,944,906)	(7,498,000)
Cash flow from operating activities	15,244,006	12,601,468

15. CAPITAL AND LEASING COMMITMENTS

Loans committed as at 30th June 2018 but not yet drawn down total \$28,544,329 (2017: \$26,500,000).

16. CONTINGENT LIABILITIES

The Directors of the Responsible Entity are not aware of any contingent liabilities relating to the Fund.

17. AUDITORS REMUNERATION

All costs associated with the audit of the Fund are paid by the Responsible Entity.

18. EVENTS SUBSEQUENT TO REPORTING DATE

No matter or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in a future financial period.

19. FAIR VALUE MEASUREMENT

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

NOTES TO THE FINANCIAL STATEMENTS

30 June 2018

19. FAIR VALUE MEASUREMENT (CONT)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Fair value of financial assets and financial liabilities not carried at fair value

	Carrying amount \$	Fair value \$	Fair value hierarchy level
Trade and other receivables	906,925	906,925	Level 3
Financial assets – loans and receivables	123,769,171	123,769,171	Level 3
Trade and other payables	2,976,846	2,976,846	Level 3
Financial liabilities – Members funds	161,781,159	161,781,159	Level 3

The carrying value of trade and other receivables and trade and other payables approximate fair value.

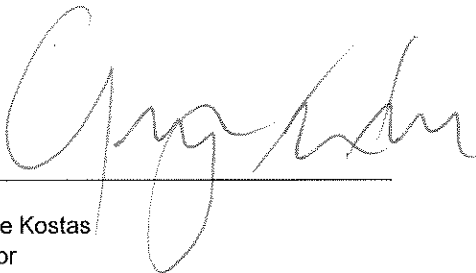
The fair value of mortgage investment and Members' funds are estimated by discounting the future contractual cash flows at the current market interest rates for loans with similar risk profiles.

DIRECTORS' DECLARATION

In the opinion of the Directors of Eclipse Prudent Mortgage Corporation Limited:

- the attached financial statements and notes thereto comply with the Act, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with *International Financial Reporting Standards* as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the Registered Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Registered Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of the Responsible Entity:



George Kostas
Director

Sydney, 27 September 2018

INDEPENDENT AUDITOR'S REPORT

To the members of Eclipse Prudent Mortgage Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Eclipse Prudent Mortgage Fund (the Fund), which comprises the statement of financial position as at 30 June 2018, 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 Eclipse Prudent Mortgage Fund, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Fund's financial position as at 30 June 2018 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* (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 the Responsible Entity (the directors), 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 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 (the directors) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the 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 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 East Coast Partnership



Kieran Gould
Partner

Sydney, 27 September 2018