Arena REIT No. 2

ARSN 101067878

Financial Report
30 June 2021

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These financial statements cover Arena REIT No. 2 (the 'Trust') as an individual entity. The financial statements are presented in Australian currency.

The Responsible Entity of Arena REIT No. 2 is Arena REIT Management Limited (ACN 600069761). The Responsible Entity's registered office is:

Level 32, 8 Exhibition Street
Melbourne VIC 3000

Directors' report

The directors of Arena REIT Management Limited, the Responsible Entity of Arena REIT No. 2, present their report together with the financial statements of Arena REIT No. 2 (the 'Trust') for the year ended 30 June 2021. The Trust is a member of the Arena REIT Stapled Group ('Group' or 'Arena').

Arena REIT No. 1, Arena REIT No. 2 and Arena REIT Limited are separate entities, the units and shares of which have been stapled together to enable trading as one security. The units of Arena REIT No. 1, Arena REIT No. 2 and Arena REIT Limited cannot be traded separately. None of the stapled entities controls any of the other stapled entities, however for the purposes of statutory financial reporting the entities form a consolidated group.

For the results of the stapled group, refer to the Arena REIT Group Annual Report for the year ended 30 June 2021.

Directors

The following persons held office as directors of Arena REIT Management Limited during the financial year and up to the date of this report:

David Ross (Chair) (Independent, non-executive)
Rosemary Hartnett (Independent, non-executive)
Simon Parsons (Independent, non-executive)
Dennis Wildenburg (Independent, non-executive)
Rob de Vos (Executive)
Gareth Winter (Executive)

Principal activities

Arena REIT No. 2 forms part of the Arena REIT Group which invests in a portfolio of investment properties and is listed on the Australian Securities Exchange ('ASX') under the code ARF.

There were no changes in the principle activities of the Trust during the year.

Distributions to unitholders

The following table details the proportion of the Group distribution declared during the year which is paid by Arena REIT No. 2.

	30 June 2021 $'000	30 June 2020 $'000
September quarter	**1,607**	1,390
December quarter	**1,656**	1,394
March quarter	**1,661**	-
June quarter	**1,664**	2,919
Total distributions to unitholders	**6,588**	5,703

The distribution information above should be read in conjunction with the Arena REIT Group Annual Report which sets out the full distribution declared to stapled securityholders.

Operating and financial review

Arena REIT No. 2 is part of the Arena REIT Group, a stapled security. Investors should refer to the Operating and Financial Review prepared for the Group set out in the financial statements of the Arena REIT Group lodged with the ASX on 11 August 2021. A separate Operating and Financial Review for Arena REIT No. 2 has not been prepared as investors should consider the operations of the Group in their entirety.

Significant changes in state of affairs

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

Matters subsequent to the end of the financial year

No significant events have occurred since 30 June 2021 that have affected, or may significantly affect:

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

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

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

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with its investment objectives and guidelines.

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

Material business risks

The material business risks that could adversely affect the achievement of the Trust's financial prospects are as follows. The Responsible Entity has in place a risk management policy and Framework under which it identifies, assesses, monitors and manages these risks.

COVID-19

The COVID-19 pandemic has significantly impacted the Australian and global economy and the ability of individuals, companies and governments to operate. Notwithstanding the Commonwealth Government's recently updated National Plan to transition Australia's National COVID-19 Response and the vaccination targets therein, there is uncertainty as to the duration, and further impact of COVID-19 on the ASX and wider securities markets, the Group and the tenants of the Group's properties.

These factors could have a major impact on the Group's operations, performance and growth. The Government's measures to limit the transmission of the virus (including, but not limited to, the aforementioned social distancing and quarantine policies, and restrictions on the operation of non-essential services) have resulted in major disruptions to business, the Australian and wider global economy.

The extent of the impact on the Group's operations, financial performance and cash flow is dependent on future factors which are uncertain and outside of the control of the Group. These factors could have a material adverse effect on the overall economy and impact upon the Group's business and financial performance.

The significance of the impact of COVID-19 on the Group will largely depend upon the extent to which the Group's tenants, and their ability to pay rent, is impacted by COVID-19.

Concentration risk

The Trust's property portfolio is presently 100% invested in healthcare properties. Adverse events to the healthcare sector may result in a general deterioration of tenants' ability to meet their lease obligations and the future growth prospects of the current portfolio. During the year, 93% of the portfolio was leased to two tenants, Idameneo (No. 123) Pty Ltd (a controlled entity of BGH Capital Fund No. 1 formerly owned by Healius Ltd) and SACARE. Any material deterioration in their operating performance may result in our tenants not meeting their lease obligations which could reduce the Trust's income.

Tenant risk

The Group relies on tenants to generate its revenue. Tenants may be not for profit companies, private entities or listed public companies. If a tenant is affected by financial difficulties they may default on their rental or other contractual obligations which may result in loss of rental income and loss in value of the Group's properties. Typically, tenants are required to provide an unconditional and irrevocable bank guarantee, which must not expire until at least six months after the ultimate expiry date of the lease, as security for their performance under the lease. Refer to note 7(d) for further details on tenancy risk for the portfolio.

Macroeconomic risk

The operations and performance of the Group is influenced by the macroeconomic condition of the Australian and the wider global economy. A prolonged economic downturn and its related effects, including increasing rates of unemployment, could have a material adverse impact on the Group's business or financial performance.

Government policy risk and change in law

Healthcare operators rely heavily on government funding which, if reduced or otherwise modified, may adversely impact the underlying demand for these services and therefore tenants' ability to meet lease obligations and/or their demand for these properties. There is a risk that there may be material adverse changes in legislation, government policies or legal or judicial interpretation relating to the healthcare sector.

Property valuations

Changes in the property market, especially changes in the valuation of properties and in market rents, may adversely affect the Group's financial performance and the price of ARF securities.

Information on directors of the Responsible Entity

The directors of the Responsible Entity at the time of this report are:

Name and position	Experience and qualifications
David Ross, Independent Non-Executive Chair	David has over 30 years' ASX listed company and corporate experience in the property and property funds management industries in Australia and overseas, including Global and US Chief Executive Officer Real Estate Investments and Chief Executive Officer Asia Pacific for Lend Lease, Chief Executive Officer for General Property Trust and Chief Operating Officer for Babcock and Brown. He is currently an Independent non-executive Director at Charter Hall Group and was formerly a non-executive Director of Sydney Swans Foundation Limited. David holds a Bachelor of Commerce, an Associate Diploma in Valuation and is a fellow of the Australian Institute of Company Directors (FAICD). Other current directorships: Charter Hall Group. Former directorships in last 3 years: None.
Rosemary Hartnett, Independent Non-Executive Director	Rosemary has over 30 years' experience in the Australian property sector and extensive senior management experience in property finance and is the Chair and an independent director of ISPT Pty Ltd (ISPT), a director of International Property Funds Management Pty Ltd (IPFM) and a director of Fanplayr Inc. Her former roles include senior property finance executive and a fund manager for trading and investment banks, including Macquarie Bank, ANZ and NAB. Rosemary holds a Bachelor of Business in Property (Valuations) and is a Member of the Australian Institute of Company Directors (MAICD). She was previously an independent director of Aconex and Wallara Australia and Chief Executive Officer of Housing Choices Australia, one of the country's leading registered housing associations. Other current directorships: ISPT Pty Ltd, International Property Funds Management Pty Ltd, Fanplayr Inc. Former directorships in last 3 years: None.

Dr Simon Parsons, Independent Non-Executive Director

Simon has over 35 years' experience in the commercial property industry including former senior positions and directorships with a range of leading property-focused companies including Parsons Hill Stenhouse, Property Investment Research, Colliers International and Jones Lang Wootton (now Jones Lang LaSalle).

Simon holds a Master of Science (Real Estate), a Master of Social Science (Environment & Planning), and a PhD in land use planning, public policy and land economics. He is a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: None.

Former directorships in last 3 years: None.

Dennis Wildenburg, Independent Non-Executive Director, Chair of Board Audit Committee

Dennis has over 35 years' experience in the financial services, funds management and property industries including senior management, Board and compliance committee roles.

His former roles include Director of MLC Funds Management Limited, member of the Lend Lease Group board that managed GPT and an Associate Director of Hill Samuel Australia Limited (now Macquarie Group Limited). Dennis is a member of Chartered Accountants Australia and New Zealand (CA ANZ) and is a Fellow of the Australian Institute of Company Directors (FAICD).

Other current directorships: None.

Former directorships in last 3 years: Investa Wholesale Funds Management Limited; ICPF Holdings Limited.

Rob de Vos, Executive Director

Rob was appointed Managing Director of Arena on 19
Rob has over 20 years' experience in the real estate and property funds management industry including acquisitions, developments, funds management, portfolio management and strategy, with expertise across both traditional and specialised property assets. Rob's experience in social infrastructure property investment spans over 15 years, and he is recognised as a market leader in the development and management of high performing specialised property investment funds. Prior to joining Arena, Rob held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

Rob is a licensed real estate agent (VIC) and holds a diploma in Financial Markets and a diploma of Property Operations.

Other current directorships: None.

Former directorships in last 3 years: None.

Gareth Winter, Executive Director and Company Secretary

Gareth was appointed Chief Financial Officer of the Group in March 2012 and Executive Director of Arena REIT Management Limited in 2014. Gareth was formerly a partner at PricewaterhouseCoopers and has over 25 years' professional experience.

Throughout his career Gareth specialised in advising the listed and unlisted property and infrastructure funds management sector on corporate finance, capital management, risk management, transaction structuring and financial systems and reporting.

Gareth holds a Bachelor of Commerce and is a member of Chartered Accountants Australia and New Zealand (CA ANZ).

Other current directorships: None.

Former directorships in last 3 years: None.

Meetings of directors

The number of meetings of the Responsible Entity's board of directors and of each board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	ARML Board		Audit Committee		Remuneration and Nomination Committee**		Culture and Remuneration Committee**	
	A	B	A	B	A	B	A	B
David Ross	15	15	9	9	4	4	4	4
Rosemary Hartnett	15	15	9	9	4	4	4	4
Simon Parsons	15	14	9	8	4	4	4	3
Dennis Wildenburg	15	15	9	9	4	4	4	4
Rob de Vos	15	15	*	*	*	*	*	*
Gareth Winter	15	15	*	*	*	*	*	*

A - Number of meetings held during the time the director held office or was a member of the committee during the year.
B - Number of meetings attended.
** = Not a member of the relevant committee.*
***=The Committee structure changed on 1 January 2021. Remuneration & Nomination Committee was reorganised into Culture & Remuneration and Nomination Committees. There have been no stand-alone Nomination Committee meetings since 1 January 2021.*

Remuneration report

Arena REIT No. 2 is part of the Arena REIT Group, a stapled security. The Group also includes Arena REIT Management Limited, the responsible entity of Arena REIT No. 2. Investors should refer to the Remuneration Report detailed within the financial statements of the Group lodged with the ASX on 11 August 2021, for further information on the remuneration of KMP of the Responsible Entity.

(a) Key management personnel

Key management personnel (KMP) includes persons who were non-executive and executive directors of the Responsible Entity, Arena REIT Management Limited, at any time during the financial year as follows:

David Ross (Chair) (Independent, non-executive)
Rosemary Hartnett (Independent, non-executive)
Simon Parsons (Independent, non-executive)
Dennis Wildenburg (Independent, non-executive)
Rob de Vos (Executive)
Gareth Winter (Executive)

(b) Key management personnel compensation

No KMP are remunerated directly by the Trust. The KMP receive remuneration from associates of the Responsible Entity.

(c) Key management personnel unitholdings

The KMP of Arena REIT Management Limited held securities in the Group as follows:

30 June 2021

	No. of securities held opening	No. of securities acquired	No. of securities disposed	No. of securities held closing
David Ross	**200,000**	**13,565**	**-**	**213,565**
Rosemary Hartnett	**9,800**	**9,705**	**-**	**19,505**
Simon Parsons	**204,079**	**13,565**	**-**	**217,644**
Dennis Wildenburg	**159,769**	**13,565**	**-**	**173,334**
Robert de Vos	**416,649**	**159,893**	**-**	**576,542**
Gareth Winter	**467,666**	**150,625**	**-**	**618,291**

(d) Key management personnel loan disclosures

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

(e) Other transactions with the Trust

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

Indemnification and insurance of officers and auditors

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

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

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

Non-audit services

Details of the non-audit services provided to the Trust by the Independent Auditor during the year ended 30 June 2021 are disclosed in note 19 of the financial statements.

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

Fees paid to the Responsible Entity and its associates out of Trust property during the year are disclosed in note 18 of the financial statements.

The interest in the Trust held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 18 of the financial statements.

Interests in the Trust

The movement in units on issue in the Trust during the year is disclosed in note 11 of the financial statements.

Corporate governance statement

The board of directors for Arena REIT Limited and Arena REIT Management Limited work together and take a co-ordinated approach to the corporate governance of the Group.

Each Board has a Board Charter which details the composition, responsibilities, and protocols of the Board. In addition, the Boards have a Code of Conduct which sets out the standard of business practices required of the Group's directors and staff.

The Group conducts its business in accordance with these policies and code, as well as other key policies which are published on its website. These include:

- Communications Policy;
- Continuous Disclosure Policy;
- Diversity Policy;
- Environmental, Social and Governance Policy;
- Privacy Policy;
- Securities Trading Policy;
- Summary of Risk Management Framework;
- Whistleblower Policy.

In compliance with ASX Listing Rule 4.10.3, the Group publishes an annual statement on its website disclosing the extent to which it has followed the recommendations for good corporate governance set by the ASX Corporate Governance Council during the reporting period.

Environmental regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Trust is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

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 11.

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

David Ross
Chair

Melbourne
11 August 2021

Auditor's Independence Declaration

As lead auditor for the audit of Arena REIT No. 2 for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Melbourne
11 August 2021

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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Statement of comprehensive income

	Notes	**30 June 2021 $'000**	30 June 2020 $'000
Revenue			
Property income	7	**9,222**	8,558
Interest		**-**	3
Revaluation of investment properties	7	**14,984**	1,733
Total revenue		**24,206**	10,294
Expenses			
Property expenses	7	**(227)**	(211)
Net gain/(loss) on change in fair value of derivative financial instruments		**617**	(605)
Administration expenses		**(438)**	(423)
Finance costs	3	**(936)**	(1,236)
Total expenses		**(984)**	(2,475)
Net profit for the year		**23,222**	7,819
Other comprehensive income		**-**	-
Total comprehensive income for the year		**23,222**	7,819
Total comprehensive income for the year is attributable to:			
Unitholders of Arena REIT No. 2		**23,222**	7,819
Earnings per unit:		**Cents**	Cents
Basic earnings per unit	4	**6.79**	2.59
Diluted earnings per unit	4	**6.76**	2.58

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

Balance sheet

	Notes	**30 June 2021 $'000**	30 June 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	5	**1,248**	2,569
Trade and other receivables	6	**213**	888
Total current assets		**1,461**	3,457
Non-current assets			
Investment properties	7	**153,264**	136,631
Total non-current assets		**153,264**	136,631
Total assets		**154,725**	140,088
LIABILITIES			
Current liabilities			
Trade and other payables	8	**2,854**	3,502
Total current liabilities		**2,854**	3,502
Non-current liabilities			
Derivative financial instruments	10	**1,301**	1,918
Interest bearing liabilities	9	**34,280**	36,499
Total non-current liabilities		**35,581**	38,417
Total liabilities		**38,435**	41,919
Net assets		**116,290**	98,169
Equity			
Contributed equity	11	**57,865**	56,378
Retained profits	12	**58,425**	41,791
Total equity		**116,290**	98,169

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

Statement of changes in equity

	Contributed equity $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	42,026	39,675	81,701
Profit for the period	-	7,819	7,819
Total comprehensive income for the year	**-**	**7,819**	**7,819**
Transactions with owners in their capacity as owners:			
Issue of securities under the DRP	1,001	-	1,001
Issue of securities under the Institutional Placement	7,843	-	7,843
Issue of securities under the Security Purchase Plans *	5,508	-	5,508
Distributions to unitholders	-	(5,703)	(5,703)
Balance at 30 June 2020	**56,378**	**41,791**	**98,169**
Balance at 1 July 2020	56,378	41,791	98,169
Profit for the period	-	23,222	23,222
Total comprehensive income for the year	**-**	**23,222**	**23,222**
Transactions with owners in their capacity as owners:			
Issue of securities under the DRP	1,487	-	1,487
Distributions to unitholders	-	(6,588)	(6,588)
Balance at 30 June 2021	**57,865**	**58,425**	**116,290**

** Includes Security Purchase Plans settled on 1 July 2019 and 30 June 2020. Refer to note 11 (b).*

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

Statement of cash flows

	Notes	**30 June 2021 $'000**	30 June 2020 $'000
Cash flows from operating activities			
Receipts in the course of operations		**10,253**	8,038
Payments in the course of operations		**(1,558)**	(1,505)
Interest received		**-**	3
Finance costs paid		**(889)**	(1,198)
Net cash inflow from operating activities		**7,806**	5,338
Cash flows from investing activities			
Payments for investment properties and capital expenditure		**(1,003)**	(10,015)
Net cash (outflow)/inflow from investing activities		**(1,003)**	(10,015)
Cash flows from financing activities			
Distributions paid to unitholders		**(6,350)**	(3,061)
Loan establishment costs paid		**-**	(109)
Capital receipts from lenders		**496**	13,637
Capital payments to lenders		**(2,270)**	(3,600)
Net cash (outflow)/inflow from financing activities		**(8,124)**	6,867
Net (decrease)/increase in cash and cash equivalents		**(1,321)**	2,190
Cash and cash equivalents at the beginning of the financial period		**2,569**	379
Cash and cash equivalents at the end of the financial year	5	**1,248**	2,569

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

Contents of the notes to the financial statements

1 General information

These financial statements cover Arena REIT No. 2 (the 'Trust') as an individual entity. The Trust is a listed managed investment scheme registered and domiciled in Australia and forms part of the Arena REIT Stapled Group.

The Responsible Entity of the Trust is Arena REIT Management Limited (the "Responsible Entity").

The financial statements were authorised for issue by the directors of the Responsible Entity on 11 August 2021. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

(a) Basis of preparation and going concern

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Arena REIT No. 2 is a for-profit unit trust for the purpose of preparing the financial statements.

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

Compliance with International Financial Reporting Standards

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

Going concern

As at 30 June 2021, the Trust had a net working capital deficiency of $1.4 million (30 June 2020: $0.05 million). This deficiency is due to working capital management within the Arena REIT stapled group, and the difference in the timing of drawdowns from the Group's debt facility and the timing of expenditure. As at the date of this report, the Group has $90 million of unused debt facility which can be drawn to fund cashflow requirements.

After taking into account all available information, the directors of the Trust have concluded that there are reasonable grounds to believe:

- The Group will be able to pay its debts as and when they fall due; and
- The basis of preparation of the financial report on a going concern basis is appropriate.

(b) New and amended standards adopted by the Trust

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

(c) Critical accounting estimates and judgements

The Trust makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements which are material to the financial report are found in the following notes:

Investment properties	Note 7
Financial instruments	Notes 10, 14

Financial results, assets and liabilities

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Trust, including:

(a) accounting policies that are relevant for an understanding of the items recognised in the financial statements
(b) analysis and sub-totals
(c) information about estimates and judgements made in relation to particular items.

2 Segment information

The Trust operates as one business segment being investment in real estate, and in one geographic segment being Australia. The Trust's segments are based on reports used by the Board (as the Chief Operating Decision Maker) in making strategic decisions about the Trust, assessing the financial performance and financial position of the Trust, determining the allocation of resources and risk management.

3 Finance costs

	30 June 2021 $'000	30 June 2020 $'000
Finance costs:		
Interest paid or payable	**887**	1,193
Other finance costs	**49**	43
Total finance costs	**936**	1,236

(a) Accounting policy - Finance costs

Finance costs include interest and amortisation of costs incurred in connection with the arrangement of borrowings. Finance costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than twelve months to get ready for their intended use or sale. Where funds are borrowed for the acquisition, construction or production of a qualifying asset, the finance costs capitalised are those incurred in relation to that qualifying asset.

4 Earnings per unit ('EPU')

	2021 Cents	2020 Cents
Basic EPU	**6.79**	2.59
Diluted EPU	**6.76**	2.58

The following information reflects the income and unit numbers used in the calculations of basic and diluted EPU.

	Number of units '000	Number of units '000
Weighted average number of ordinary units used in calculating basic EPU	**341,774**	301,421
Rights granted under employee incentive plans	**1,538**	1,545
Adjusted weighted average number of ordinary units used in calculating diluted EPU	**343,312**	302,966

	$'000	$'000
Earnings used in calculating basic EPU	**23,222**	7,819
Earnings used in calculating diluted EPU	**23,222**	7,819

(a) Accounting policy - Earnings per unit

(i) Basic earnings per unit

Basic earnings per unit is calculated by dividing:

- the profit attributable to the unitholders, excluding any costs of servicing equity other than ordinary units;
- by the weighted average number of ordinary units outstanding during the financial year.

(ii) Diluted earnings per unit

Diluted earnings per unit adjust the figures used in the determination of basic earnings per unit to take into account:

- the effect of interest and other financial costs associated with dilutive potential ordinary units;
- the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units.

5 Cash and cash equivalents

	30 June 2021 $'000	30 June 2020 $'000
Cash at bank	**1,248**	2,569

(a) Accounting policy - Cash and cash equivalents

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

6 Trade and other receivables

	30 June 2021 $'000	30 June 2020 $'000
Other receivables	**138**	39
Prepayments	**89**	87
Expected credit loss provision	**(14)**	(14)
Trade receivables	**-**	776
	213	888

(a) Impairment and ageing

No class of financial asset is past due.

From time to time, tenant payments are delayed for administrative reasons such as lease assignment. Management have reviewed all receivables for impairment and are comfortable that the balances are due and payable, and that recovery can be obtained.

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

(b) Fair value

There is no material difference between the fair value and the carrying value of receivables.

(c) Accounting policy - Receivables

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

6 Trade and other receivables (continued)

(c) Accounting policy - Receivables (continued)

Receivables are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Group measures the loss allowance on receivables at an amount equal to the lifetime expected credit losses. Expected credit losses are measured using probability of default, exposure at default and loss given default. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An expected credit loss provision is used when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the expected credit loss provision 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 receivables are not discounted if the effect of discounting is immaterial.

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

7 Investment properties

(a) Valuations and carrying amounts

	Interests in Properties	Carrying amount		Latest valuation	
		2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Total investment properties	11	**153,264**	136,631	**143,187**	136,631

Independent valuations were performed on three investment properties as at 31 December 2020, and a further four properties as at 30 June 2021. Director valuations were performed on investment properties not independently valued. The result was a revaluation gain for the year of $14.984 million (30 June 2020: $1.733 million).

The key inputs into valuations are:

- Passing rent;
- Market rents;
- Capitalisation rates;
- Lease terms;
- Discount rates;
- Rent reviews;
- Planning status and approvals;
- Capital expenditure and vacancy contingencies.

The key inputs into the valuations are based on market inputs made with reference to comparable properties. The majority of healthcare properties are located in markets with evidence to support valuation inputs and methodology. The independent valuers have experience in valuing similar assets and have access to market evidence to support their conclusions. Comparable assets are considered those in similar markets and condition.

7 Investment properties (continued)

(a) Valuations and carrying amounts (continued)

Investment properties have been classified as Level 3 in the fair value hierarchy.

Investment properties have been reclassified from Level 2 during the year for disclosure consistency with comparable entities.

(i) Key assumptions

	30 June 2021	30 June 2020
Capitalisation rates	**4.75% to 6.25%**	5.25% to 7.00%
Passing yields	**5.00% to 6.25%**	5.50% to 7.00%

(ii) Sensitivity analysis

For Healthcare properties, if the discount rates or capitalisation rates expanded by 25 basis points, fair value would reduce by $7 million from the fair value as at 30 June 2021 and if the capitalisation rate or discount rate compressed by 25 basis points, fair value would increase by $7 million from the fair value as of 30 June 2021.

(b) Movements during the financial year

	30 June 2021 $'000	30 June 2020 $'000
At fair value		
Opening balance	**136,631**	122,134
Property acquisitions and capital expenditure	**1,044**	12,244
Revaluations	**14,984**	1,733
Other IFRS revaluation adjustments	**605**	520
Closing balance	**153,264**	136,631

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

	30 June 2021 $'000	30 June 2020 $'000
Property income	**8,641**	8,037
Other property income (recognised on a straight line basis)	**609**	521
Direct operating expenses from property that generated property income	**(227)**	(211)
Revaluation gain on investment properties	**14,984**	1,733

7 Investment properties (continued)

(d) Tenancy risk

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

Idameneo (No. 123) - a major operator of multi-disciplinary medical centres throughout Australia. Idameneo's parent company, Limestone Bidco Pty Ltd, provides a corporate guarantee to provide security for their performance under the leases. Idameneo also provides a Bank Guarantee as additional security for the tenants performance under the leases.

SACARE - a South Australian, family-owned provider of housing and support services for people living with disability. SACARE also provides a Bank Guarantee as additional security for the tenants performance under the leases.

(e) Assets pledged as security

Refer to note 9 for information on investment properties and other assets pledged as security by the Trust.

(f) Contractual obligations

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	30 June 2021 $'000	30 June 2020 $'000
Investment properties	**1,254**	1,548

(g) Leasing arrangements

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

	30 June 2021 $'000	30 June 2020 $'000
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within 1 year	**8,463**	8,322
1 - 2 years	**8,526**	8,466
2 - 3 years	**8,542**	8,382
3 - 4 years	**8,691**	8,370
4 - 5 years	**8,843**	8,518
Later than 5 years	**69,009**	77,320
	112,074	119,378

(h) Accounting policy - Investment properties

Investment property is real estate investments held to earn long-term rental income and for capital appreciation. Investment properties are carried at fair value determined either by the directors or independent valuers with changes in fair value recorded in the income statement.

7 Investment properties (continued)

(h) Accounting policy - Investment properties (continued)

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

(i) Valuation basis

The basis of the valuation of investment properties is fair value, being 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.

The Responsible Entity may determine the requirement for a valuation at any time but has adopted a valuation program that provides for each property to be independently valued by suitably qualified valuers at least once every 3 years. Changes in market conditions may necessitate more frequent independent revaluations of properties.

Valuations are derived from a number of factors that may include a direct comparison between the subject property and a range of comparable sales evidence, the present value of net future cash flow projections based on reliable estimates of future cash flows, existing lease contracts, external evidence such as current market rents for similar properties, and using capitalisation rates and discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

8 Trade and other payables

	30 June 2021 $'000	30 June 2020 $'000
Unsecured liabilities:		
Sundry creditors and accruals	**1,039**	397
Unearned income	**151**	187
Distribution payable	**1,664**	2,918
Total trade and other payables	**2,854**	3,502

Trade and other payables are non-interest bearing.

9 Interest bearing liabilities

	30 June 2021 $'000	30 June 2020 $'000
Non-current:		
Secured		
Syndicated facility	**34,423**	36,692
Unamortised establishment costs	**(143)**	(193)
Total secured non-current borrowings	**34,280**	36,499

9 Interest bearing liabilities (continued)

(a) Financing arrangements

	30 June 2021 $'000	30 June 2020 $'000
Committed facilities available at the end of the reporting period		
Interest bearing liabilities	**330,000**	330,000
Facilities utilised at the end of the reporting period		
Interest bearing liabilities	**240,000**	215,000

Arena REIT No. 2 borrows under the Group facility to which it is a joint borrower along with other members of the Group.

The debt facility can be drawn by both ARF1 and ARF2 and the total drawn amount of the Group's debt facility at 30 June 2021 was $240 million (30 June 2020: $215 million).

The interest rate applying to the drawn amount of the facilities is set on a monthly basis at the prevailing market interest rates.

All parties to the Arena REIT debt facility, including Arena REIT No.2, were compliant with all facility covenants throughout the period and at 30 June 2021.

9 Interest bearing liabilities (continued)

(a) Financing arrangements (continued)

The undrawn amount of the bank facilities may be drawn at any time.

(b) Assets pledged as security

The Group's facilities are secured by a registered first mortgage over investment property and a fixed and floating charge over the assets of the Group.

The carrying amounts of ARF2's assets pledged as security are:

	30 June 2021 $'000	30 June 2020 $'000
Financial assets pledged		
Cash and cash equivalents	**1,248**	2,569
Trade and other receivables	**213**	888
	1,461	3,457

	30 June 2021 $'000	30 June 2020 $'000
Other assets pledged		
Investment properties	**153,264**	136,631
	153,264	136,631

(c) Covenants

The covenants over the bank borrowings are assessed on a Group basis and require an interest cover ratio of greater than 2.0 times (actual at 30 June 2021 of 8.9 times) and a loan to market value of investment properties ratio of less than 50% (actual at 30 June 2021 of 21.6%). The Trust and the Group were in compliance with their covenants throughout the year and as at 30 June 2021.

(d) Accounting policy - Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Transaction costs are amortised over the period of the facility to which it relates.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

10 Derivative financial instruments

	30 June 2021 $'000	30 June 2020 $'000
Non-current liabilities		
Interest rate swaps	**1,301**	1,918
	1,301	1,918

(a) Interest rate swap contracts

The Trust has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates to protect interest bearing liabilities from exposure to changes in interest rates.

Swaps currently in place cover 44% (2020: 41%) of the facility principal outstanding. The weighted average fixed interest swap rate at 30 June 2021 was 2.58% (2020: 2.58%).

Periodic swap settlements match the period for which interest is payable on the underlying debt, and are settled on a net basis.

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	30 June 2021 $'000	30 June 2020 $'000
Interest rate swaps		
Less than 1 year	**-**	-
1 - 2 years	**-**	-
2 - 3 years	**-**	-
3 - 4 years	**-**	-
4 - 5 years	**-**	-
Greater than 5 years	**15,000**	15,000
	15,000	15,000

(b) Accounting policy - derivative financial instruments

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 the end of each reporting period. The Trust does not designate any derivatives as hedges in a hedging relationship and therefore changes in the fair value of any derivative instrument are recognised immediately in the statement of comprehensive income.

(c) Key estimate - Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives or unquoted securities) is determined using valuation techniques.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

11 Contributed equity

(a) Units

	30 June 2021 Units '000	30 June 2020 Units '000	**30 June 2021 $'000**	30 June 2020 $'000
Ordinary Units				
Fully paid	**343,644**	327,278	**57,865**	56,378

(b) Movements in ordinary units

Date	**Details**	**Number of units '000**	**$'000**
1 July 2019	Opening balance	291,325	42,026
1 July 2019	Issue of securities under the Security Purchase Plan (iv)	6,211	2,188
	Issue of securities under the DRP (i)	2,743	1,001
	Vesting of equity-based remuneration (ii)	683	-
5 June 2020	Issue of securities under the Institutional Placement (iii)	26,316	7,843
30 June 2020	Issue of securities under the Security Purchase Plan (iv)	-	3,320
30 June 2020	Closing balance	327,278	56,378
1 July 2020	Opening balance	**327,278**	**56,378**
1 July 2020	Issue of securities under the Security Purchase Plan (iv)	**11,270**	**-**
	Issue of securities under the DRP (i)	**4,449**	**1,487**
	Vesting of equity-based remuneration (ii)	**647**	**-**
30 June 2021	Closing balance	**343,644**	**57,865**

(i) Distribution Re-investment Plan (DRP)

The Group has a Distribution Reinvestment Plan (DRP) under which securityholders may elect to have all or part of their distribution entitlements satisfied by the issue of new securities rather than being paid in cash.

(ii) Equity-based remuneration

In September 2020, 474,217 performance rights granted to employees of a related party of the Responsible Entity in FY18 vested as a result of performance conditions being fulfilled. In addition,173,265 deferred short-term incentive rights granted to employees of a related party of the Responsible Entity in FY19 vested. The value associated with these securities has been allocated to Arena REIT Limited.

(iii) Institutional Placement

The Group completed a fully underwritten placement to institutional and professional investors in June 2022 which raised $60 million through the issue of 26,315,790 stapled securities at a price of $2.28 per stapled security. $7.84 million of the net proceeds were allocated to Arena REIT No. 2. Settlement of the new stapled securities under the placement occurred on 5 June 2020.

(iv) Security Purchase Plan (SPP)

In conjunction with the Institutional Placement in June 2020, the Group offered a Security Purchase Plan (SPP) to eligible investors. $24.92 million was raised through the issue of 11,269,908 stapled securities at a price of $2.2115 per stapled security. $3.32 million of the net proceeds were allocated to Arena REIT No.2. New stapled securities under the SPP were issued on 1 July 2020.

12 Retained profits

	30 June 2021 $'000	30 June 2020 $'000
Movements in retained profits were as follows:		
Opening retained profits	**41,791**	39,675
Net profit for the year	**23,222**	7,819
Distribution paid or payable	**(6,588)**	(5,703)
Closing retained profits	**58,425**	41,791

(i) Distributions paid or payable to unitholders

	30 June 2021 $'000	30 June 2020 $'000
September quarter	**1,607**	1,390
December quarter	**1,656**	1,394
March quarter	**1,661**	-
June quarter	**1,664**	2,919
Total distributions to unitholders	**6,588**	5,703

The above should be read in conjunction with the Arena REIT Group Annual Report which sets out the full distribution declared to stapled securityholders.

13 Cashflow information

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

	30 June 2021 $'000	30 June 2020 $'000
Profit for the year	**23,222**	7,819
Amortisation of borrowing costs	**49**	43
Net change in receivables and other assets	**-**	14
Net change in fair value of investment properties	**(14,984)**	(1,733)
Straight lining adjustment on rental income	**(609)**	(521)
Net loss/(gain) on derivative financial instruments	**(617)**	605
Changes in operating assets and liabilities		
(Increase)/decrease in receivables/prepayments	**640**	(810)
Increase/(decrease) in sundry creditors and accruals	**141**	(123)
Increase/(decrease) in unearned income	**(36)**	44
Net cash inflow from operating activities	**7,806**	5,338

13 Cashflow information (continued)

(b) Net debt reconciliation

This section sets out an analysis of the net debt movements for the financial year:

	Cash and cash equivalents	Interest bearing liabilities	Derivative financial instruments	Total
	$'000	$'000	$'000	$'000
Net debt as at 1 July 2019	379	(38,597)	(1,313)	(39,531)
Cash flows	2,190	(1,655)	-	535
Group debt settlement of equity raising (non-cash)	-	14,352	-	14,352
Group debt settlement of investment property acquisitions	-	(10,556)	-	(10,556)
Other non-cash movements	-	(43)	(605)	(648)
Net debt as at 30 June 2020	**2,569**	**(36,499)**	**(1,918)**	**(35,848)**

	Cash and cash equivalents	Interest bearing liabilities	Derivative financial instruments	Total
	$'000	$'000	$'000	$'000
Net debt as at 1 July 2020	2,569	(36,499)	(1,918)	(35,848)
Cash flows	(1,321)	-	-	(1,321)
Group debt settlement of equity raising (non-cash)	-	1,487	-	1,487
Group debt settlement of investment property acquisitions	-	-	-	-
Other non-cash movements	-	732	617	1,350
Net debt as at 30 June 2021	**1,248**	**(34,280)**	**(1,301)**	**(34,332)**

Risk

This section of the notes discusses the Trust's exposure to various risks and shows how these could affect the Trust's financial position and performance.

14 Financial risk management and fair value measurement

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

(a) Market risk

Market risk embodies the potential for both loss and gains and includes interest rate risk and price risk. The Trust's strategy on the management of investment risk is driven by the Trust's investment objective. The Trust's market risk is managed as required by the Responsible Entity in accordance with the Trusts' Constitution investment guidelines.

(i) Cash flow and fair value interest rate risk

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

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

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

	30 June 2021 $'000	30 June 2020 $'000
Instruments with fair value risk:		
Derivative financial instruments (notional principal)	**15,000**	15,000

Sensitivity of profit or loss to movements in market interest rates for financial instruments with fair value risk:

Market interest rate increased by 100 basis points (2020: 100 bp)	**794**	931
Market interest rate decreased by 100 basis points (2020: 100 bp)	**(794)**	(931)

14 Financial risk management and fair value measurement (continued)

(a) Market risk (continued)

(i) Cash flow and fair value interest rate risk (continued)

	30 June 2021 $'000	30 June 2020 $'000
Instruments with cash flow risk:		
Cash and cash equivalents	**1,248**	2,569
Variable rate borrowings net of fixed rate interest rate swaps	**(19,423)**	(21,692)
	(18,175)	(19,123)

Sensitivity of profit or loss to movements in market interest rates for derivative instruments with cash flow risk:		
Market interest rate changed by +/-100 basis points (2020: 100 bp)	**+/- 182**	+/- 191

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

(b) Credit risk

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

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

	30 June 2021 $'000	30 June 2020 $'000
Cash at bank	**1,248**	2,569
Trade and other receivables	**156**	801
Maximum exposure to credit risk	**1,404**	3,370

The Trust manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. Financial assets such as cash at bank and interest rate swaps are held with high credit quality financial institutions (rated equivalent A or higher by the major rating agencies). Tenants for each of the properties held by the Trust are assessed for creditworthiness before commencing a lease, and if necessary rental guarantees are sought before tenancy is approved. Third party credit risk is secured against corporate, personal and bank guarantees where possible.

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

14 Financial risk management and fair value measurement (continued)

(b) Credit risk (continued)

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

(c) Liquidity risk

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

The Trust monitors its exposure to liquidity risk by ensuring that as required there is sufficient cash on hand or debt facility funding available to meet the contractual obligations of financial liabilities as they fall due. The Responsible Entity sets budgets to monitor cash flows.

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

30 June 2021

	Less than 12 months $'000	**1-2 years $'000**	**Greater than 2 years $'000**
Trade and other payables	**2,854**	**-**	**-**
Interest rate swaps	**386**	**386**	**1,720**
Interest bearing liabilities	**512**	**19,102**	**16,049**
Contractual cash flows	**3,752**	**19,488**	**17,769**

30 June 2020

	Less than 12 months $'000	1-2 years $'000	Greater than 2 years $'000
Trade and other payables	3,502	-	-
Interest rate swaps	373	373	1,665
Interest bearing liabilities	841	841	37,775
Contractual cash flows	4,716	1,214	39,440

(d) Fair value estimation

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

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

14 Financial risk management and fair value measurement (continued)

(e) Fair value hierarchy

(i) Classification of financial assets and financial liabilities

AASB 13 requires disclosure of fair value measurements by level of fair value hierarchy. The fair value hierarchy has the following levels:

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

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

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

The tables below set out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2021 and 30 June 2020.

30 June 2021

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	**-**	**1,301**	**-**	**1,301**
Total	**-**	**1,301**	**-**	**1,301**

30 June 2020

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities				
Financial liabilities held for trading:				
Equity securities sold short	-	1,918	-	1,918
Total	-	1,918	-	1,918

14 Financial risk management and fair value measurement (continued)

(e) Fair value hierarchy (continued)

(i) Classification of financial assets and financial liabilities (continued)

The Trust's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting year. There were no transfers between levels during the year.

The Trust did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2021.

(ii) Valuation techniques used to derive level 2 and level 3 values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, taking into account any material credit risk.

15 Capital management

The capital of the Trust is managed as part of the Arena REIT Stapled Group ('Group').

The objectives of the Group are to generate attractive and predictable income distributions to investors with earnings growth prospects over the medium to long term.

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

In order to maintain its capital structure, the Group may adjust the amount of distributions paid to securityholders, return capital to securityholders, issue new securities or sell assets to reduce debt.

15 Capital management (continued)

The Group monitors capital through the analysis of a number of financial ratios, including the Gearing ratio.

Stapled Group Gearing Ratio	**30 June 2021 $'000**	30 June 2020 $'000
Net interest bearing liabilities	**225,982**	138,670
Total assets less cash	**1,137,493**	936,250
Gearing ratio	**19.9%**	14.8%

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not satisfy the recognition criteria.

16 Contingent assets and liabilities

There are no material outstanding contingent assets or liabilities as at 30 June 2021 and 30 June 2020. For details of commitments of the Trust as at 30 June 2021, refer to note 7.

17 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Trust disclosed in the balance sheet as at 30 June 2021 or on the results and cash flows of the Trust for the year ended on that date.

Further details

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

18 Related party disclosures

Key management personnel

Disclosures relating to key management personnel are set out in the Directors' Report.

Responsible entity

The Responsible Entity of Arena REIT No. 2 is Arena REIT Management Limited, a wholly owned subsidiary of Arena REIT Limited.

The Responsible Entity or its related parties are entitled to receive fees in accordance with the Trust's constitution, from the Trust and its controlled entities.

18 Related party disclosures (continued)

	30 June 2021 $	30 June 2020 $
Fees for the year paid/payable by the Trust:		
Management fees paid or payable by the Trust to the Responsible Entity	**324,363**	305,569
Property management fees paid or payable to other related parties	**202,691**	192,270
Amounts payable at year-end:		
Payables to related parties	**578,814**	32,490

19 Remuneration of auditors

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

	30 June 2021 $	30 June 2020 $
PricewaterhouseCoopers Australian firm		
Audit and other assurance services		
Audit and review of financial statements	**32,300**	26,008
Audit of compliance plan	**7,600**	7,210
Total remuneration for audit and other assurance services	**39,900**	33,218

20 Summary of other significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Revenue

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

When the Trust provides lease incentives to tenants, the cost of the incentives are recognised over the lease term, on a straight-line basis, as a reduction in rental income.

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

Interest income is recognised in the statement of comprehensive income on a time-proportionate basis using the effective interest rate method.

Distribution income is recognised when the right to receive a distribution has been established.

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

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

(b) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(c) Income tax

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

(d) Distributions

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

(e) Impairment of assets

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

20 Summary of other significant accounting policies (continued)

(f) Financial instruments

(i) Classification

The Trust's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

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

- Financial instruments designated at fair value through profit or loss upon initial recognition

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

(ii) Recognition/derecognition

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

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

(iii) Measurement

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

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

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within ‘net gain/(loss) on change in fair value’ of the financial instrument in the period in which they arise.

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

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

Further detail on how the fair values of financial instruments are determined is disclosed in note 14(d).

Loans and receivables

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

20 Summary of other significant accounting policies (continued)

(f) Financial instruments (continued)

(iii) Measurement (continued)

Loans and receivables (continued)

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

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

Further detail on receivables' accounting policy is disclosed in note 6(c).

(iv) Offsetting financial instruments

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

(g) Provisions

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

(h) Goods and Services Tax (GST)

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

Receivables and payables in the balance sheet are shown inclusive of GST.

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

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

(i) Rounding of amounts

The Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 12 to 41 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the Trust's financial position as at 30 June 2021 and of its performance for the financial year ended on that date, and

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

(c) Note 1(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the managing director and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

David Ross
Chair

Melbourne
11 August 2021

Independent auditor's report

To the unitholders of Arena REIT No. 2

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Arena REIT No. 2 (the Trust) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Trust's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the Directors' declaration.

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

Independence

We are independent of the Trust in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

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2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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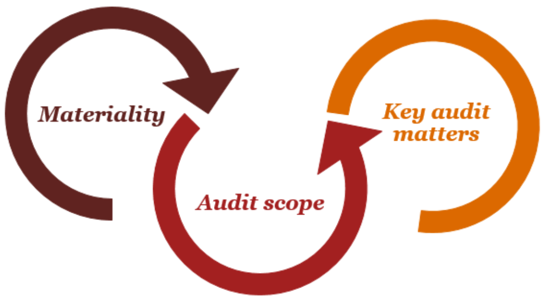
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Trust, its accounting processes and controls and the industry in which it operates.



Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit we used overall materiality of $0.4 million which represents approximately 5% of the Trust's profit before tax adjusted for fair value movements in investment properties and derivatives and straight-lining adjustment of rent. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose profit before tax adjusted for fair value movements in investment	• Our audit focused on where the Trust made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• Amongst other relevant topics, we communicated the following key audit matter to the Audit and Risk Committee: - Fair value of investment properties • These are further described in the *Key audit matters* section of our report.

properties and derivatives and straight-lining adjustment of rent because, in our view, it is the metric against which the performance of the Trust is commonly measured on and an accepted benchmark.

- We utilised a 5% threshold based on our professional judgement, noting that it is within the range of commonly acceptable thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Fair value of investment properties *(Refer to note 7) [$153.3m]* The Trust's portfolio of investment properties was recognised as an asset in the financial report at $153.3m as at 30 June 2021 with a revaluation of $15.0m. The portfolio comprised of 11 healthcare properties in Australia. As at 30 June 2021, the Trust obtained independent external valuations for their operating portfolio of four healthcare centres. Director valuations were performed on investment properties which were not independently valued. Investment properties are recognised at fair value, with changes in the fair values recognised in profit and loss. The estimation of fair value for investment properties was a key audit matter because of the:	For investment properties that had external valuations obtained, we performed the following procedures, amongst others: • assessed the scope, competence, capability and objectivity of the external valuer engaged by the Trust. • considered the external valuer's terms of engagement and assessed for caveats or limitations that may have influenced the outcomes. • together with PwC's real estate valuation specialist, we held discussions with the external valuation experts to develop an understanding of the approach and underlying assumptions adopted and how they have considered the impacts of COVID – 19. • together with input from PwC real estate valuation specialist and on a sample basis, we assessed the appropriateness of the valuation approach and reasonableness of significant assumptions used in the valuations by reference to available market evidence, where relevant.

Key audit matter	*How our audit addressed the key audit matter*
• financial significance of the investment property balance. • level of judgement required by the Trust in estimating the underlying assumptions used in the valuation models (the models). • sensitivity of fair value to any changes in key inputs and assumptions used in the models, including capitalisation and discount rates. • potential impact to profit as a result of the revaluation of investment properties.	• for a sample of the investment properties, we checked the data (e.g. rent, lease terms and property information) provided to the external valuer to the underlying lease agreements and available market information. • agreed the fair value determined by the external valuer to the Trust's accounting records. For investment properties which were internally valued by the directors, we performed the following procedures, amongst others: • met with the head of property and directors to discuss the valuation approach, data and significant assumptions used in the valuation. • assessed the competence and capabilities of the internal valuation experts. • for a sample of the investment properties, we checked the data (e.g. rent, lease terms and property information) used by the directors to the underlying leases and available market information. • compared approach, data and significant assumptions in the valuation performed by external valuations for similar properties to look for unusual trends or anomalies in the valuation outcomes. • agreed the fair value determined by the directors to the Trust's accounting records. In addition, we have performed the following procedures, amongst others: • assessed the Trust's approach to the valuation of investment properties, including consideration of the impacts of COVID – 19 on the valuation process. • through inquiry of management and observation of the valuation process, developed an understanding and evaluated the Trust's control activities for the valuation of investment properties. • assessed the reasonableness of the Trust's disclosures in the financial report in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021, 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 that we 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 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 ability of the Trust 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 Trust or to cease operations, or have 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 8 to 9 of the directors' report for the year ended 30 June 2021.

In our opinion, the remuneration report of Arena REIT No. 2 for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Charles Christie
Partner

Melbourne
11 August 2021

Corporate directory

Responsible Entity and principal place of business	**Arena REIT Management Limited** ACN 600 069 761; AFSL 465754 Level 32, 8 Exhibition Street Melbourne Vic 3000 Telephone: +61 3 9093 9000 Email: info@arena.com.au Website: www.arena.com.au
Directors of the Responsible Entity	David Ross (Independent, Non-Executive Chair) Rosemary Hartnett (Independent, Non-Executive Director) Simon Parsons (Independent, Non-Executive Director) Dennis Wildenburg (Independent, Non-Executive Director) Rob de Vos (Managing Director) Gareth Winter (Executive Director)
Company Secretary	Gareth Winter
Auditor	**PricewaterhouseCoopers** 2 Riverside Quay Southbank VIC 3006
Registry	**Boardroom Pty Limited** Level 12 225 George Street Sydney NSW 2000 Telephone: 1300 737 760
Stock exchange listings	Arena REIT stapled securities are listed on the Australian Securities Exchange (ASX).