ZANK INCOME FUND

ARSN 637 888 307

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2023

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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2023

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RESPONSIBLE ENTITY REPORT
FOR THE YEAR ENDED 30 JUNE 2023

The Directors of the Responsible Entity, Vasco Responsible Entity Services Limited present their report on the Zank Income Fund ('the Fund') for the year ended 30 June 2023. In order to comply with the provisions of the *Corporations Act 2001* the Directors report is as follows:

1. Directors of Vasco Responsible Entity Services Ltd:

The names of Directors of the Responsible Entity in office at any time from 1 July 2022 to 30 June 2023:

Craig Mathew Dunstan

Jonathan William Martin

Reginald Bancroft

2. Principal Activities

The principal activities of the Fund are to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Fund was established on 31 May 2016 and issued the first units on the commencement date of 5 July 2016.

3. Operating Results

The total comprehensive profit/(loss) attributable to unitholders after distributions of the Fund for the financial year ending 30 June 2023 was a loss of ($1,068,846) (2022: loss ($2,497)).

4. Review of Operations

During the financial year, 6,244,686 (2022: 24,501,940) units have been issued, including 149,686 (2022: 182,281) units as a result of reinvestment of distributions, and 14,177,975 (2022: 21,037,928) units have been redeemed.

As at 30 June 2023, the total value of loans to borrowers was $44,264,894 (2022: $71,266,589). Interest on the loans is generally paid in advance. As a result of some interest being paid later than scheduled, the interest has been accrued and capitalised.

In the Financial Year 2021, the Zank Select Investment Fund was established. The trustee of the Zank Select Investment Fund is a related party of Zank and Company Pty Ltd ('the Investment Manager'). It is anticipated that from time to time the Zank Income Fund may enter into Loan Sub Participation Agreements with the Zank Select Investment Fund. As at 30 June 2023 the Zank Income Fund has entered into Loan Sub Participation Agreements with loans to six borrowers.

The Fund has entered into a 'Deed of Indemnity' with the Investment Manager, for the Investment Manager to indemnify the Fund to satisfy the commitments it has undertaken pursuant to the Investment Managers' Investment Strategy.

One of the loans (Ian St) held by the Fund defaulted on its repayment obligations. The loan was partly repaid by sale of the property through mortgagee in possession. The valuation report stated that the property had a fair value of $3,275,000 less than the principal amount. In order to guarantee recovery of the capital loss, the Investment Manager has provided a Corporate Guarantee and Indemnity to the Fund. The Investment Manager has also agreed to forgo 30% of future management fees and 100% of future performance fees until the principal has been recovered. The property was auctioned and sold in July 2022 and was settled in November 2022. The Fund recovered $1,789,989 from the borrower. $1,600,000 was used to recover the loan and $189,989 was applied against the guarantee account. As at 30 June 2023, the Investment Manager has reimbursed $856,585 to the Guarantee account to recover the capital loss.

4. Review of Operations (continued)

RC1 Pty Ltd has two loans and both were placed into default on 31 May 2022. The loans in question are disclosed in both notes 8 (c) and 11(b) of the financial statements. Specifically, the first loan is labelled Capel Sound (carrying value after sub participation of $2,090,921, or pre sub participation of $8,363,685).

The second loan is labelled Prahan, and the carrying value is $432,646. There is no sub participation on this loan.

For transparency and clarity, the property subject to the Prahan loan was sold prior to 30 June 2023 and settled just post year end with no further impairment.

The Responsible Entity appointed Pitcher Partners to act as receivers and managers on 7 November 2022. Innis Cull and Timothy Bradd act as receivers and managers of the Collateral and the Grantor will be entitled to all the powers conferred on receivers and managers by the General Security Agreement and by law. In addition, Cor Cordis were engaged as liquidators of RC1 Pty Ltd on 2 March 2023. The receivers will take control of the assets and seek to recover the debt owed to the lender. There are expected to be losses resulting from the sales process, meaning the full carrying value of the loan may not be recovered. The Responsible Entity has nevertheless sought to engage in the most advantageous sales process available to achieve recovery of at least the current carrying value of the loan, and considers that the preparation of the underlying property and improvements with vacant possession will achieve the desired outcome. The sale process is ongoing as at the date of adoption of the financial statements. Existing and possible additional losses impact the unit price of the Fund and where there is uncertainty of the likely sale value it also impacts the Responsible Entity's ability to calculate a unit price with accuracy and confidence.

A Facility of $7.5million was advanced to Prospect St Pty Ltd in its own right and as trustee for The Prospect St Unit Trust on 7 September 2021. This loan was put into default on 1 September 2022. On the Instruction from the Investment Manager the Responsible Entity appointed Pitcher Partners to act as receivers and managers on 5 January 2023. Innis Cull and Timothy Bradd have acted as receivers and managers of the Collateral and the Grantor and have all the powers conferred on receivers and managers by the General Security Agreement and by law. The receivers have control of the assets and are seeking to recover the debt owed to the lender. The Receivers engaged Stonebridge as the sale agent to sell the property. The property was settled on 23 June 2023. The Fund recovered $6,672,506 from the borrower. The loan value has been impaired by $814,581.

A total facility of $1,540,000 was made available to Twenty-Two Beach Side Accommodation Pty Ltd on 5 January 2022. This Loan was put into default on 1 April 2022. The secured property has been sold and the contracts are conditional upon providing a certificate of occupancy and registration of the plan of subdivision with the settlement within 14 days after the plan is registered. Pitcher Partners proposed that the most appropriate course of action for the investment manager is to arrange for the completion of the building works through an appointment as an agent for the mortgagee in possession.

A total facility of $600,000 was made available to Playford City Hotel Pty Ltd on 13 January 2021, with a default notice being issued on 8 April 2022. This default loan is currently being actively managed by the fund lawyers, Watson Wallace. The valuation report stated that the property had a fair value of $500,000. The loan value has been impaired by $100,000.

The Fund obtained valuations on all the properties and underlying security supporting the loans. Where the value of the security is insufficient to recover the loan, an impairment is recorded. As at the end of the financial year, an impairment of $2,365,000 has been recorded.

On 19 December 2022, the Responsible Entity decided to temporarily suspend redemption and applications to the Fund until such a time as the veracity of the carrying value of the portfolio can be determined.

5. Review of Performance

The Fund is currently reviewing its distribution policy. Given that profit has been impacted by a number of impairments, the Fund has indicated that it will not be in a position to meet the 7.5% target distribution in this financial year.

6. Unit Redemption Prices

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

	2023 **$**	**2022** **$**
At 30 June	N/A	1.00
High during year	N/A	1.00
Low during year	N/A	1.00

7. Distributions Paid or Recommended

In accordance with the Product Disclosure Statement of the Fund dated distributions, if any, are payable on a quarterly basis within 10 business days after the end of each quarter.

It is expected that the distributions paid for the financial year will be of a blended nature, whereby there will be a component of both capital and revenue.

The following distributions were paid or payable for the period to 30 June 2023:

Period	Distributions Paid / Payable
1 Jul – 30 Sep 2022	0.00020547945 per unit per day
1 Oct – 31 Dec 2022	0.00020547945 per unit per day
1 Jan – 31 Mar 2023	N/A
1 Apr – 30 Jun 2023	N/A

The total distributions declared for the financial year were $2,002,592 (2022: $4,211,553).

8. Applications Held

As at 30 June 2023, the value of pending applications was nil (2022: $300,000).

9. Redemption Arrangements

As detailed in the Fund’s Constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders.

10. Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report. The Directors and executives of the Responsible Entity hold no options over interests in the Fund.

11. Value of Scheme Assets

The gross asset value of the Fund at the end of the financial year was $62,935,351 (2022: $82,026,468). The net asset value at the end of the financial year was $46,804,649 (2022: $55,806,541).

12. Significant Changes in State of Affairs

Apart from those matters referred to in the previous sections of this Report, there have been no other significant changes to the state of affairs of the Fund during the financial year.

13. After Balance Date Events

No other matters or circumstances have arisen since the end of the financial year which have 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 future financial years other than as disclosed in this report.

14. Future Developments

There are no future developments to report on which are not otherwise disclosed in this report.

15. Indemnifying Officers or Auditor

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as officers of the Responsible Entity 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 willful breach of duty in relation to the Responsible Entity.

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

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

16. Fees, Commissions or Other Charges by the Trustee, Responsible Entity, Investment Manager or Related Parties

Investment management fees of $270,742 (2022: $324,472) plus GST) were paid by the Fund to the Investment Manager for the period.

Performance fees on default interest will be accrued by the Fund during the year and is payable to the Investment Manager for the period if the accrued default interest is received. No Performance fees were paid by the Fund to the Investment Manager (2022: $0).

Fees of $61,930 (2022: $56,482) (plus GST) were accrued and paid by the Fund to the Administration Manager.

Fees of $213,708 (2022: $226,446) (plus GST) were accrued and paid by the Fund to the Responsible Entity.

The Investment Manager also receives establishment fees and line fees in respect of each loan, which are negotiated with and paid directly by the borrower.

17. Units held by the Responsible Entity, Investment Manager or Related Parties

As at 30 June 2023, neither the Responsible Entity nor Investment Manager and their related parties held units in the Fund.

18. Interests in the Fund

The movement of units on issue in the Fund during the year is set out in Note 15 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the Statement of Financial Position and derived using the basis set out in Note 1 to the financial statements.

19. Environmental Issues

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

20. Lead auditor's declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on the page 9 and forms part of the Responsible Entity's report for the year ended 30 June 2023.

Signed in accordance with a resolution of the Board of Directors of Vasco Responsible Entity Services Limited by:

Craig Dunstan

Craig Dunstan

Director

Date: 26 September 2023

Auditor's Independence Declaration to the Directors of the Responsible Entity

In accordance with section 307C of the *Corporations Act 2001* (the Act), in relation to our audit of the financial report of Zank Income Fund for the financial year ended 30 June 2023, to the best of my knowledge and belief, there have been:

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

(b) no contraventions of any applicable code of professional conduct.

PKF

Steven Bradby
Partner

Melbourne, 26 September 2023

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STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023	2022
		$	$
Revenue and other income			
Bank interest	2 (a)	147,572	504
Loan interest income	2 (b)	5,798,221	6,215,247
Loan default interest income	2 (c)	(1,405,619)	1,042,699
Total revenue and other income		**4,540,174**	**7,258,450**
Expenses			
Investment manager fees	3	270,742	324,472
Responsible entity fees	4	213,708	226,446
Administration fees	4	61,930	56,482
Custodian fees	5	27,557	25,962
Audit fees	6	43,100	30,000
Sub-participation interest expense	7	1,221,879	1,601,961
Other expenses	8 (a)	383,707	70,237
Performance fee, based on default interest	2 (d)	(1,405,619)	1,042,699
Reimbursement from Investment Manager	8 (b)	(95,030)	(328,865)
Asset impairments	8 (c)	2,884,454	-
Total expenses		**3,606,428**	**3,049,394**
Operating profit attributed to unitholders		**933,746**	**4,209,056**
Distribution expense		2,002,592	4,211,553
Total comprehensive (loss) for the year attributable to unitholders net of distributions		**(1,068,846)**	**(2,497)**

ZANK INCOME FUND
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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	2023 $	2022 $
Current assets			
Cash and cash equivalents	9	11,961,931	7,345,940
Investment asset	11 (b)	33,869,893	62,242,570
Accrued loan interest income	11 (c)	968,044	184,558
Sundry debtor	11 (d)	3,207,109	-
Reduced input tax credit	17	33,500	29,437
Reimbursement from Investment Manager	18	-	227,656
Total current assets		**50,040,477**	**70,030,161**
Non-current assets			
Investment assets	11 (b)	10,395,000	9,024,019
Investment Manager guarantee	10	2,442,301	2,939,115
Prepaid establishment costs	12	57,573	33,173
Total non-current assets		**12,894,874**	**11,996,307**
Total assets		**62,935,351**	**82,026,468**
Liabilities			
Prepaid interest	11 (a)	124,016	626,743
Sub-participation interest expense payable		179,216	127,864
Fees payable	13	1,860,327	2,014,263
Other expenses payable	14	37,178	12,878
Distributions payable	15 (b)	-	1,038,179
Sub-Participation loan	19 (a)	8,929,965	14,300,000
Total current liabilities		**11,130,702**	**18,119,927**
Non-current liabilities			
Sub-participation loan	19 (b)	5,000,000	8,100,000
Total non-current liabilities		**5,000,000**	**8,100,000**
Total liabilities		**16,130,702**	**26,219,927**
Net assets		**46,804,649**	**55,806,541**
Represented by:			
Issued units	15 (a)	47,873,495	55,809,038
Undistributed profit/(loss) attributable to unitholders	15 (b)	(1,068,846)	(2,497)
Net assets attributable to unitholders		**46,804,649**	**55,806,541**

ZANK INCOME FUND
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	Issued Capital $	Total $
Balance at 1 July 2022		**55,806,541**	**55,806,541**
Issue of share capital		(7,935,542)	(7,935,542)
Undistributed profit/(loss) attributable to unitholders	15 (b)	(1,068,846)	(1,068,846)
Adjustment on retained earnings		2,496	2,496
Balance at 30 June 2023		**46,804,649**	**46,804,649**

	Notes	Issued Capital $	Total $
Balance at 1 July 2021		**52,345,026**	**52,345,026**
Issue of share capital		3,464,012	3,464,012
Undistributed profit/(loss) attributable to unitholders	15 (b)	(2,497)	(2,497)
Balance at 30 June 2022		**55,806,541**	**55,806,541**

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 $	2022 $
Cash flows from operating activities			
Bank interest	2 (a)	147,572	504
Loan interest		4,512,009	6,180,568
Fees paid		(1,962,363)	(955,372)
Tax paid		(41,417)	(39,065)
Other expenses		(408)	(945)
Net cash provided by operating activities	16	**2,655,393**	**5,185,690**
Cash flows from investing activities			
Proceeds from (payment for) the purchase of investment assets		20,910,132	(17,221,524)
Net receipts from Ian Street guarantee		496,814	335,886
Net cash provided by/(used in) investing activities		**21,406,946**	**(16,885,638)**
Cash flows from financing activities			
Proceeds from issue of units		2,842,433	18,901,940
Payment for the redemption of units		(10,777,975)	(15,437,928)
Distributions paid		(3,040,771)	(4,177,757)
Proceeds from (repayment for) Sub-participation loans		(8,470,035)	12,200,000
Net cash (used in)/provided by financing activities		**(19,446,348)**	**11,486 ,255**
Net increase/(decrease) in cash and cash equivalents		4,615,991	(213,693)
Cash and cash equivalents at the beginning of year		7,345,940	7,559,633
Cash and cash equivalents at the end of year	9	**11,961,931**	**7,345,940**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial report is for the Zank Income Fund ('the Fund'). The Fund is a retail registered managed investment scheme established and domiciled in Australia. The Responsible Entity of the Fund is Vasco Responsible Entity Services Limited, and Zank and Company Pty Ltd is appointed as the Investment Manager of the Fund.

Basis of Preparation

(a) Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the Fund complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

Zank Income Fund is a for-profit entity for the purpose of preparing the financial statements.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

Investment assets are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

(d) Critical judgements and significant accounting estimates

The preparation of financial statements requires the Directors of the Responsible Entity to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, which is based on any loans where the loan to value ratio is more than 70%, where the value is represented by the independent valuation of any land, property or construction secured against the loan. These assumptions include recent default experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 AASB that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

Significant accounting policies

(a) Financial instruments

Financial assets and financial liabilities are recognised on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

(i) Measurement

Under this approach, financial assets and financial liabilities are generally measured initially at amortised cost. As the financial assets meet the following criteria, they are also subsequently measured at amortised cost:

- the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Fair value in an inactive or unquoted market

The fair values of financial assets and liabilities that are not traded in an active market are determined through the valuation policy identified in the Product Disclosure Statement (PDS) for the Fund.

Impairment of financial assets

The Fund recognises a loss allowance for Diminution of Value (DOV) on its financial assets/investments and trade receivables.

The amount of DOV is updated at each reporting date to reflect changes in credit risk since initial recognition.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Measurement (continued)

RC1 Pty Ltd has two loans and both were placed into default on 31 May 2022. The loans in question are disclosed in both notes 8 (c) and 11(b) of the financial statements. Specifically, the first loan is labelled Capel Sound (carrying value after sub participation of $2,090,921, or pre sub participation of $8,363,685).

The second loan is labelled Prahan, and the carrying value is $432,646. There is no sub participation on this loan.

For transparency and clarity, the property subject to the Prahan loan was sold prior to 30 June 2023 and settled just post year end with no further impairment.

The Responsible Entity appointed Pitcher Partners to act as receivers and managers on 7 November 2022. Innis Cull and Timothy Bradd act as receivers and managers of the Collateral and the Grantor will be entitled to all the powers conferred on receivers and managers by the General Security Agreement and by law. In addition, Cor Cordis were engaged as liquidators of RC1 Pty Ltd on 2 March 2023.

The receivers will take control of the assets and seek to recover the debt owed to the lender. There are expected to be losses resulting from the sales process, meaning the full carrying value of the loan may not be recovered. The Responsible Entity has nevertheless sought to engage in the most advantageous sales process available to achieve recovery of at least the current carrying value of the loan, and considers that the preparation of the underlying property and improvements with vacant possession will achieve the desired outcome. The sale process is ongoing as at the date of adoption of the financial statements. Existing and possible additional losses impact the unit price of the Fund and where there is uncertainty of the likely sale value it also impacts the Responsible Entity's ability to calculate a unit price with accuracy and confidence.

The carrying value of the Capel Sound loan reflects an estimate of its value after taking into account the capitalised costs of preparing the property for sale., Those costs include the costs of compensating residents and leaseholders for vacating the premises and enabling an unencumbered sale to proceed.

(ii) Classification

The Fund's financial instruments are classified as follows:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

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.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Issued units

The Fund issues units which have a limited life under the Fund's Constitution and are classified as a liability in accordance with *AASB 132 Financial Instruments: Presentation*.

Where the Fund buys back any of its units from unitholders, the consideration paid, including any directly attributable incremental costs are recognised as a reduction in liability attributable to the Fund's unitholders.

(b) 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 expense. Receivables and payables in the statement of financial position are shown inclusive of GST, and accruals are shown exclusive of GST.

(c) Income tax

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

(d) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the Fund that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(e) Interest Revenue and Other Income

Loan interest and bank interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of Goods and Services Tax (GST).

(f) Trade and Other Receivables

Trade and Other Receivables include amounts due from borrowers and the Investment Manager with respect to principal loans and interest excluding those classified as financial assets / investments.

(g) Foreign Exchange

Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in Australian dollars, which is the presentation currency of the Fund.

(h) Provisions

Provisions are recognised when the Fund has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

NOTE 2: REVENUE

The Fund’s revenue is analysed under the following categories

(a) Bank interest

	2023	2022
	$	$
Commonwealth bank interest	147,572	504
	147,572	**504**

Cash on deposit is held by the Custodian (Perpetual Corporate Trust Limited) with Commonwealth Bank.

(b) Loan interest income

	2023	2022
	$	$
Airport West	919,775	55,186
Bangor	-	37,420
Officer	-	169,521
Ashwood	-	94,284
Geelong	278,537	184,953
Mount Waverley	-	51,528
Malvern East	363,186	461,372
Elizabeth	58,805	49,545
Builders club	192,500	192,500
Glenroy	-	435,265
West End	-	123,318
Eltham	449,522	470,600
Pascoe Vale	-	310
Park Ridge #4	55,956	276,000
Mayfield North	119,256	188,753
Prahran	-	67,505
Kirrawee	-	222,797
Capel Sound	-	958,748
Piper Crescent Oaks	146,728	113,561
Essendon Property	-	61,753
Prospect St	350,479	607,222
Crefly Pty Ltd (Paynes Rd)	574,151	642,867
Crefly Pty Ltd (996 Beattys)	195,435	306,915
Toenda Linlea	71,991	83,989
TwentyTwo Beach Side	-	33,850
8 Toni St	580,689	224,971

NOTE 2: REVENUE (continued)

(b) Loan interest income (continued)	**2023** **$**	**2022** **$**
Jun Holding	44,181	54,432
Hodge & Lawe Park Ridge	249,347	26,521
Prof Project	6,022	3,978
Crefly Pty Ltd (986)	330,000	15,583
24 Collion	49,183	-
Bruce Garden	99,142	-
Excelite Plastic	26,254	-
Fanryn Pty Ltd	78,051	-
Jing Ying Trading	295	-
Portland Ventures	36,623	-
Quiet Develop	119,887	-
RC1 Compensation	20,683	-
Sifang Group	34,900	-
YLA Estate	346,643	-
	5,798,221	**6,215,247**

(c) Loan default interest income

	2023	**2022**
	$	**$**
West Construction (repaid)	-	(22,493)
Boyd by the Park (repaid)	-	(26,586)
Shackel	-	(15,941)
Airport West	(1,097,528)	422,531
Elizabeth	(29,645)	29,645
Prahran	(89,137)	(2,578)
Capel Sound	(428,052)	519,767
Prospect St	(75,256)	75,256
Twenty-Two Beachside	256,279	63,098
Eltham	29,348	-
YLA Estate	28,372	-
	(1,405,619)	**1,042,699**

NOTE 2: REVENUE (continued)

(c) Loan default interest income (continued)

The negative balance of $1,405,619 reflects the reversal of default interest already recognised as revenue either in the current year or in prior years. This reversal eventuates as the Funds makes prudential decisions around the collectability of the interest. The reversed default interest is either recognised as loan interest income in the current financial year as a receivable or deemed to be non-collectable. If any non-collectable interest is paid or collected, loan interest income will be realised. All the loans in note 2 (c) are either currently in default, or have been in default at some time during the period.

Just as the $1,405,619 reversal is deemed a reversal of previously recognised revenue, the Fund also reverses the previously recognised performance fee associated with defaulted loans. The reversed revenue and performance fee are identical, and note 2 (c) shows the reversed revenue and 2 (d) shows the reversed performance fee.

Of note, there is no impact to profit or loss, as each movement in revenue is offset by an equal movement in expenses. The reductions are for transparency and clarity.

The reduction in performance fee is further evidenced by the reduction in the performance fee payable as shown in note 13 to the financial statements. The payable has reduced from $1,939,933 in 2022 to $534,314 in 2023, a reduction of $1,405,619.

(d) Performance fee, based on default interest	**2023**	**2022**
	$	**$**
West Construction (repaid)	-	(22,493)
Boyd by the Park (repaid)	-	(26,586)
Shackel	-	(15,941)
Airport West	(1,097,528)	422,531
Elizabeth	(29,645)	29,645
Prahran	(89,137)	(2,578)
Capel Sound	(428,052)	519,767
Prospect St	(75,256)	75,256
Twenty-Two Beachside	256,279	63,098
Eltham	29,348	-
YLA Estate	28,372	-
	(1,405,619)	**1,042,699**

NOTE 3: INVESTMENT MANAGER FEES AND PERFORMANCE FEES

	2023	2022
	$	**$**
Investment manager fees	270,742	324,472
	270,742	**324,472**

In accordance with the PDS of the Fund dated 24 May 2022, the Investment Manager is entitled to an investment management fee equivalent to 1.5% per annum (plus GST) of the gross value of the Fund's assets on an ongoing basis, calculated and payable monthly.

The Investment Manager may be entitled to a performance fee equivalent to all surplus funds generated by the Fund after all fees, expenses, returns of capital and distributions are paid by the Fund. The performance fee is payable to Zank and Company Pty Ltd on a quarterly basis.

The borrower of the Ian St loan defaulted on its repayment obligations in 2020. The Investment Manager initially obtained a valuation of the property prior to advancing the loan, and the valuation report stated that the property had a fair value of $3,275,000 less than the principal amount. In order to guarantee recovery of any potential capital loss, the Investment Manager has provided a Corporate Guarantee and Indemnity to the Fund. The Investment Manager has also agreed to forgo 30% of future management fees and 100% of future performance fees until the principal has been recovered.

The property was sold and the settlement occurred in November 2022. The Fund recovered $1,600,000 from the borrower. The Investment Manager will keep the Corporate Guarantee and Indemnity to the Fund until the capital loss of $3,275,000 is recovered. For the financial year, the Investment Manager has reimbursed $496,814 to the Guarantee account to recover the capital loss.

NOTE 4: RESPONSIBLE ENTITY AND ADMINISTRATION FEES

	2023	2022
	$	**$**
Responsible Entity fees	213,708	226,446
Administration fees	61,930	56,482
	275,638	**282,928**

In accordance with the PDS dated on 24 May 2022, the Responsible Entity of the Fund is entitled to an annual fee of 0.3% (plus GST) of the gross asset value of the Fund, paid monthly in arrears, subject to a minimum fee of $60,000 (2022: $60,000) (plus GST).

The Responsible Entity is also entitled to a Documentation Execution Fee of $261.25 for each set of loan documents that requires review and execution by the Responsible Entity and a Default and Arrears Management Fee of $156.75 per hour for the review and management of recovery proceedings against borrowers in default.

Vasco Fund Services Pty Limited as the Administration Manager of the Fund is entitled to an annual administration fee of $61,930 (2022: $56,482) (plus GST) for the financial year. The administration fee will increase by 5% on 1 January of each year.

NOTE 5: CUSTODIAN FEES

	2023	2022
	$	$
Custodian fees	27,557	25,962
	27,557	**25,962**

In accordance with the Custodian Agreement, Perpetual Corporate Trust Limited as the custodian is entitled to an annual fee of $25,000 (2022: $25,000) (plus GST) calculated monthly and payable quarterly in arrears, subject to a CPI increase applied quarterly.

When the Fund has a gross asset value of more than $50 million, the custodian is entitled to a fee of 0.05% of the Gross Asset Value, calculated monthly and payable quarterly in arrears.

NOTE 6: REMUNERATION OF AUDITORS

The financial and compliance auditor of the Fund for the financial year was PKF Melbourne Audit & Assurance Pty Ltd.

The fees paid or agreed to be paid by the Fund are disclosed below:

Remuneration of Auditors:	2023	2022
	$	$
Half-year audit	14,100	10,000
Audit of compliance plan and financial report	29,000	20,000
	43,100	**30,000**

NOTE 7: SUB-PARTICIPATION INTEREST EXPENSE

The Fund has engaged with the Zank Select Investment Fund, who have become sub-participants on certain loans held by the Fund. The interest expense of the Fund on those loans payable to the sub-participant is disclosed below:

NOTE 7: SUB-PARTICIPATION INTEREST EXPENSE (continued)

	2023	2022
	$	$
Officer sub-participation loan	-	85,916
Capel Sound sub-participation loan	-	683,531
Crefly Pty Ltd (Paynes Rd) sub-participation loan	310,951	112,584
Crefly Pty Ltd (996 Beattys Rd) sub-participation loan	126,417	162,280
Eltham sub-participation loan	136,483	132,329
Kirrawee sub-participation loan	-	93,973
Melton sub-participation loan	30,608	26,897
Metro holding 8 Toni Street sub-participation loan	348,082	153,041
Prospect St Pty Ltd sub-participation loan	80,903	116,818
Tourle St sub-participation loan	70,832	34,592
Malvern	101,569	-
Mayfield	10,970	-
YLA Estate	5,064	-
	1,221,879	**1,601,961**

NOTE 8: OTHER EXPENSES

(a) Fees incurred	2023	2022
	$	$
Tax return fees	2,995	2,850
Bank fees	408	945
GST expense (non-claimable)	37,354	24,753
Legal fees	16,310	4,500
Other administration expense	17,115	19,291
Establishment fees	12,811	12,811
ASIC fees	1,433	2,812
Professional fees	15,300	2,275
Valuation fees	5,000	-
Other fund expenses	2,909	-
Expense recoverable by Trustee	37,210	-
Receivership expense	206,798	-
Liquation expense	28,064	-
	383,707	**70,237**

NOTE 8: OTHER EXPENSES (continued)

(b) Reimbursement from Investment Manager	**2023**	**2022**
	$	**$**
Reimbursement from Investment Manager to support unit price (1)	95,030	328,865
	95,030	**328,865**

(c) Asset impairment

i. Capel sound loan	**2023**	**2022**
	$	**$**
Carrying value pre impairment	10,800,000	10,800,000
Less sub-participation amount	(8,100,000)	(8,100,000)
Net asset carrying amount	**2,700,000**	**2,700,000**
Increase in property value as a consequence of purchase of existing units and ensuring property has vacant possession (2)	840,921	-
Ending balance	**3,540,921**	**2,700,000**
Fair value of the Fund's share of the loan, after sub-participation (3)	(2,090,921)	(2,700,000)
Asset impairment	**1,450,000**	**-**

ii. Prahran loan	**2023**	**2022**
	$	**$**
Carrying value pre impairment of principal	1,015,000	1,015,000
Less net carrying value	(432,646)	(1,015,000)
Asset impairment	**582,354**	**-**

iii. Prospect St loan	**2023**	**2022**
	$	**$**
Carrying value pre impairment	7,500,000	7,500,000
Less sub-participation amount	(1,800,000)	(1,800,000)
Net asset carrying amount	5,700,000	5,700,000
Less net carrying value	(4,947,900)	(5,700,000)
Asset impairment	**752,100**	**-**

iii. Playford City Hotel loan	**2023**	**2022**
	$	**$**
Carrying value pre impairment of principal	600,000	600,000
Less net carrying value	(500,000)	(600,000)
Asset impairment	**100,000**	**-**

NOTE 8: OTHER EXPENSES (continued)

(c) Asset impairment (continued)

(1) This reflects the amount that the Fund was reimbursed by the Investment manager to maintain a unit price at $1.00. This practice ceased during the year.

(2) The Fund paid an amount of $3,363,684 to residents and leaseholders of the Capel Sound property. This amount reflects both an amount for the purchase of existing units that are present on the property, in addition to an ex-gratia payment to ensure that the property value can be maximised by being offered with clear possession.

(3) This amount reflects the carrying value attributable to the Fund after sub participation, impairments and payments outlined in point (2) above.

	2023	2022
	$	$
Capel sound loan	1,450,000	-
Prahran loan	582,354	-
Prospect St loan	752,100	-
Playford City Hotel loan	100,000	-
	2,884,454	**-**

NOTE 9: CASH AND CASH EQUIVALENTS

	2023	2022
	$	$
Commonwealth Bank	11,961,931	7,345,940
	11,961,931	**7,345,940**

NOTE 10: INVESTMENT MANAGER GUARANTEE

	2023	2022
	$	$
Investment Manager guarantee	2,939,115	3,275,000
Capitalised valuation fees and debt recovery costs	-	18,886
Investment manager repayment	(496,814)	(359,772)
	2,442,301	**2,939,115**

Refer to full particulars of the Investment Manager Guarantee in Note 3 to the Financial Statements.

NOTE 11: INVESTMENTS

(a) Prepaid interest

	2023	2022
	$	$
Mayfield North	-	38,466
Crefly Pty Ltd (Paynes Rd)	47,536	379,562
Crefly Pty Ltd (996 Beattys)	-	195,435
Crefly 986	-	11,917
Prospect St	-	1,363
Builder's club	1,055	-
Hodge & Lawe	17,274	-
Crefly Pty Ltd (986 Leakes Rd)	27,500	-
Sifang group	24	-
Fanryn	8,830	-
Quiet development	160	-
Jingying Trading	8,543	-
Jomanni	13,094	-
	124,016	**626,743**

(b) Investment assets

As at 30 June, the total value of loans to borrowers was $44,264,893. The interest on loans is generally paid in advance. The section below summarises the current status of the loan investments:

Current investment assets:

	2023	2022
	$	$
Loan advance – Geelong Jomanni	2,657,989	1,726,746
Loan advance – Malvern East	-	5,673,959
Loan advance – Deer Park	-	1,750,000
Loan advance – Eltham	2,092,397	4,800,000
Loan advance – Park Ridge #4	-	2,400,000
Loan advance – Mayfield North	-	1,800,000
Loan advance – Prahran	432,646	1,104,136
Loan advance – Capel Sound	8,363,685	11,228,051
Loan advance – Piper Crescent Oaks Pty Ltd	1,309,915	1,659,915
Loan advance – Prospect St Pty Ltd	-	7,575,256
Loan advance – Crefly Pty Ltd (Paynes Rd)	-	5,145,000
Loan advance – Crefly Pty Ltd (996 Beattys Rd)	-	5,100,000
Loan advance – Toenda Linlea	-	1,596,000
Loan advance – 22 Beachside Accommodation	1,794,545	1,473,507

NOTE 11: INVESTMENTS (continued)

(b) Investment assets (continued)

Current investment assets (continued):	2023 $	2022 $
Loan advance – Toni St	-	5,880,000
Loan advance – Jun Holdings	-	1,330,000
Loan advance – Prof Project	-	400,000
Loan advance – Noble Park Ian St	-	1,600,000
Loan Advance - Quiet Development	2,072,359	-
Loan Advance - Portland Ventures	375,000	-
Loan Advance - 24 Collins	930,000	-
Loan Advance - Hodge & Lawe	1,849,009	-
Loan advance – Airport West	1,285,140	-
Loan advance – Elizabeth Playford	500,000	-
Loan advance – Crefly 986	3,000,000	-
Loan Advance - YLA Estate	4,496,372	-
Loan Advance - Bruce Garden	1,700,836	-
Loan Advance - Jing Ying Trading	1,010,000	-
	33,869,893	**62,242,570**

Non-current investment asset:

	2023 $	2022 $
Loan advance – Airport West	-	3,394,374
Loan advance – Elizabeth Playford	-	629,645
Loan advance – Hodge & Lawe	-	2,000,000
Loan advance – Crefly 986	-	3,000,000
Loan Advance - Crefly Pty Ltd (Paynes Rd)	5,145,000	-
Loan Advance - Builders Club Group	1,750,000	-
Loan Advance - Sifang Group	270,000	-
Loan Advance- Fanryn	1,065,000	-
Loan Advance - Malvern East Oaks	2,165,000	-
	10,395,000	**9,024,019**

NOTE 11: INVESTMENTS (continued)

(c) Accrued interest income

	2023	2022
	$	$
Jomanni	-	17,708
Malvern East	-	44,294
Eltham	-	43,302
Piper Crescent Oaks	11,843	15,008
Toenda Linlea	-	12,856
Toni St	-	50,745
Prof Project	-	645
24 Collins Pty Ltd	2,916	-
Bruce Garden	12,827	-
Airport West	919,775	-
Capel Sound compensation interest - SPA	20,683	-
	968,044	**184,558**

(d) Sundry Debtor

	2023	2022
	$	$
Capel Sound Compensation SPA Loan	2,522,764	-
Receivables - Capel Sound SPA receivers fee	591,734	-
Receivables - Capel Sound SPA liquidators fee	92,611	-
	3,207,109	**-**

NOTE 12: PREPAID EXPENSES AND AMORTISATION

	2023	2022
	$	$
Prepaid establishment cost	138,478	64,057
Less: amortisation	(80,905)	(30,884)
	57,573	**33,173**

NOTE 13: FEES PAYABLE

	2023	2022
	$	$
Custodian fees	17,258	5,583
Investment manager fees	20,435	28,578
Responsible Entity fees	15,500	20,169
Performance fees payable on default interest	534,314	1,939,933
Fund audit fee	29,000	20,000
Receiver's fee payable	960,645	-
Capel Sound compensation	162,500	-
Liquidators fee	120,675	-
	1,860,327	**2,014,263**

Performance fees on default interest are offset to ensure that the Fund can continue to record interest revenue on loans. This performance fee accrual offsets the revenue to ensure that there are no profit / loss impacts.

NOTE 14: OTHER EXPENSES PAYABLE

	2023	2022
	$	$
Income tax	2,423	2,423
Tax return fees	2,995	2,850
Other accrued fees	31,760	7,605
	37,178	**12,878**

NOTE 15: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(a) Issued units

	2023 Units	2023 $	2022 Units	2022 $
Opening balance	55,809,038	55,809,038	52,345,026	52,345,026
Redemptions	(14,177,975)	(14,177,975)	(21,037,928)	(21,037,928)
Units issued – applications	6,095,000	6,095,000	24,319,659	24,319,659
Units issued – reinvestment of distributions	149,686	147,432	182,281	182,281
Closing balance	**47,875,749**	**47,873,495**	**55,809,038**	**55,809,038**

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. For distributions that have reinvested during the year, units have been rounded to the nearest whole unit in accordance with the Responsible Entity’s Unit Pricing Policy.

NOTE 15: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

(b) Undistributed profit/(loss) attributable to unitholders

	2023	2022
	$	$
Net operating profit attributable to unitholders	933,746	4,209,056
Distributions paid	(2,002,592)	(3,173,374)
Distributions payable	-	(1,038,179)
	(1,068,846)	**(2,497)**

Withholding taxes applicable to the distributions payable during the 2023 financial year were $nil (2022: $27,382)

Total distributions for the financial year were $2,002,592 (2022: $4,211,553).This distribution is a blended distribution, comprising both capital and revenue components. The components will be finalised and will form the basis of the tax distribution statements for unitholders. The amount paid is the actual cash disbursed.

(c) Capital management

The Fund regards total unitholders' interests as capital. The objective of the Fund is to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Investment Manager aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments, including unitholder redemptions.

The Investment Manager acknowledges that current issues around the valuation of investments, coupled with the impairment of certain assets, restricts the calculation of unit prices with the accuracy required as well as limits the distributions of the Fund.

NOTE 16: NET CASH PROVIDED BY OPERATING ACTIVITIES

Reconciliation of cash flows from operating activities with profit/ (loss) for the year

	2023	2022
	$	$
Gain for the year	933,746	4,209,056
Changes in assets and liabilities:		
(Increase) in receivables	2,340,841	(178,539)
Increase/(decrease) in payables	(619,194)	1,155,173
Cash flows from operating activities	**2,655,393**	**5,185,690**

NOTE 17: REDUCED INPUT TAX CREDIT RECEIVABLE

	2023	2022
	$	$
Reduced input tax credit	33,500	29,437
	33,500	**29,437**

NOTE 18: REIMBURSEMENT RECEIVABLE FROM INVESTMENT MANAGER

	2023	2022
	$	$
Reimbursement receivable from Investment Manager	-	227,656
	-	**227,656**

NOTE 19: SUB-PARTICIPATION LOANS

(a) Current liabilities

	2023	2022
	$	$
Crefly Pty Ltd (Paynes Rd) sub-participation loan	-	2,000,000
Crefly Pty Ltd (996 Beattys Rd) sub-participation loan	-	3,500,000
Eltham sub-participation loan	994,706	1,500,000
Metro holding 8 Toni Street sub-participation loan	-	4,200,000
Prospect St Pty Ltd sub-participation loan	1,562,495	1,800,000
Tourle St sub-participation loan	-	1,300,000
Capel Sound sub-participation loan	6,272,764	-
YLA sub-participation loan	100,000	-
	8,929,965	**14,300,000**

(b) Non-Current liabilities

	2023	2022
	$	$
Capel Sound sub-participation loan	-	8,100,000
Melton East (Crefly Paynes Rd) sub-participation loan	3,800,000	-
Malvern East Oaks sub-participation loan	1,200,000	-
	5,000,000	**8,100,000**

NOTE 20: RELATED PARTY TRANSACTIONS

The Fund's related parties include those described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

(a) Responsible Entity

Fees of $213,708 (2022: $226,446 have been paid by the Fund to Vasco Responsible Entity Services Limited for its role as Responsible Entity, of which $11,754 (2022: $6,379) is claimable as a reduced input tax credit.

(b) Administration Manager

The Administration Manager of the Zank Income Fund is Vasco Fund Services Pty Limited.

Administration fees of $61,930 (plus GST) (2022: $56,482 (plus GST)) were accrued and paid by the Fund to Vasco Fund Services Pty Limited for its role as Administration Manager of the Fund, of which $4,645 (2022: $4,236) is claimable by the Fund as a reduced input tax credit.

Vasco Fund Services Limited is a related party of the Responsible Entity.

(c) Investment Manager

The Investment Manager of the Zank Income Fund is Zank and Company Pty Ltd.

Fees of $ 270,742 (plus GST) (2022: $324,472 (plus GST)) were paid by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period, of which $20,306 (2022: $24,335) is claimable by the Fund as a reduced input tax credit.

There were no performance fees payable by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period.

The Investment Manager agreed to reimburse the Fund, totaling $95,030 (2022: $328,865).

At 30 June 2023, the Investment Manager and their related parties held no units in the Fund.

(d) Zank Select Investment Fund

Zank and Company Pty Ltd and the Fund are related parties to the Zank Select Investment Fund ("Zank Select"). Transactions between Zank Select and the Fund include the sub-participation of certain loans. Details of transactions are included in Note 7 and Note 19.

(e) Key management personnel

The Fund does not employ personnel in its own right. However, it has an incorporated the Responsible Entity, Vasco Responsible Entity Services Limited, and an Investment Manager, Zank and Company Pty Ltd, to manage the activities of the Fund. The Directors of the Responsible Entity and Investment Manager are key management personnel of those corporate entities. No compensation is paid directly by the Fund to Directors or to any of the key management personnel of the Responsible Entity or Investment Manager. Payments made by the Fund to the Responsible Entity and Investment Manager do not specifically include any amounts attributable to the compensation of key management personnel.

NOTE 21: CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the period.

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

On 12 September 2023, the four apartments supporting the loan value of 22 Beachside Accommodation were settled. The proceeds from the sale ($1,743,000) are sufficient to repay interest and around 80% of accrued interest. Given that the interest is already fully impaired, the net result should see an amount slightly in excess of $200,000 credited to profit (before costs) in the 2023 / 2024 year.

In August 2023, a marketing campaign was launched for the sale of the property at Capel Sound. The property had been prepared for sale as a land with vacant possession. The nature of the sale is one of an expression of interest and the process is still ongoing as at the date of adoption of these financial statements.

No other matters or circumstances have arisen since the end of the financial year which have 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 future financial years other than as disclosed in this report. As at the date of this report, there have been no other events subsequent to the reporting date that require additional disclosure.

NOTE 23: FINANCIAL RISK MANAGEMENT

(a) Liquidity Risk

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

The Fund holds investments in mortgage-backed loans, which are not considered to be assets that are readily realisable.

In order to address this risk, the Responsible Entity retains broad discretion to restrict distributions, withdrawals and/or redemptions.

(b) Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Fund. The Fund is exposed to this risk for various financial instruments, for example, placing money at financial institutions or interest revenue that is paid in arrears. The Fund's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2023	2022
	$	$
Cash and cash equivalents	11,961,931	7,345,940
Investment assets	44,264,894	71,266,589
	56,226,825	**78,612,529**

The Responsible Entity, through the Investment Manager manages the exposure to credit risk on an ongoing basis. The Fund's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risk

The Fund is exposed to market risk through its use of financial instruments and specifically to interest rate risk and property value risk, which results from both its operating and investing activities. Market risk is the risk that changes in market prices which will affect the Fund's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is monitored by the Responsible Entity.

(d) Interest Rate Risk

The Fund's interest rate risk is monitored by the Responsible Entity, through the Investment Manager. Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was:

	2023	2022
	$	$
Cash and cash equivalents	11,961,931	7,345,940
Investment assets	44,264,894	71,266,589
	56,226,825	**78,612,529**

An increase or decrease of 100 basis points in interest rates as at the reporting date would not have a material effect on the net assets attributable to unitholders and operating results.

(e) Property value risk

The valuation of the security property for a loan may be inaccurate or not accurately reflect its true value at the time the valuation is undertaken. If the valuation of the security property for a loan is incorrect, then the amount realised on the sale of a security property may not cover the amount lent to a borrower. Security property is valued by a valuer under instructions from the Investment Manager and in accordance with the Responsible Entity's valuation policy.

(f) Construction and development risk

Investments in the Fund may be lent to borrowers for use in property construction projects. There are specific risks associated with this type of project, including:

- construction or development costs can exceed budgeted costs and the borrower may be unable to complete the project unless the borrower can obtain further funds;
- loan funds kept in reserve by the construction manager to complete the project being insufficient to meet the cost of completion; and
- a change in market conditions could result in the project's value on completion being worth less than anticipated, or in lower sale rates and prices than expected.

NOTE 23: FINANCIAL RISK MANAGEMENT (continued)

(f) Construction and development risk (continued)

The Investment Manager may manage this risk and its elements by:

- ensuring a guaranteed maximum price building contract from reputable and established builders who have experience in the type of proposed construction to be executed between the builder and borrower;
- ensuring that the project is employing standard construction techniques and that adequate building insurance cover is in place;
- requiring minimum pre-sales or leasing commitments on the proposed development; and
- monitoring all construction loan draw-downs to ensure that there are always sufficient funds remaining to complete the project. An independent quantity surveyor or construction cost manager may be appointed prior to the commencement of the project to verify that there are sufficient funds available to complete the project and to verify the completion of each stage of construction prior to the draw-down of funds.

The Investment Manager may also require the developer to include a contingency factor on total construction costs in the debt funding required for each project.

NOTE 24: RESPONSIBLE ENTITY DETAILS

The registered office and the principal place of business of the Responsible Entity are:

Vasco Responsible Entity Services Limited

Level 4

99 William Street

Melbourne Victoria 3000

DIRECTORS' DECLARATION

In the opinion of the Directors of Vasco Responsible Entity Services Limited:

(a) The financial statements and notes of Zank Income Fund are in accordance with the *Corporations Act 2001,* including:

  (i) Complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting obligations; and

  (ii) Giving a true and fair view of its financial position as at 30 June 2023 and its performance for the financial year ended on that date;

(b) There are reasonable grounds to believe that Zank Income 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.

Craig Dunstan

Craig Dunstan

Director

19 September 2023

Independent Auditor's Report to the Members of Zank Income Fund and the Directors of the Responsible Entity

Report on the Financial Report

Auditor's opinion

We have audited the accompanying financial report of Zank Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2023, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

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

(a) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

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

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Emphasis of Matter

As detailed in Note 1 Significant Accounting Policies (a) Financial instruments (i) Measurement, impairments have currently been recognised against loans to the borrower RC1 Pty Ltd, and processes have been implemented to achieve the best possible recovery of those loans. The Responsible Entity's estimate of fair value at the reporting date has been informed by independent inputs, however the forthcoming sale of RC1 Pty Ltd's properties financed by borrowings from the Fund will be the determinant of any additional impairment or write-back. For this reason, and as otherwise reported in Note 15 Net Assets Attributable to Unitholders (c) Capital management, there has been a restriction in the Responsible Entity's calculation of unit prices with the accuracy required, as of the reporting date. Our audit report is not qualified in respect of this matter.

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

The Directors of the Responsible Entity 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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 relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Scheme 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.

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As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

PKF
Melbourne, 26 September 2023

Steven Bradby
Partner