WOTSO

ANNUAL REPORT
JUNE 2020

CONTENTS

Zetland, NSW

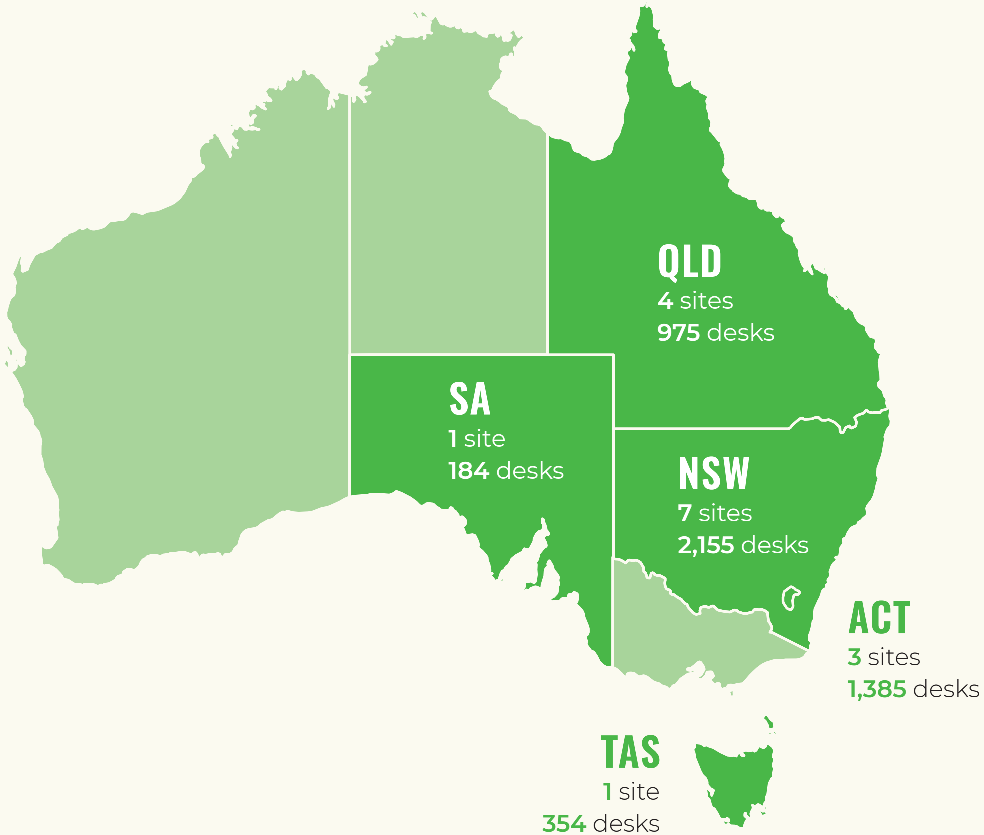
Directors' Report

So what is WOTSO?

WOTSO opened its doors in June 2014 with 2 sites and has grown to 17 sites in just over 6 years. We are a provider of flexible space solutions for all business types with no lock in contracts. The WOTSO business has been tested in diverse geographic locations and varied economic conditions and proved to be resilient. WOTSO has been able to take advantage of rapidly changing technologies to facilitate remote working and increase flexibility in the workforce.

70% of WOTSO's revenue is derived from private offices on monthly terms with the remainder being memberships in open-plan coworking environments, events, meeting rooms and other additional services. We have traditionally catered to small to medium enterprises with our network of suburban spaces being conveniently located where people live and play. The onset of the COVID-19 (COVID) pandemic has seen larger businesses look at us as a solution and alternative to working from home (WFH) for their employees.

Malaysia
1 site
172 desks



TOTAL
17 sites
5,225 desk capacity
64% occupancy

Locations and capacity (August 2020)

Review of Operations

We saw 3 new sites open in FY20. Manly and Zetland in NSW and Woden in ACT added nearly 1,000 desks of additional capacity to our portfolio. In January, we raised $3.5 million of new capital which has helped fund the new sites along with the expansion and refurbishment of some of our existing sites including Dickson, Symonston and Fortitude Valley. As a result, our annualised turnover had grown by 20% to $16 million by February 2020. COVID saw this fall, but we expect to be back to the February number by the end of the calendar year barring any further restrictions being introduced.

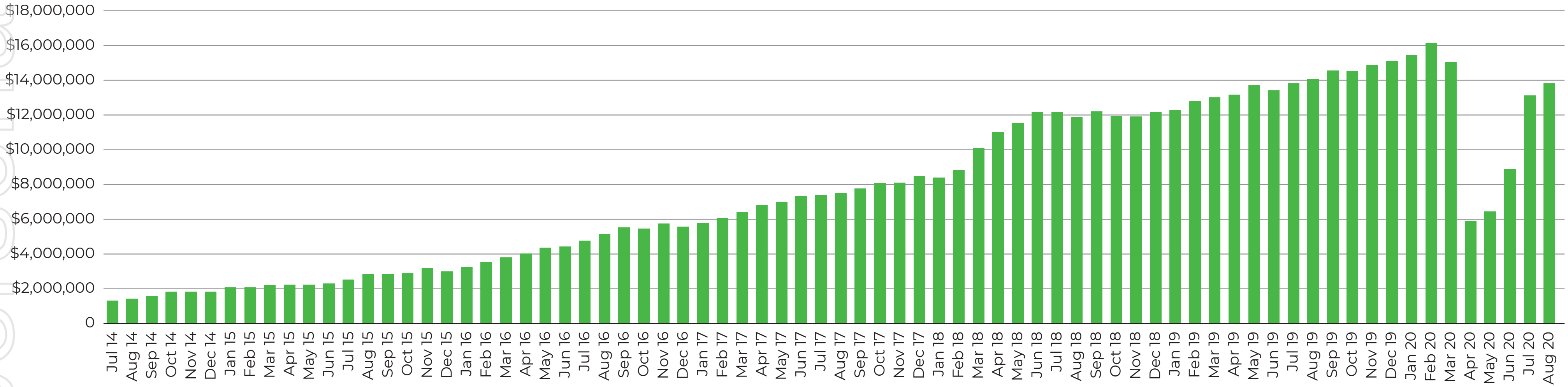
The Impact of COVID

When COVID hit Australia, WOTSO was quick to act and offered all members immediate suspensions to their membership without penalty if they no longer wished to come into their space. Our monthly terms meant our members were not burdened by lease obligations throughout this unprecedented time, allowing them to make whatever decisions were best for their business. Our members appreciated this response and whilst 65% of members took us up on this offer in April and May, by August we were back to 90% of our pre-COVID occupancy. The business is cash flow positive and will continue to be as the government support and rent relief runs off. The table adjacent shows the movement in occupied desk numbers since February.

COVID Impact on Occupancy	Total
Occupied desks February 2020	3,637 desks
Suspended or cancelled due to COVID	(2,567) desks
Reactivated desks	1,509 desks
New desks sold since March 2020	755 desks
Current Occupied Desks	**3,334 desks**
% of February 2020 Occupancy	**92%**

Of particular note in the above is the 755 desks that have been sold to new members since the onset of COVID. We feel the value of flexible lease terms has been underestimated by employers and business-owners in the past and COVID has pushed this issue into the spotlight. In our view it is too early to tell what the long term effect on where and how people work will be, but at the very least it has forced all businesses to look at their work practices and consider alternatives. We do not think that the CBD office is dead, rather that it will be used differently and in all likelihood alongside other solutions such as WFH or flexible alternatives like WOTSO. We have always thought that we have a product that larger enterprises could use but have not seen much take up by them in the past. This is changing. In July we signed our first substantial deal to a business that has indicated they will use 100 day passes per month across our Sydney network. We think this take up will continue and WOTSO will become much like a gym membership which corporates can provide to their employees.

WOTSO Annualised Turnover



Case Study – Manly @ Royal Far West (RFW)

Our newest site in Manly, on Sydney's northern beaches, is a good example of the type of joint venture arrangements that we are able to undertake. RFW is a charity organisation that works closely with families, schools, allied health professionals and local communities to connect rural and remote Australian children with the healthcare they need. It has done so for close to 100 years and in that time has built a substantial land holding opposite Manly Beach. RFW is looking to redevelop its land in the next 5 years or so. We have been able to provide RFW with a solution that will provide it with some holding income through a facility that the local community will benefit from. We hope to then be involved in the design and fit-out of a permanent home in the new development. WOTSO internally redesigned the space in an economic fashion through our adaptive reuse methods. We will recover our fit-out cost and then share in profits from the business until the site is redeveloped. Given its location (see the view on the front cover) we were always confident that the site would work and since opening in January its membership has grown to over 130 turning over close to $1 million annually despite dealing with the effect of COVID.

System Development – Hamlet Coworking Software

As part of improving our customer experience and site operations, WOTSO has developed its own member portal, Hamlet. The portal was developed in conjunction with a WOTSO Bondi member and has improved customer experience by:

- allowing members to easily book meeting rooms or desks from their phone or laptop;
- real time tracking of their account; and
- enhancing communication between WOTSO staff and members.

It has also streamlined our administrative and accounting processes, allowing our Space Leaders (site managers) to concentrate on the management of their sites and reducing the accounting burden on our head office staff.

In the future, WOTSO members will be able to interact with each other on the portal, enhancing the scale of our WOTSO community and the services offered.

The Road Ahead

At the beginning of 2020, WOTSO experienced both structural and managerial change.

Structurally, the demerger from BlackWall Limited (BWF) was finalised, additional capital was raised via two private placements and an Initial Public Offering (IPO) was expected to be completed in the second half of this calendar year. In the context of the uncertainty and volatility of our current environment, WOTSO explored alternatives to an IPO that would still provide liquidity to WOTSO shareholders, whilst securing WOTSO's growth trajectory. The board resolved to pursue a stapled structure with BlackWall Property Trust (BWR), which is expected to have the added benefits of increasing operational efficiency and cementing WOTSO's relationship with its primary landlord, BWR. It does not preclude a standalone IPO in the future.

Stuart Brown stepping down as WOTSO's CEO at the end of January sparked a change in the management of the business. We, Tim Brown and Jessie Glew, stepped in as Interim Joint Managing Directors to help steer WOTSO as it continued to execute its growth strategy. The stapling proposal mentioned above will help us consolidate the management of WOTSO and BWR, which we believe will ensure the stapled entity is well-placed to take advantage of opportunities in both the commercial real estate and coworking sectors.

We believe in the suburban flexible office model and think WOTSO could have up to 50 locations in NSW alone. BWR will be the capital partner during this expansionary phase but we will want locations that we think will work for WOTSO and we will want to make sound property purchases, so this growth may take time. Third party lease structures are still an option however they will need to be on the right terms and flexible in nature. Manly at RFW as described above is a good example of this and we believe that there will be more landlords willing to partner with us through management agreement or turnover style arrangements that can ultimately deliver greater returns to all parties.

Translating the Financial Statements

The financials for FY20 are impacted by a variety of changes that make the comparison to the prior year difficult. Although WOTSO demerged from BlackWall on 8 January 2020, these accounts show the full year results for the Group. The comparative period financials include the operating results of all WOTSO sites, however, the current year results are impacted by franchising of some BlackWall owned sites. WOTSO also adopted a new accounting standard (AASB 16 *Leases*) on 1 July 2020, which has not been adjusted for in the comparative numbers disclosed.

New Leasing Standard Impact

AASB 16 is a new leasing standard that requires operating leases to be recognised on the balance sheet. It also results in frontloaded leasing expenses, which are now recognised through depreciation and interest rather than as a rent expense. Any variable or short-term leases are recognised as an operating expense. This also has a big impact on commonly used financial metrics, such as EBITDA, gearing and current ratio. The reconciliations below show the impact this standard has had on the WOTSO Balance Sheet and Profit or Loss.

WOTSO Balance Sheet ($'000)	Normalised Pre-AASB 16	AASB 16 Impact	Statutory Result
Current assets	1,942	-	1,942
Non-current assets	12,196	34,827	47,023
Total Assets	**14,138**	**34,827**	**48,965**
Current liabilities	(5,046)	(5,773)	(10,819)
Non-current liabilities	(333)	(32,804)	(33,137)
Total Liabilities	**(5,379)**	**(38,577)**	**(43,956)**
Net Assets	**8,759**	**(3,750)**	**5,009**

WOTSO Profit / (Loss) ($'000)	Normalised Pre-AASB 16	AASB 16 Impact	Statutory Result
Revenue	9,796	-	9,796
Rent expense	(5,601)	6,273	672
Other operating expenses	(6,430)	-	(6,430)
EBITDA	**(2,235)**	**6,273**	**4,038**
Fit-out depreciation	(1,502)	-	(1,502)
Right of use asset depreciation	-	(8,551)	(8,551)
Gain on lease modification	-	661	661
Other non-cash expenses	(3,404)	-	(3,404)
EBIT	**(7,141)**	**(1,617)**	**(8,758)**
Interest on right of use liability	-	(2,133)	(2,133)
Profit Before Tax	**(7,141)**	**(3,750)**	**(10,891)**

Franchise Effect

For the first half of FY20, WOTSO was a franchisor of five BlackWall operations (BWR and Neutral Bay). These franchise agreements were dissolved at the time of the demerger and WOTSO took over operations at all but the Neutral Bay site. The Balance Sheet is therefore largely comparable but the Profit or Loss is not. The FY19 profit or loss and cash flow disclosed in the annual report include the results from all WOTSO operations, with Neutral Bay disclosed as a discontinued operation.

Reconciliation to WOTSO Turnover ($'000)	FY2020
Statutory Revenue	9,796
Less: Franchise fees	(351)
Less: Other income	(591)
Add: H1 20 BWR Franchise sites' revenue	2,572
Add: Neutral Bay Franchise revenue	1,422
WOTSO Turnover – FY20	**12,848**
Annualised August 2020 WOTSO Turnover	**13,891**

We define WOTSO Turnover as income from all WOTSO sites irrespective of their corporate structure.

Lastly, the results have been impacted by COVID-related occupancy reductions from March and an internal restructure at WOTSO, which has significantly reduced overhead expenses in the second half of FY20. The below shows WOTSO's current operating cash flow, based on August occupancy levels. It shows that we are cash flow positive now and, as government and rental relief runs off in the coming months, we expect to maintain this with the increases in occupancy that we are seeing.

Effective Operating Cash Flow ($'000)	August (unaudited)
Member revenue	1,049
Franchise earnings	11
Average operating costs	(305)
Monthly rent	(505)
Current staff costs	(163)
Net Operating Profit	**87**
Overhead Costs	**(99)**
Total	**(12)**
JobKeeper	117
Rent reductions	50
Net Operating Cash Flow	**155**

Tim Brown and Jessie Glew
Interim Joint Managing Directors


Pyrmont, NSW

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
REVENUE			
Revenue from WOTSO members	4	8,854	7,888
Franchise fees	4	351	-
Government assistance – COVID	4	408	-
Capital works incentive – North Strathfield	7	183	-
Management agreements	4	-	706
Total Revenue		**9,796**	**8,594**
EXPENSES			
Rent waivers - COVID	5	671	-
Rent expenses		-	(3,394)
Staff costs		(2,961)	(1,527)
Other operating expenses		(3,468)	(2,273)
Total Expenses		**(5,758)**	**(7,194)**
OPERATING PROFIT / (LOSS)		**4,038**	**1,400**
Depreciation – fit-out	8	(1,502)	(622)
Depreciation – right of use asset	2,8	(8,551)	-
Interest – right of use lease liability	2	(2,133)	-
Share of profit / (loss) from UEM Joint Venture	10	-	(66)
Gain on North Strathfield lease modifications	7	661	-
Write-off of North Strathfield fit-out	7	(2,904)	-
Impairment of goodwill - Bondi	3	(162)	-
Impairment of loan - UEM Joint Venture	10	(338)	-
Profit / (Loss) Before Income Tax		**(10,891)**	**712**
Income tax expense	13	-	(214)
Profit / (Loss) from Continuing Operations		**(10,891)**	**498**
Loss from discontinued operations	16	-	(132)
Profit / (Loss) for the Year		**(10,891)**	**366**
Other comprehensive income		-	-
Profit / (Loss) and Other Comprehensive Income		**(10,891)**	**366**
Profit / (Loss) and Other Comprehensive Income Attributable to:			
Owners of the Company		(10,891)	432
Non-controlling interests		-	(66)
TOTAL PROFIT		**(10,891)**	**366**

Balance Sheet at 30 June 2020

	Note	2020 $'000	2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		695	50
Trade and other receivables	6	410	125
Lease incentive receivable – Yuhu	7	1,419	-
Provision for lease incentive – Yuhu	7	(582)	-
Total Current Assets		**1,942**	**175**
Non-current Assets			
Lease rental deposits		528	220
Internal software development	9	435	173
Property, plant and equipment	8	11,233	5,232
Right of use asset	2,8	34,827	-
Deferred tax asset	13	-	23
Loan to Joint Ventures	10	-	802
Total Non-current Assets		**47,023**	**6,450**
TOTAL ASSETS		**48,965**	**6,625**
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,628	807
Rent payable – North Strathfield	7	838	-
Loans payable – related party	19	2,000	1,167
Deferred revenue – COVID member credits		216	60
Deferred lease payments – COVID	5	82	-
Employee provisions	12	173	83
Tenant deposits		109	150
Right of use lease liabilities	2	5,773	-
Total Current Liabilities		**10,819**	**2,267**
Non-current Liabilities			
Deferred lease payments – COVID	5	330	-
Make good provisions	12	1,369	-
Employee provisions	12	3	-
Right of use lease liabilities	2	31,435	-
Total Non-current Liabilities		**33,137**	**-**
TOTAL LIABILITIES		**43,956**	**2,267**
NET ASSETS		**5,009**	**4,358**
EQUITY			
Share capital		11,602	60
Retained earnings		(6,593)	4,298
Non-controlling interests		-	-
TOTAL EQUITY		**5,009**	**4,358**

Statement of Cash Flows
for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Members receipts		9,508	9,388
Franchise fees		386	-
Government assistance – COVID		231	-
Operating expenditure		(3,443)	(2,875)
Employee payments		(2,812)	(1,409)
Lease rental deposits paid		(309)	(72)
Income taxes paid		-	(214)
Lease payments (now in financing cash flows)		-	(3,733)
Net Cash Inflow from Operating Activities		**3,561**	**1,085**
Cash Flows from Investing Activities			
Payments for property, plant and equipment	8	(11,839)	(1,986)
Payments for software development	9	(287)	(191)
Proceeds from sale of property, plant and equipment	8	2,305	-
Advance to - UEM Joint Venture		(36)	(271)
Purchase of subsidiary		(50)	-
Cash entering group on acquisition of subsidiaries	3	338	-
Loan repayment - WOTSO Bondi		-	45
Payment for capital contribution to UEM Joint Venture		-	(66)
Net Cash Outflow from Investing Activities		**(9,569)**	**(2,469)**
Cash Flows from Financing Activities			
Increase in borrowings		7,159	1,262
Repayment of borrowings		(2,100)	-
Lease payments	2	(4,949)	-
Issue of shares*		6,543	-
Net Cash Inflow from Financing Activities		**6,653**	**1,262**
Net Cash Inflow / (Outflow) from Continuing Operations		**645**	**(122)**
Net Cash Outflow from Discontinued Operations	**16**	**-**	**32**
Net Increase / (Decrease) in Cash and Cash Equivalents		**645**	**(90)**
Cash and cash equivalents at the beginning of the year		50	140
Cash and Cash Equivalents at End of the Year		**695**	**50**

*This excludes $5.0 million of loans from BWF that were converted to equity at demerger.

All items inclusive of GST where applicable.

Reconciliation of Operating Cash Flows
for the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Profit / (Loss) for the Year		**(10,891)**	**366**
Noncash Flows in Profit:			
Depreciation	8	10,053	622
Interest	2	2,133	-
Right of use lease modifications	7	(661)	-
Write-off of North Strathfield fit-out	7	2,904	-
Goodwill Impairment	3	162	-
Impairment of UEM Loan	10	338	-
Share of loss from UEM	10	-	66
Deduct rent waivers (included in financing cash flows)	5	(671)	
Changes in Operating Assets and Liabilities:			
Decrease / (increase) in trade and other receivables	6	(285)	79
Increase / (decrease) in trade and other payables	11	852	(102)
Increase / (decrease) in provisions	12	93	83
Decrease / (increase) in deferred revenue		(156)	46
Decrease / (increase) in rental deposits		(309)	72
Net Cash Inflow from Operating Activities		**3,561**	**1,232**
Less cash inflow from discontinued operating activities	16	-	(147)
Net Cash Inflow from Continuing Operating Activities		**3,561**	**1,085**

Note: lease payments are now included in cash flows from financing activities.

Statement of Changes in Equity for the year ended 30 June 2020

	No. of Shares On issue	Issued Capital $'000	Retained Earnings $'000	Reserves $'000	Attributable to Owners of the Parent $'000	Non-controlling Interests $'000	TOTAL $'000
Balance at 1 July 2019	**60,000**	**60**	**4,298**	**-**	**4,358**	**-**	**4,358**
Loss for the period	-	-	(10,891)	-	(10,891)	-	(10,891)
Issue of new shares – capital restructure	73,600,686	8,024	-	-	8,024	-	8,024
Issue of shares – private placements post-demerger	7,407,895	3,518	-	-	3,518	-	3,518
Balance at 30 June 2020	**81,068,581**	**11,602**	**(6,593)**	**-**	**5,009**	**-**	**5,009**
Balance at 1 July 2018	**60,000**	**60**	**3,932**	**10**	**4,002**	**(148)**	**3,854**
Profit for the period from continuing operations	-	-	564	-	564	(66)	498
Loss for the period from discontinued operations	-	-	(132)	-	(132)	-	(132)
Deconsolidation of subsidiary – Singapore	-	-	(66)	(11)	(77)	214	137
Foreign currency transaction revenue	-	-	-	1	1	-	1
Balance at 30 June 2019	**60,000**	**60**	**4,298**	**-**	**4,358**	**-**	**4,358**

Notes to the Financial Statements

1. Cash Flow Management

As at 30 June 2020, the Consolidated Balance Sheet showed current liabilities exceeded current assets by $8.9 million. Of this, $5.8 million relates to lease payments due over the next 12 months and $2 million relates to a related party loan. Since year end, the loan has been converted to BWR and will form part of the stapling transaction that has been proposed.

This negative working capital position is a result of substantial growth over the past 12 months, with significant upfront outlays to open new sites; whilst many sites are still in their growth phase. In saying that, WOTSO (the Group) closely monitors liquidity and its current position is expected to improve during FY21 as new sites become cash flow positive.

WOTSO was significantly impacted by COVID, with revenue down by 60%, on average, in the period from April to June 2020. However, the recovery since has been immediate, with August occupancy back to over 90% of pre-COVID occupancy. As disclosed in the Directors' report, we expect to be cash flow positive in FY21.

2. Adoption of AASB 16

The consolidated entity has adopted AASB 16 from 1 July 2019 using the modified retrospective approach.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. Many of WOTSO's leases have options to extend, however, these options were only recognised where it was reasonably certain the option would be taken up. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.75%.

Right of use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

Practical Expedients Applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application; and
- COVID rent concessions were treated as a variable lease payment and recognised through the profit or loss. See Note 5 – Rent Waivers and Deferrals for more details.

The Group's Leasing Activities and How These are Accounted for

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain a similar asset. This is a rate of 3.75% for WOTSO. Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- make-good costs as prescribed in the relevant lease.

On initial adoption of AASB 16, on 1 July 2019, WOTSO recognised right of use assets and right of use lease liabilities of $52.5 million relating to property leases. The lease liability was recognised as the present value of all remaining lease payments. There were no prepaid or accrued lease payments at this date that required an adjustment to the associated right of use assets.

The reconciliation between the Commitments Note reported at 30 June 2019 and the right of use lease liability recognised at 1 July 2019 is shown below.

	$'000
Reported in Commitments Note	**47,664**
Discounted at Incremental Borrowing Rate (3.75%)	38,609
Impact of new or renegotiated leases	13,843
Total Lease Liabilities Recognised on Adoption of AASB 16 at 1 July 2019	**52,452**

During the 12 months to 30 June 2020:

- depreciation of $8.6 million was recognised on right of use assets;
- interest of $2.1 million was recognised on right of use lease liabilities;
- scheduled lease payments of $6.3 million were made to lessors, including $0.1 million accrued at this date. This excludes the impact of COVID rent waivers and deferrals, which were treated as variable lease payments. See Note 5 – Rent Waivers and Deferrals for more detail; and
- lease terminations and modifications resulted in a net gain of $0.7 million. See Note 7 – Lease Modifications and Terminations – North Strathfield for details of terminated and modified leases.

Therefore, the application of AASB 16 contributed a $3.8 million loss to the Profit or Loss in the half year. This has been summarised below:

	$'000
WOTSO Statutory Loss	**(10,891)**
Add back right of use asset depreciation	8,551
Add back interest on right of use lease liability	2,133
Deduct rental expense as recognised under AASB 117	(6,273)
Gain on lease modifications / terminations	(661)
WOTSO Loss Adjusted for Impact of New Accounting Standards	**(7,141)**

There is no cash impact of the new leases standard, however the presentation of lease payments within the cash flow has changed. In prior years, under AASB 117, cash outflows from WOTSO's operating lease repayments were recognised as operating cash flows. However, under AASB 16, these are disclosed as a financing cash flow.

3. Acquisition of Subsidiaries

Acquisition of Kirela Development Unit Trust (Kirela)

On 30 June 2020, WOTSO acquired all of the units of Kirela from BWF for a cash consideration of $50,000, being the net asset position of Kirela. Kirela was the long-term holder of the property precinct known as the Bakehouse Quarter, located at North Strathfield, NSW. That property was sold to the Yuhu Group in April 2019 and Kirela no longer has any active property or investment holdings but does hold some fit-out within WOTSO's operations at North Strathfield. As such, it was considered a natural fit to bring this entity into the WOTSO group. Kirela was also one of the parties involved in a tri-partite agreement with regard to one of the leases at North Strathfield as described in Note 7 – Lease Modifications and Terminations – North Strathfield. This agreement allows the set-off of various amounts against lease payments due by WOTSO.

Assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value at Acquisition $'000
Net cash and cash equivalents	63
Fit-out at North Strathfield	985
Loan from WOTSO Limited	(789)
Trade payables	(209)
Net Assets Acquired	**50**

As Kirela was acquired on 30 June 2020, it did not contribute to the consolidated earnings of the Group in the current reporting period.

Acquisition of WOTSO Bondi Junction Pty Ltd

On 1 July 2019, WOTSO took over control of WOTSO Bondi, which was previously operated under a management agreement. Under this agreement, WOTSO managed the property on behalf of the lessee and took a share of revenue as management fees. However, on 1 July 2019, WOTSO took over this lease and the management agreement ceased. This was treated as a Business Combination under AASB 3 *Business Combinations* and 100% of WOTSO Bondi has been consolidated from this date.

The Group was in a net liability position and was purchased for nil consideration. Assets and liabilities recognised as a result of the acquisition are as follows:

	Fair Value at Acquisition $'000
Net cash and cash equivalents	17
Fit-out (carrying value)	444
Loan from WOTSO Limited	(500)
Trade payables	(120)
Employee provisions	(3)
Net Liabilities Acquired	**(162)**

The goodwill acquired as part of this combination was written off due to its loss-making position in the previous year. Management considered there to be insufficient evidence of future economic benefits from the entity in order to continue to recognise this goodwill.

The table below shows the loss made by WOTSO Bondi since it has joined the WOTSO Group:

	$'000
Revenue	580
Expenses	(736)
Loss Since 1 July 2019	**(156)**

Acquisition of BWR Franchise Unit Trust

At the date of the demerger, 8 January 2020, the BWR Franchise arrangement was dissolved and WOTSO took over these operations. BWR Franchise had nil net assets at this date and nil consideration was paid to acquire this entity.

	Fair Value at Acquisition $'000
Net cash and cash equivalents	258
Accounts payable	(257)
Other liabilities	(1)
Net Assets Acquired	**-**

The table below shows the loss made by BWR Franchise since it has joined the WOTSO Group:

	$'000
Revenue	2,008
Expenses	(2,432)
Loss since 8 January 2020	**(424)**

The table below shows the loss WOTSO would have made in the reporting period, had the acquisition date for all the above business combinations been 1 July 2019:

	$'000
Revenue	14,114
Expenses	(25,202)
Adjusted Loss if Business Combinations Completed at Start of Reporting Period	**(11,088)**

4. Revenue

	2020 $'000	2019 $'000
Revenue from WOTSO Members:		
Offices	6,257	5,445
Coworking	1,433	1,290
Other services*	1,164	1,153
	8,854	**7,888**

*Other services includes meeting room hire, parking, virtual office and other member services.

	2020 $'000	2019 $'000
Franchise Fees:		
Franchise fees – BWR	228	-
Franchise fees – BWF	123	-
Total Franchise Fees	**351**	**-**

WOTSO received assistance as part of the Federal Government's COVID economic stimulus, as follows:

	2020 $'000	2019 $'000
Government Assistance:		
JobKeeper wage subsidy	345	-
Cash flow boost	63	-
Total	**408**	**-**

Although WOTSO believes it meets all eligibility requirements for the Cash Flow Boost, its eligibility has not yet been approved by the ATO. This is due to complications as a result of the demerger and subsequent restructuring within the WOTSO group. This is currently being disputed with the ATO and an outcome is expected over the coming months. WOTSO has recognised this income and corresponding receivable in the current period as it considers a favourable outcome to be highly probable.

WOTSO has also recognised a capital works incentive of $183,000 relating to the North Strathfield lease. Please see Note 7 – Lease Modifications and Terminations – North Strathfield for further details.

5. Rent Waivers and Deferrals

During the COVID crisis, the Federal Government mandated a code of conduct between commercial landlords and their tenants. This mandated that lessors provide rent relief to any commercial tenant significantly impacted by the pandemic. Rent relief was required to be at the same proportion of the tenant's reduction in revenue driven by the pandemic. This relief was to be provided via a waiver for at least 50% of the relief, with the remaining proportion provided as a rent deferral to be repaid over the greater of the remaining life of the lease or two years.

The rent waivers received by WOTSO in the reporting period have been treated as variable lease payments per AASB 16 and as such they have been recognised within the operating profit of the Group.

The rent deferrals received by WOTSO in the reporting period were also treated as a variable lease payment per AASB 16, but the difference has been recognised as a deferred rent liability.

6. Current Assets – Trade and Other Receivables

	2020 $'000	2019 $'000
Trade Receivables:		
WOTSO members	52	77
GST receivable	114	-
JobKeeper wage subsidy	114	-
Cash Flow Boost	63	-
Related Parties	1	46
Other	66	2
Total	**410**	**125**

Further information relating to JobKeeper wage subsidy and Cash Flow Boost have been disclosed under Government Assistance in Note 4 – Revenue.

7. Lease Modifications and Terminations – North Strathfield

WOTSO is currently in negotiations with its North Strathfield landlord, Yuhu, to reduce its footprint at this site, from the three leases in place during FY20 – Coworking, Office and Expansion Leases. WOTSO has given up the Office Lease but is keeping the Coworking and Expansion Leases, with WOTSO office members starting to move across to this new expansion area in September 2020.

During the year, Kirela (now a wholly-owned subsidiary of WOTSO) and WOTSO, completed works required to receive a $5 million incentive from Yuhu. This incentive was included in the original Expansion Lease and also included a set-off clause, meaning this payment could be set-off against future lease payments instead of being received as a cash lump-sum. Yuhu had additional payments due to Kirela of $0.6 million relating to sprinkler works completed in the year and turnover rent earned in FY19, prior to BlackWall selling the Bakehouse Quarter to Yuhu.

WOTSO had $0.8 million of outstanding rental payments to Yuhu by June 2020, including $0.3 million of COVID-relief deferred rent; which have been offset against the $5.6 million receivable. Prior to joining the WOTSO Group, Kirela had already offset $0.9 million of its outstanding rent against the $5.6 million receivable. WOTSO expects to use the remaining incentive against future Expansion Lease payments; to cover the rent up until December 2021 and has provided for an additional portion that is likely to be paid to Yuhu as part of the negotiation.

Therefore, as at 30 June, WOTSO disposed of the Office Lease and remeasured the Expansion Lease to reflect the additional rent holiday. In addition, a net receivable of $0.8 million has been recognised; of which $0.2 million was recognised as WOTSO income (Kirela had already recognised $0.6 million relating to the turnover rent and sprinkler works).

The carrying value of fit-out allocated to the lease area being terminated has been written off, totalling $2.9 million. The value of fit-out remaining has been based on the fit-out cost per sqm at comparable sites, applied to the area of the remaining space occupied by WOTSO at North Strathfield.

Per AASB 16, lease terminations (as for the Office lease) are recognised by clearing out the relevant right of use asset and liability, with the difference being recognised through the profit or loss.

	$'000
Lease Termination – Office Lease	
Right of use asset at cost	(22,376)
Less accumulated depreciation	2,484
Less remaining right of use lease liability	20,553
Net Gain on Lease Terminations	**661**

Note that the disposal of the Office Lease has been agreed in principle with Yuhu and WOTSO is no longer paying rent on this area. However, there is a risk that Yuhu could withdraw from these negotiations. This could result in a reversal of the adjustment shown above.

The additional rent holiday has been treated as a reassessment of the existing Expansion Lease as this right to offset was stipulated in the original lease. This has been disclosed in Note 8 – Non-current Assets – Property, Plant and Equipment.

8. Non-current Assets – Property, Plant and Equipment

2020	Fit-out and Office Equipment $'000	Leases $'000	Total $'000
Carrying Amount at the Beginning of Year	**5,232**	**-**	**5,232**
Right of use assets – initial recognition	-	52,452	52,452
Adjusted Opening Balance	**5,232**	**52,452**	**57,684**
Remeasurement of right of use assets*	-	(1,086)	(1,086)
Transfer from Kirela	985	-	985
Additions	11,727	11,904	23,631
Depreciation expense	(1,502)	(8,551)	(10,053)
Disposals	(2,305)	(19,892)	(22,197)
Assets write-off	(2,904)	-	(2,904)
Carrying Amount at the End of Year	**11,233**	**34,827**	**46,060**

2019	Fit-out and Office Equipment $'000	Leases $'000	Total $'000
Carrying amount at the beginning of year	3,860	-	3,860
Additions	2,096	-	2,096
Depreciation expense	(622)	-	(622)
Depreciation expense – discontinued operations	(102)	-	(102)
Carrying Amount at the End of Year	**5,232**	**-**	**5,232**

*Remeasurement to reflect revised contractual payments within existing lease liabilities, including lease incentives or changes in an index or rate used to determine the amounts payable. This includes the additional rent holiday disclosed in Note 7 – Lease Modifications and Terminations – North Strathfield.

9. Intangible Assets and Goodwill

	2020 $'000	2019 $'000
Carrying amount at the beginning of year	173	-
Bondi Junction goodwill on acquisition	162	-
Less impairment of goodwill	(162)	-
Internal software development	262	173
Total	**435**	**173**

The total carrying value relates to costs incurred to develop WOTSO's internal software used in operation of all WOTSO sites. The software functionality covers billing, meeting room bookings, interaction with members and CRM functionality. Development is ongoing and is expected to be completed in FY21.

The Group no longer holds any goodwill in any of its subsidiaries.

10. Investment in Joint Venture

The Group operates a joint venture with UEM Sunrise WOTSO Malaysia Sdn Bhd. The details are:

			Proportion of Ownership Interests Held by the Group	
Name of JV	**Principal Place of Business**	**Principal Activity**	**June 2020**	**June 2019**
UEM Sunrise WOTSO Malaysia Sdn Bhd	Malaysia	Co-workspace operations	50%	50%

The investment in UEM Sunrise WOTSO Malaysia Sdn Bhd is accounted for using the equity method in accordance with AASB 128 *Investments in Associates and Joint Ventures.*

WOTSO has assessed that the recoverability of its loan of $338,000 to its UEM Joint Venture is at risk. As such, the full amount of this loan has been impaired and recognised in the profit or loss. The summarised information adjacent reflects the amounts in the financial statements of UEM and not the WOTSO share of those amounts.

	2020 $'000	2019 $'000
Summarised Balance Sheet		
Current assets	43	81
Non-current assets	369	181
Current liabilities	(100)	(36)
Non-current liabilities	(743)	(413)
Net Assets (Liabilities)	**(431)**	**(187)**
Reconciliation:		
Opening net assets – capital contribution	(187)	132
Profit / (loss) for the period	(254)	(319)
Foreign currency translation reserve	10	-
Closing Net Assets (Liabilities)	**(431)**	**(187)**
WOTSO Limited share in %	50%	50%
WOTSO share of capital contribution	-	66
WOTSO share of losses (but limited to contribution made)	-	(66)
Closing Equity Accounted Investment Per Balance Sheet	**-**	**-**
Summarised Statement of Income		
Revenue	122	21
Operating expenses	(189)	(307)
Depreciation and interest	(187)	(33)
Profit / (Loss) for the Period	**(254)**	**(319)**

11. Current Liabilities – Trade and Other Payables

	2020 $'000	2019 $'000
Trade Payables:		
Related parties	292	219
Other parties	951	399
	1,243	**618**
Sundry payables and accrued expenses	385	189
Total	**1,628**	**807**

Further information relating to trade payables from related parties is set out in Note 19 – Related Party Transactions.

12. Current and Non-current Liabilities – Provisions

	2020 $'000	2019 $'000
Current – employee benefits	173	82
Non-current – employee benefits	3	1
Non-current – make good provision	1,369	-
Total Provisions	**1,545**	**83**
Balance at the beginning of year	83	-
Net additional provision increase	1,462	83
Balance at the End of Year	**1,545**	**83**

Employee benefit provisions relate to annual leave and long service leave payable to employees. The number of employees for the Group as at 30 June 2020 was 46 (2019: 34).

Make good provisions relate to estimated costs required to return leased property in the state required by the lease. These have been discounted at the same rate as the underlying lease liability. See Note 2 – Adoption of AASB 16 for more detail.

13. Non-current Assets – Deferred Tax Assets

The below table shows a breakdown of WOTSO's net deferred tax balances. WOTSO has not recognised these as at 30 June 2020, due to the uncertainty around the ability of the Group to recoup these in the short to medium term. The net deferred tax assets predominately relate to tax losses and therefore are available to offset against any deferred tax liabilities subject to meeting the relevant loss recoupment tests. In accordance with AASB 3, the Group has 12 months to finalise the identification and measurement of the assets and liabilities acquired as part of the business combination and the resultant tax implications. As such, the below balances are provisional amounts which may not reflect the final balances of the Group.

	2020 $'000	2019 $'000
Right of use leases	654	-
Accruals and provisions	730	23
Fixed asset depreciation	(282)	-
Carried forward tax losses	1,569	-
Total Provisions	**2,671**	**23**

14. Auditor's Remuneration

	2020 $'000	2019 $'000
Remuneration of ESV for:		
Audit and assurance services	31	-
Taxation services	2	2
Total	**33**	**2**

15. Contingencies

The Group had no contingent assets or liabilities as at 30 June 2020 (2019: $nil).

16. Discontinued Operations

The Group disposed of its Singapore operation in December 2018. In addition, the Neutral Bay operation, which is run out of a BlackWall-leased property, has stayed within BWF as a WOTSO franchise, rather than demerging to the WOTSO Group. This has also been disclosed as a discontinued operation in the comparative period. Earnings from this operation are disclosed under BWF franchise fees in Note 4 – Revenue.

	Neutral Bay $'000	Singapore $'000	Total $'000
Cash and cash equivalents	-	16	16
Receivables and other assets	593	147	740
Payables and other liabilities	(4)	(196)	(200)
Loan payables	-	(536)	(536)
Net Identifiable Assets / (Liabilities) Disposed	**589**	**(569)**	**20**
Add: Non-controlling interests	-	228	228
Net Assets / (Liabilities) Disposed	**589**	**(341)**	**248**
Revenue	1,602	377	1,979
Operating expenses	(1,558)	(541)	(2,099)
Profit Before Tax	**44**	**(164)**	**(120)**
Income tax expense	(12)	-	(12)
Profit / (Loss) from Discontinued Operations	**32**	**(164)**	**(132)**
Net cash inflow from operating activities	147	-	147
Net cash outflow from investing activities	(99)	(16)	(115)
Net cash inflow from financing activities	-	-	-
Net Cash Inflow / (Outflow)	**48**	**(16)**	**32**

17. Subsequent Events

In an ASX announcement to the market on 24 July 2020, BWF and BWR advised that the board has resolved to proceed with a proposal to staple the WOTSO business to BWR. This is expected to be completed in early 2021. The proposal is subject to a number of conditions including shareholder approval and court approval.

Apart from the above matter, to the best of the Directors' knowledge, since the end of FY20 there have been no other matters or circumstances that have materially affected the Group's operations or may materially affect its operations, state of affairs or the results of operations in future financial years.

18. Controlled Entities

	Country of Incorporation	Percentage owned 2020
Parent Entity:		
WOTSO Limited	Australia	n/a
Subsidiaries of Parent Entity:		
BWR Franchise Pty Ltd	Australia	100%
BWR Franchise Unit Trust	Australia	100%
Kirela Development Unit Trust	Australia	100%
WOTSO Adelaide Pty Ltd	Australia	100%
WOTSO at RFW Manly Pty Ltd	Australia	100%
WOTSO Bondi Junction Pty Ltd	Australia	100%
WOTSO Canberra North Pty Ltd	Australia	100%
WOTSO Canberra South Pty Ltd	Australia	100%
WOTSO Chermside Pty Ltd	Australia	100%
WOTSO Coffee Pty Ltd	Australia	100%
WOTSO Employment Services Pty Ltd	Australia	100%
WOTSO Gold Coast Pty Ltd	Australia	100%
WOTSO Hobart Pty Ltd	Australia	100%
WOTSO North Strathfield Pty Ltd	Australia	100%
WOTSO Penrith Pty Ltd	Australia	100%
WOTSO Pyrmont Pty Ltd	Australia	100%
WOTSO S.E.A. Pty Ltd	Australia	100%
WOTSO Services Pty Ltd	Australia	100%
WOTSO Spare Pty Ltd	Australia	100%
WOTSO Sunshine Coast Pty Ltd	Australia	100%
WOTSO Woden Pty Ltd	Australia	100%
WOTSO Zetland Pty Ltd	Australia	100%

19. Related Party Transactions

Related Entities, Associates, Managed Funds

In these financial statements, related parties are parties as defined by AASB 124 *Related Party Disclosures* rather than the definition of related parties under the Corporations Act 2001 and ASX Listing Rules.

Transactions with Related Entities

The Group pays rent for leased properties owned by related parties. The rent paid is determined with reference to arm's length commercial rates.

The Group charges franchise fees and other charges to related parties. Franchise fees were 8% of total franchise revenue. Other charges involve accounting, bookkeeping, marketing and advertising, among others.

All transactions with related parties were made on normal commercial terms and conditions and at market rates, and were approved by the Board where applicable. The following transactions occurred during FY20 and the balances were outstanding at the year-end between the Group and its related entities.

	2020 $'000	2019 $'000
Revenue:		
Management and franchise fees	351	706
Expenses:		
Rent and outgoings paid	2,234	3,632
Rent – for discontinuing operations	-	715
Total Expenses	**2,234**	**4,347**
Outstanding Balances:		
Trade and other receivables – current	1	46
Trade and other payables – current	292	219
Loans payable – current	2,000	1,167

Key Management Personnel Compensation

	2020	2019
Total Remuneration Paid	**237**	**-**

20. Parent Entity Information

	2020 $'000
Results:	
Profit / (loss) after tax	(72)
Total Comprehensive Income After Tax	**(72)**
Financial Position:	
Current assets	11,782
Non-current assets	60
Total Assets	**11,842**
Current liabilities	(72)
Non-current liabilities	(300)
Total Liabilities	**(372)**
Net Assets	**11,470**
Share capital	11,542
Accumulated losses	(72)
Reserves	-
Total Equity	**11,470**

The parent entity was incorporated during FY20 and as such has no comparative period. The parent entity had no contingencies or capital commitments as at 30 June 2020.

21. Financial Risk Management

(a) Financial Risk Management

The main risks the Group is exposed to through its financial instruments are market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's principal financial instruments are cash, borrowings, lease liabilities, trade debtors and trade creditors. Additionally, the Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Board has overall responsibility for the establishment and overseeing of the risk management framework. It monitors the Group's risk exposure by regularly reviewing finance and property markets.

The Group holds the following major financial instruments:

	2020 $'000	2019 $'000
Cash and cash equivalents	695	50
Borrowings	2,000	1,167
Trade and other payables	2,466	807
Trade and other receivables	1,247	125
Lease liabilities	37,208	-

(b) Sensitivity Analysis

The Group is not exposed to any material credit, interest or liquidity risks. There are no subsidiaries in the Group subject to foreign exchange risk.

(c) Capital Management

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, buy-back shares, purchase or sell assets.

(d) Liquidity Risk

	Maturing Within 1 Year $'000	Maturing 2-5 Years $'000	Maturing Over 5 Years $'000	Total $'000
At 30 June 2020				
Financial Liabilities				
Trade and other payables	2,466	-	-	2,466
Borrowings	2,000	-	-	2,000
Lease liabilities	5,773	26,455	4,980	37,208
	10,239	**26,455**	**4,980**	**41,674**
At 30 June 2019				
Financial Liabilities				
Trade and other payables	807	-	-	807
Borrowings	1,167	-	-	1,167
	1,974	**-**	**-**	**1,974**

(e) Fair Value Measurements

(i) Fair Value Hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The fair value of financial assets 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 Group is the current bid price.

The following table presents the Group's financial assets measured at fair value as at 30 June. Refer to the Critical Accounting Estimates and Judgment note for further details of assumptions used and how fair values are measured.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000
At 30 June 2020				
Financial assets	-	-	-	-
At 30 June 2019				
Financial assets	-	-	802	802

(ii) Valuation Techniques Used to Derive Level 3 Fair Values

The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. All these instruments are included in Level 3.

(iii) Fair Value Measurements Using Significant Observable Inputs (Level 3)

The following table is a reconciliation of the movements in financial assets classified as Level 3 for the year ended 30 June:

	$'000
At 30 June 2020	
Balance at the beginning of the year	802
Consolidation of WOTSO Bondi	(500)
Advance to UEM Sunrise	36
Impairment of loan to UEM Sunrise	(338)
Balance at the End of the Year	**-**
At 30 June 2019	
Balance at the beginning of the year	576
Repayment by WOTSO Bondi	(45)
Advance to UEM Sunrise	271
Balance at the End of the Year	**802**

There were no transfers between Level 1, 2 and 3 financial instruments during the period.

22. Critical Accounting Estimates and Judgments

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information.

23. Basis of Preparation and Accounting Policies

WOTSO Limited is an unlisted public company, incorporated and domiciled in Australia. The financial statements for the Group were authorised for issue in accordance with a resolution of the Directors on the date they were issued.

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial statements of the Company also comply with IFRS as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The statutory financial information for the Group has been presented for the year ended 30 June 2020 and for the comparative year ended 30 June 2019. The comparative year financials include the results of all WOTSO sites, as previously controlled by BlackWall. On 1 July 2019, control of several sites (the BWR Franchise and BWF Franchise sites) was maintained within the BlackWall Group; whilst all other sites formed the new WOTSO Limited Group. However, at the demerger date, the BWR Franchise was dissolved and WOTSO took over these operations as well. As such, the comparative period shows BWF Franchise as a discontinued operation; however, BWR Franchise sites are continuing operations as they are controlled by WOTSO at the reporting date. The current year statutory financial information only includes 6 months of consolidated BWR Franchise operations; compared to 12 months in the comparative period. The current period financials do not therefore present the performance of the Group as it is currently structured.

24. Statement of Significant Accounting Policies

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

WOTSO does have an operating loss for the period and is in a net current liability position. However, many of the WOTSO sites are in build-up phase and profitability is expected to improve. The business projects it will have sufficient cash balances to pay debts as they fall due and forecasts for the next 12 months display enough liquidity for it to be appropriate for WOTSO to continue as a going concern.

Additionally, short-term funding may be obtained from related parties if needed.

Presentation of Financial Statements

Both the functional and presentation currency of WOTSO Limited and its Australian subsidiaries is Australian dollars. Various functional currencies including Singapore Dollars and Malaysian Ringgit results are translated to presentation currency.

Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. A list of controlled entities is contained in Note 18 – Controlled Entities. All controlled entities have a June financial year end and use consistent accounting policies. Investments in subsidiaries held by the Group are accounted for at cost, less any impairment charges (refer to Note 20 – Parent Entity Information).

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany Balances

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Joint Ventures

Interests in joint ventures are accounted for using the equity method. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post acquisition profits or losses of the investee in profit or loss. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. The carrying amount of equity accounted investments is tested for impairment in accordance with these policies.

Non-controlling Interests

Non-controlling interests (not held by the Group) are allocated their share of net profit and comprehensive income after tax in the statement of profit or loss and other comprehensive income and are presented within equity in the balance sheet, separately from parent shareholders' equity. Comprehensive income after tax in the statement of profit or loss and other comprehensive income are presented within equity in the balance sheet, separately from parent shareholders' equity.

Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on a cost basis less accumulated depreciation and impairment losses. The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The estimated useful lives used for each class of depreciable assets are:

Office equipment	over 2 to 10 years
Fit-out	lesser of 10 years and expected remaining lease term
Right of use assets	remaining lease terms, including any options where they are reasonably certain to be exercised

At each balance sheet date, assets' residual values and useful lives are reviewed, particularly with reference to the remaining expected lease term of each site, and adjusted if appropriate.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, either the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, or the income of the asset is capitalised at its relevant capitalisation rate.

An impairment loss is recognised if the carrying value of an asset exceeds its recoverable amount. Impairment losses are expensed to the profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Leases

AASB 16 was adopted by the Group on 1 July 2019, applying the modified retrospective approach. Initial adoption methodology has been detailed in Note 2 – Adoption of AASB 16. Right of use assets and liabilities are recognised for all leases with a lease term of more than 12 months; unless the underlying asset is of a low value. Initial recognition of both the right of use asset and corresponding lease liability is calculated using the present value of remaining lease payments; discounted using the rate implicit in the lease or, if not easily determinable, the lessee's incremental borrowing rate. The right of use asset is adjusted for any prepaid or accrued lease payments or onerous lease contracts.

Financial Instruments

Non-derivative Financial Instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Recognition

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flow from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial Assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets not measured at amortised cost are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

(i) Equity Investments

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss.

(ii) Loans and Receivables

Loans and receivables including loans to related entities are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial instrument is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

An impairment loss in respect of a financial instrument measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial instruments are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial instruments measured at amortised cost, the reversal is recognised in profit or loss.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting where significant influence is exercised over an investee. Significant influence exists where the investor has the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control over those policies.

Under the equity method of accounting, investments in the associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Cash and Cash Equivalents

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

Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectable.

Trade and Other Payables

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

Interest Bearing Borrowings

Interest bearing borrowings are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost.

Employee Benefits

Other Long Term Employee Benefits

The Group's net obligation in respect of long term employee benefits other than defined benefit plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs. These employee benefits have not been discounted to the present value of the estimated future cash outflows to be made for those benefits.

Short Term Benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs.

Provisions

Provisions are recognised when the Group 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Revenue

WOTSO income comprises rental and recovery of outgoings from property tenants. Rental income is accounted for on a straight-line basis over the lease term, if applicable.

Business Combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- equity interests issued by the Group; and
- fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Income Tax

Current Income Tax Expense

The charge for current income tax expense is based on the profit year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Accounting for Deferred Tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred Tax Calculation

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred Income Tax Assets

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Benefit Brought to Account

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax Consolidation

WOTSO Limited has elected to form a tax consolidated group with its wholly-owned entities for income tax purposes under the tax consolidation regime with effect from 8 January 2020. As a consequence, all members of the tax consolidated group are taxed as a single entity from that date. The head entity within the tax consolidated group is WOTSO Limited.

In addition to its own current and deferred tax amounts, WOTSO Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group in conjunction with any tax funding arrangement amounts.

The Group recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

GST

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

New Accounting Standards and Interpretations

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The impact of adopting new standards and interpretations is set out below.

AASB 16 (effective for annual reporting periods beginning on or after 1 January 2019)

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of WOTSO has applied the new standard for the first time in the current reporting period. Refer to Note 2 – Adoption of AASB 16.

Directors' report
(Continued)

Information on Officeholders

The names of the Officeholders during or since the end of the year are set out below.

Joseph (Seph) Glew

Non-executive Director and Chairman

Seph has worked in the commercial property industry in New Zealand, the USA and Australia. Seph has driven large scale property development and financial structuring for real estate for over 40 years. In addition, since the early 1990s Seph has run many "turn-around" processes in relation to distressed properties and property structures for both private and institutional property owners.

While working for the Housing Corporation of New Zealand and then AMP, Seph qualified as a registered valuer and holds a Bachelor of Commerce. In the 1980s he served as an Executive Director with New Zealand based property group Chase Corporation and as a Non-executive Director with a number of other listed companies in New Zealand and Australia.

Timothy Brown

Non-executive Director until 24 January 2020
Executive Director and Interim Joint Managing Director from 25 January 2020

Tim is Joint Managing Director and Chief Financial Officer for WOTSO and BlackWall. Tim joined the BlackWall Group in 2008 as Financial Controller and became Chief Financial Officer in 2009. He has a Bachelor of Commerce from the University of New South Wales and is a member of the Institute of Chartered Accountants of Australia. With over 20 years' experience in the financial services and property industries, he started his career with Deloitte and joined Lend Lease Corporation in 2002. Tim is also on the board of Eastern Suburbs Cricket Club and Coogee Boy's Preparatory School.

Jessie Glew

Non-executive Director until 24 January 2020
Executive Director and Interim Joint Managing Director from 25 January 2020

Jessie is Joint Managing Director and Chief Operating Officer of WOTSO and BlackWall, having joined BlackWall in 2011. Prior to her appointment as Joint Managing Director, Jessie was Chief Operating Officer at BlackWall. She has a Bachelor of International Communication from Macquarie University and is finalising a Bachelor of Property Economics at the University of Technology Sydney.

Alex Whitelum – Appointed 23 April 2020

Company Secretary

Alex joined WOTSO and BlackWall in 2020 and is responsible for WOTSO's corporate governance functions and oversees investor relations. In his previous position, Alex was a lawyer at Clayton Utz in their Corporate, M&A and Capital Markets team. Alex holds a Bachelor of Laws (Hons) and a Bachelor of Commerce (Economics) from Macquarie University. He is admitted as a solicitor to the Supreme Court of New South Wales and the High Court of Australia.

Stuart Brown – Resigned 24 January 2020

Executive Director and Managing Director

Sophie Gowland – Resigned 27 March 2020

Company Secretary

Meeting Attendances

Director	No. of Board Meetings Held	Board Meeting Attendance
Seph Glew	2	2
Stuart Brown	1	1
Timothy Brown	2	2
Jessie Glew	2	2

Environmental Regulation

The Group's operations are not regulated by any environmental regulation under a law of the Commonwealth or of a State or a Territory other than those that pertain to the leasing of real estate. However, the Group believes that it has adequate systems in place for the management of its environmental requirements and is not aware of any instances of non-compliance of those environmental requirements as they apply to the Group.

Indemnities of Officers

During the financial year, the Group has paid premiums to insure each of the Directors named in this report along with Officers of the Group against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the Group, other than conduct involving a wilful breach of duty.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor to the Group.

Auditor and Non-audit Services

$2,000 was paid to the auditor for non-audit services during the year (2019: $2,000) as detailed in Note 14 – Auditor's Remuneration.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out in these financial statements.

ESV was appointed as external auditor of WOTSO Limited on 9 October 2019 in accordance with section 327 of the Corporations Act 2001 and continues in office.

Rounding of Amounts

WOTSO is a group of the kind referred to in ASIC Legislative Instrument 2016/191, and in accordance with that legislative instrument amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Subsequent Events and Significant Changes in Affairs

In an ASX announcement to the market on 24 July 2020, BWF and BWR advised that the board has resolved to proceed with a proposal to staple the WOTSO business to BWR. This is expected to be completed in early 2021. The proposal is subject to a number of conditions including shareholder approval and court approval. Apart from the above matter, to the best of the Directors' knowledge, since the end of FY20 there have been no other matters or circumstances that have materially affected the Group's operations or may materially affect its operations, state of affairs or the results of operations in future financial years.

Signed in accordance with a resolution of the Board of Directors.

Tim Brown
Director
Sydney, 7 September 2020

Jessie Glew
Director
Sydney, 7 September 2020

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes 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 Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

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

The Statement of Significant Accounting Policies confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Interim Joint Managing Directors and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Tim Brown
Director
Sydney, 7 September 2020

Jessie Glew
Director
Sydney, 7 September 2020

Auditor's Independence Declaration and Audit Report

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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As auditor for the audit of WOTSO Limited and its Controlled Entities for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Dated at Sydney the 4th day of September 2020

ESV Business advice and accounting

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Partner

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WOTSO LIMITED AND ITS CONTROLLED ENTITIES

Report on the Audit of the Financial Report

Opinion

We have audited the financial report, being a general purpose financial report of WOTSO Limited and its controlled entities (the 'Company'), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year then ended; and
- complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act* 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the financial report

The directors of the Company 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf This description forms part of our auditor's report.

Dated at Sydney on the 7th day of September 2020

ESV Business advice and accounting

Chris Kirkwood

Partner

WOTSO

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