AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
(Closed-Ended Fund)
(MANAGED BY MUSCAT CAPITAL)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 AND INDEPENDENT AUDITOR'S REPORT

AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
(Closed-Ended Fund)
(MANAGED BY MUSCAT CAPITAL)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020
AND INDEPENDENT AUDITOR'S REPORT

PKF

Ibrahim Ahmed Al-Bassam & Co
Certified Public Accountants - Al-Bassam & Co.
(member firm of PKF International)

INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA

Opinion

We have audited the financial statements of Al Masha'ar REIT Fund ("the Fund"), being managed by Muscat Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020 and statements of comprehensive (loss) / income, statement of changes in net assets (equity) and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Fund's financial statements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the key matter was addressed in our audit
Investment Properties	
Al Masha'ar REIT Fund owns a portfolio of investment properties comprising of commercial buildings located in the Kingdom of Saudi Arabia. Investment properties are held for capital appreciation and or rental yields, are stated at cost less accumulated depreciation and any impairment losses.	For impairment of investment properties, we have carried out the following audit procedures: - We obtained two valuation reports from independent real estate evaluators Taqeem certified for each investment properties as at 31 December 2020 and confirmed that the valuation approaches are suitable for use in determining the fair values as at the reporting date;

INDEPENDENT AUDITORS' REPORT (Continued)

TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA

Key Audit Matters (continued)

Key audit matter	How the key matter was addressed in our audit
Investment Properties	
Investment properties are re-measured for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. For assessing the impairment of investment properties, the Fund manager monitors volatility of fair value of properties by engaging independent certified property valuers to perform a formal valuation of the Fund's investment properties on semiannual basis. We considered this as a key audit matter since the assessment of impairment requires significant judgment by the Fund manager and the potential impact of impairment if any, could be material to the financial statements.	- We assessed the independence of the external valuers and read their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work; - Involved our specialist to assess the key assumptions and estimates, such as discount rate, exit yield rate, annual rental income, operating expenditure and occupancy, used by the real estate valuation experts in determining the fair values of the investment properties. - Assessed the recoverable amount, which is higher of fair value or value in use of the related investment properties as per the above-mentioned valuation reports. We have determined that the recoverable amount of the investment properties to be materially higher than the carrying amount of the same; and - We reconciled the average fair value of the investment properties as per note 11 to the external valuers' reports.

Other information

Other information consists of the information included in the Fund's 2020 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in the Fund's annual report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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INDEPENDENT AUDITORS' REPORT (Continued)

TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by SOCPA and the Fund's Terms and Condition, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs that are endorsed in the Kingdom of Saudi Arabia 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 these financial statements.

As part of an audit in accordance with ISAs that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 management.

INDEPENDENT AUDITORS' REPORT (Continued)

TO THE UNITHOLDERS
AL MASHA'AR REIT FUND
MANAGED BY MUSCAT CAPITAL
RIYADH, KINGDOM OF SAUDI ARABIA

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's 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 audit report to the related disclosures in the financial statements 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 statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have compiled with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

For and on behalf of
Al-Bassam & Co.
Riyadh, Kingdom of Saudi Arabia

البسام وشركاؤه
محاسبون قانونيون
رقم الترخيص ٥٢٠/١١/٣٢٣
C.R.1010385804
License 520/11/323
Al-Bassam & Co.
Certified Public Accountants

Ibrahim A. Al-Bassam
Certified Public Accountant
Registration No. 337

30 March 2021G
Shaban 17, 1442H

AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
(Closed-ended fund)
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020
(Amounts in Saudi Riyals)

	Notes	As at 31 December 2020	2019
ASSETS			
Cash and cash equivalents	6,12	**1,330,686**	1,499,302
Investments carried at fair value through profit or loss (FVTPL)	7,12	**508,503**	18,039,084
Rent receivable	8	**615,180**	530,728
Prepayment and other assets		**990,989**	164,075
Investment properties	9	**498,200,740**	558,562,364
TOTAL ASSETS		**501,646,098**	578,795,553
LIABILITIES			
Accrued management fee	12	-	1,323,320
Accrued expenses and other liabilities	12	**464,403**	645,840
TOTAL LIABILITIES		**464,403**	1,969,160
NET ASSETS (EQUITY) VALUE		**501,181,695**	576,826,393
UNITS IN ISSUE *(Number)*		**57,240,000**	57,240,000
PER UNIT VALUE		**8.76**	10.08
PER UNIT FAIR VALUE	11	**8.76**	10.32

The accompanying notes 1 to 23 form an integral part of these financial statements.

AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
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STATEMENT OF COMPREHENSIVE (LOSS) / INCOME
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Note	2020	2019
Net rentals from investment properties	9.2	**7,811,852**	38,637,000
Net realized and unrealized gain from investments carried at FVTPL	10	**17,463**	237,007
Commission income from Murabaha deposit		-	69,337
Total operating income		**7,829,315**	38,943,344
Impairment on investment properties	9	**(53,442,806)**	-
Depreciation expense	9	**(6,918,818)**	(6,918,818)
Management fee	12	**(1,166,261)**	(5,807,400)
Other expenses		**(1,339,728)**	(1,781,105)
Total operating expenses		**(62,867,613)**	(14,507,323)
Net (loss) / income for the year		**(55,038,298)**	24,436,021
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		**(55,038,298)**	24,436,021

The accompanying notes 1 to 23 form an integral part of these financial statements.

AL MASHA'AR REIT FUND

A Real Estate Investments Traded Fund
(Closed-ended fund)
(MANAGED BY MUSCAT CAPITAL)

STATEMENT OF CHANGES IN NET ASSETS (EQUITY)
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Note	2020	2019
Net assets (Equity) value attributable to the Unitholder at beginning of the year		**576,826,393**	582,155,172
Dividend paid during the year	16	**(20,606,400)**	(29,764,800)
Total Comprehensive (loss) / income for the year		**(55,038,298)**	24,436,021
Net assets (Equity) value attributable to the unitholder at end of the year		**501,181,695**	576,826,393

Transactions in units for the year are summarized as follows:

	2020	2019
Number of units at the beginning of the year	**57,240,000**	57,240,000
Subscription of units	-	-
Redemption of units	-	-
Number of units at the end of the year	**57,240,000**	57,240,000

The accompanying notes 1 to 23 form an integral part of these financial statements.

AL MASHA'AR REIT FUND
A Real Estate Investments Traded Fund
(Closed-ended fund)
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STATEMENT OF CASH FLOWS
For the year ended 31 December 2020
(Amounts in Saudi Riyals)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) / income for the year		**(55,038,298)**	24,436,021
Adjustment for:			
Depreciation on investment properties	9	**6,918,818**	6,918,818
Impairment loss on investment property	9	**53,442,806**	-
Unrealized gain from investments carried at FVTPL	10	**(8,503)**	(176,714)
Realized gain from investments carried at FVTPL	10	**(8,960)**	(60,293)
Commission income on Murabaha		-	(69,337)
		5,305,863	31,048,495
Changes in operating assets:			
Prepayment and other assets		**(826,914)**	17,186
Rent receivable		**(84,452)**	(164,075)
Changes in operating liabilities:			
Accrued Management fee		**(1,323,320)**	(141,848)
Accrued expenses and other liabilities		**(181,437)**	391,392
Commission income received on Murabaha		-	151,565
Net cash generated from operating activities		**2,889,740**	31,302,715
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments carried at FVTPL		**(500,000)**	(40,115,707)
Sale of investments carried at FVTPL		**18,048,044**	29,983,344
Purchase of Murabaha placements		-	(17,766,000)
Sale of Murabaha placements		-	27,834,750
Net cash generated from investing activities		**17,548,044**	(63,613)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividend paid during the year	16	**(20,606,400)**	(29,764,800)
Net cash used in financing activity		**(20,606,400)**	(29,764,800)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(168,616)**	1,474,302
Cash and cash equivalents at the beginning of the year		**1,499,302**	25,000
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**1,330,686**	1,499,302

The accompanying notes 1 to 23 form an integral part of these financial statements.

1. THE FUND AND ITS ACTIVITIES

Al Masha'ar REIT Fund (the "REIT" or the "Fund") is a closed-ended Shariah compliant real estate investment traded fund. The Fund commenced its operation on 27 December 2017.

The REIT is managed by Muscat Capital (the "Fund Manager"), a Saudi Closed Joint Stock company with commercial registration no.1010259328, and an Authorized Person licensed by the Capital Market Authority ("CMA") under license no. 08096-37 dated 20 June 2009.

The REIT acquired three properties, including one from Makkah Income Generating Fund, a Private Closed Fund also managed by Muscat Capital. Consideration of these purchases were disbursed by way of cash payment as well as an "In-Kind" consideration by way of Units in the Al Masha'ar Fund amounting to SAR 172,539,000 and SAR 399,861,000 respectively.

The REIT operates in accordance with Real Estate Investment Funds Regulations and REIT Regulations issued by the CMA. The REIT is listed on Tadawul and the units of the REIT are traded on Tadawul in accordance with its rules and regulations. The subscribed units of the REIT equals to 57,240,000. The REIT has a term of 99 years, which is extendable at the discretion of the Fund Manager following the approval of CMA.

The Fund was launched with the investment objective of investing in income-generating real estate assets only in the holy cities of Makkah and Medina, Kingdom of Saudi Arabia. Subsequent to the period ended 31 December 2018 and effective from 10 January 2019, the Fund published its new Terms & Conditions with the updated investment objective to invest in income-generating real estate in any city within the Kingdom of Saudi Arabia.

The primary investment objective of the REIT is to provide its investors with current income by investing in construction developed income-producing real estate assets in the Kingdom of Saudi Arabia. While the REIT primarily invests in such assets, the REIT may opportunistically invest in real estate development projects; provided that (i) at least 75% of the REIT's total assets are invested in developed real estate assets which generate periodic income and (ii) the REIT may not invest in vacant land.

The REIT may, on a secondary basis, invest in development opportunities with profitable growth potentials that cater for specific real-estate needs, previously unavailable in certain areas. An added value is expected, in the medium term, to be created to Unitholders in such development projects. In the long term, the REIT's investment portfolio will continue to focus on attractive investment opportunities in different real-estate sectors, including, but not limited to, offices, trade exhibitions, houses, hospitality facilities, warehouses, etc. in order to build a real-estate base with diverse and stable income for Unitholders as well as achieve reasonable increase in the portfolio value.

The REIT shall be governed by the laws of Kingdom of Saudi Arabia and the regulations implemented by the CMA. The investments of the REIT shall comply with the Regulation of Ownership and Investment in Real Estate by Non-Saudis. The initial terms and conditions of the REIT were approved by CMA on 26 Muharram 1439H (Corresponding to 16 October 2017). Also, see Note 18.

2. REGULATING AUTHORITY

The Fund is governed by the Real Estate Investment Funds Regulations (the "Regulations") and REIT instructions published by CMA, detailing requirements for real estate funds and traded real estate funds within the Kingdom of Saudi Arabia.

3. BASIS OF PREPARATION

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). And to comply with implementing regulations issued by CMA and the Fund terms and conditions.

Assets and liabilities in the statement of financial position are presented in the order of liquidity.

3.2 Basis of measurement and functional and presentation currency

These financial statements have been prepared under the historical cost convention except for investments carried at FVTPL, and the amounts are expressed in Saudi Arabian Riyals (SAR), which is REITs functional and operational currency.

On 31 December 2019, CMA examined the suitability of continuing to use the cost model or permitting the use of the fair value model or revaluation options and made the following decisions:

1. Obligating listed companies to continue to use the cost model to measure Properties (IAS 16) and Investment Properties (IAS 40) in the financial statements prepared for financial periods within fiscal years, which start before the calendar year 2022; and

2. Allowing listed companies, the policy choice to use the fair value model for investment property subsequent to initial measurement or the policy choice to use the revaluation model for property (IAS 16) and Investment property (IAS 40) subsequent to initial recognition in the financial statements prepared for financial periods within fiscal years starting during the calendar year 2023 or thereafter.

3.3 Critical accounting judgments, estimates and assumption

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period, are described below. REIT based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of REIT. Such changes are reflected in the assumptions when they occur.

3. BASIS OF PREPARATION (continued)

3.3 Critical accounting judgments, estimates and assumption (continued)

Going Concern

REIT's management has made an assessment of the REIT's ability to continue as a going concern and is satisfied that the REIT has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on REIT's ability to continue as a going concern.

Valuation of investment properties

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the assets' useful lives and do not include restructuring activities that the fund is not yet committed to or significant future investments that will enhance each assets performance of the cash generating unit being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of non-financial assets

The carrying amounts of the non-financial assets are reviewed at the end of each reporting date or more frequently to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using the pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. The fair value less cost to sell is based on observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets are available, then based on discounted future cash flow calculations.

Residual and useful lives of investment properties

The REIT's management determines the estimated residual value and useful lives of its investment properties for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management will review the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates

3. BASIS OF PREPARATION (continued)

3.3 Critical accounting judgments, estimates and assumption (continued)

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

A number of significant judgments are also required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purposes of measuring ECL.

In the preparation of the financial statements, management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). However, in view of the current uncertainty due to COVID-19, any future change in the assumptions and key estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future periods. As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES

A number of new amendments to standards, enlisted below, are effective this year but they do not have a material effect on the Fund's Financial Statements, except for where referenced below.

New amendments to standards issued and applied effective January 1, 2020

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 1 and IAS 8	Definition of material	January 1, 2020	The amendments provided a new definition of material and clarified that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements.
IFRS 3	Definition of business	January 1, 2020	The amendment clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.
Revised Conceptual Framework for Financial Reporting	Amendments to references Conceptual Framework in IFRS Standards and updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	January 1, 2020	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.
IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	January 1, 2020	A fundamental review and reform of major interest rate benchmarks is being undertaken globally. The International Accounting Standards Board ("IASB") is engaged in a two-phase process of amending its guidance to assist in a smoother transition away from IBOR.
IFRS 16	COVID-19-Related Rent Concessions	June 1, 2020	The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment applies to annual reporting periods beginning on or after 1 June 2020 and earlier application is permitted.

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and revised IFRS issued but not yet effective

The Fund has not applied the following new and revised IFRSs and amendments to IFRS that have been issued but are not yet effective.

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2	January 1, 2021	These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.
IAS 37	Onerous Contracts Cost of Fulfilling Contract	January 1, 2022	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract. These amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments.
IFRS 16, IFRS 9, IAS 41 and IFRS 1	Annual Improvements to IFRS Standards 2018–2020	January 1, 2022	IFRS 16: The amendment removes the illustration of the reimbursement of leasehold improvements IFRS 9: The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender. The amendment is to be applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment. IAS 41: The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. IFRS 1: The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation difference.

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and revised IFRS issued but not yet effective

Amendments to standard	Description	Effective for annual years beginning on or after	Summary of the amendment
IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	January 1, 2022	The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Additionally, the amendments also clarify the meaning of 'testing whether an asset is functioning properly'.
IFRS 3	Reference to the Conceptual Framework	January 1, 2022	The amendment as a whole updated IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework.
IAS 1	Classification of Liabilities as Current or Non-current	January 1, 2023	The amendment has clarified what is meant by a right to defer settlement, that a right to defer must exist at the end of the reporting period, that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument the terms of a liability would not impact its classification
Amendment to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	N/A	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary.

Fund's Management anticipates that these new standards interpretations and amendments will be adopted in the Fund's financial statements as and when they are applicable and adoption of these interpretations and amendments may have no material impact on the financial statements of the Fund in the period of initial application.

4.1 Cash and cash equivalents

Cash and cash equivalents consist of bank balances with a local Bank. Cash and cash equivalents are carried at amortized cost within the statement of financial position.

4.2 Rent Receivables

Receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using effective commission method. Loss allowance for receivables is always measured at an amount equal to lifetime expected credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Investment properties

Investment properties are Real estate assets that are held for capital appreciation and/or rental yields are recorded as investment properties. Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method. The cost less residual value of investment property is depreciated over the shorter of its useful life or the terms of the Fund i.e., 35 years.

Residual values and useful lives of investment properties are subject to review and adjustment, as necessary, when an asset's carrying value exceeds its recoverable amount; it has to be written down immediately to its recoverable amount. Capital gains result from the disposal, which arises when the selling value of an asset exceeds its carrying value, recorded in the statement of comprehensive (loss) / income.

4.4 Impairment of non-current assets

Properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less cost to sell and value in use. Where an impairment loss subsequently reverses, the carrying amount of the property is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined. A reversal of an impairment loss is recognized as income immediately in the statement of comprehensive (loss) / income.

4.5 Accrued expenses and other liabilities

Accrued expenses and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective commission rate method.

A provision is recognised when the Fund has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision is not recognised for future operating loss.

4.6 Rental Income

Rental income from an operating lease of the properties is recognized on a straight-line basis over the term of the lease.

4.7 Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, net income from FVTPL financial instruments or other operating income based on the underlying classification of the equity instrument

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Net gain or loss on financial assets and liabilities at Fair Value through Profit or Loss ("FVTPL")

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior period's unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

4.9 Investment transactions

Investments transactions are accounted for as of the trade date.

4.10 Management fees and other expenses

Management fees and other expenses are charged at rates / amounts within limits mentioned in terms and conditions of the REIT. Management fee is calculated and payable quarterly in arrears.

4.11 Zakat

Zakat is the obligation of the unitholders and is not provided for in the financial statements.

4.12 Net Assets (Equity) per unit

The equity per unit is calculated by dividing the equity attributable to unitholders included in the statement of financial position by the numbers of units outstanding at the year end.

Units in issue

The Fund has units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank pari passu in all respects and have identical terms and conditions. The units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets in the event of the Fund's liquidation.

Units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- The total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Dividend distribution

The REIT has a policy of distributing on annually at least 90% of its net profit, not including profit resulting from the sale of the underlying real estate assets and other investments.

4.14 Financial instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive (loss) / income.

Classification and measurement of financial instruments

The Fund classifies its financial assets either as subsequently measured at amortized cost or measured at fair value through profit or loss

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit (SPPP), and that are not designated at FVTPL, are measured at amortized cost.

FVTPL: If financial asset's cash flows do not represent solely SPPP or if it not held within the held to collect or the held to collect and sell business model, or then it is measured at FVTPL. A gain or loss on a debt investment measured at FVTPL is recognized in the statement of comprehensive (loss) / income, within "Net gain / (loss) in investments mandatorily measured at FVTPL", in the period in which it arises. A gain or loss from debt instruments that were designated at fair value or which are not held for trading are presented separately from debt investments that are mandatorily measured at fair value through profit or loss, within "Net gain / (loss) in investments designated at FVTPL". Profit earned from these financial assets is recognized in the statement of comprehensive (loss) / income using the effective profit rate method.

Business model: The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is internally evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in 'other' business model and measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial instruments (continued)

Classification and measurement of financial instruments (continued)

SPPP: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent solely payment of principal and profit (the "SPPP" test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e., profit includes only consideration for the time value of resources, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

A financial asset shall be measured at FVTOCI if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortised cost or at FVTOCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive (loss) / income.

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial instruments (continued)

Classification and measurement of financial instruments (continued)

The measurement category and the carrying amount of financial assets and liabilities in accordance with IFRS 9 are as follows:

	IFRS 9	2020	2019
	Measurement category	**Carrying amount**	**Carrying amount**
Cash and cash equivalents	Amortized cost	1,330,686	1,499,302
Investments carried at FVTPL	FVTPL (Mandatory)	508,503	18,039,084
Rent receivable	Amortized cost	615,180	530,728
Prepayments and other assets	Amortized cost	990,989	164,075
Total financial assets		3,445,358	20,233,189
Accrued management fee	Amortized cost	-	1,323,320
Accrued expenses and other liabilities	Amortized cost	464,403	645,840
Total financial liabilities		464,403	1,969,160

Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gain, loss, and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial instruments (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognized where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

(a) Transferred substantially all of the risks and rewards of the asset or
(b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognized an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund recognized a financial liability when the obligation under the liability is discharged, cancelled or expired.

Impairment of financial assets

The Fund assesses on a forward-looking basis the expected credit loss ("ECL") associated with its financial instrument assets carried at amortised cost. The Fund recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of resources; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial instruments (continued)

Financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL. The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Derecognition

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of the financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognises the amount adjusting the gross carrying amount as modification gain or loss in the statement of comprehensive (loss) / income.

Financial liability

The Fund derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability distinguished and the new financial liability with modified terms are recognised in the statement of comprehensive (loss) / income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Non-current assets classified as held for sale are presented separately and measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some held for sale assets such as financial assets, continue to be measured in accordance with the Fund's relevant accounting policy for those assets. Once classified as held for sale, the assets are not subject to depreciation or amortisation.

Any profit or loss arising from the sale of a discontinued operation or its remeasurement to fair value less costs to sell is presented as part of a single line item, profit or loss from discontinued operations.

(Amounts in Saudi Riyals)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 IFRS 16 Leases

The Fund has adopted IFRS 16 - Leases effective from 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exceptions for short-term leases and low-value items. Lessor accounting remains similar to the current standard – i.e., lessor continues to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a Lease, SIC 15 Operating Leases – incentives and SIC-27 Evaluating the Substance of Transactions involving the legal Form of Lease.

The Fund has assessed the impact of above standard. Based on the assessment, the above standard has no material impact on the Fund's financial statements as of the reporting date.

5. MANAGEMENT FEE, OTHER EXPENSES AND TRANSACTION FEE

- MANAGEMENT FEE, OTHER EXPENSES

On a daily basis, the Fund Manager charges the Fund, management fee at the rate of 1 percent per annum of the Fund's net assets value and is paid on a quarterly basis.

- TRANSACTION FEE

The Fund Manager charges the Fund, a one-time acquisition fee at the rate of 2.5 percent on the acquisition or sale price of the real estate assets, except for Eskan 4, 5 and 6.

6. CASH AND CASH EQUIVALENTS

	Note	31 December 2020	31 December 2019
Cash at bank	6.1, 12	**1,330,686**	1,499,302
Total		**1,330,686**	1,499,302

6.1 Cash balances are held in current accounts with Bank Muscat. The Fund does not earn profit on these current accounts.

7. INVESTMENTS CARRIED AT FVTPL

	Note	31 December 2020	31 December 2019
Muscat Capital Money Market Fund	12	**508,503**	18,039,084

(Amounts in Saudi Riyals)

7. INVESTMENTS CARRIED AT FVTPL (continued)

The following is the movement in investments during the year

	31 December 2020	31 December 2019
Cost:		
At the beginning of the year	**18,039,084**	7,669,714
Additions during the year	**500,000**	40,115,707
Sold during the year	**(18,039,084)**	(29,923,051)
At the end of the year	**500,000**	17,862,370
Change in fair value:		
Changes in fair value during the year	**17,463**	237,007
Sold during the year	**(8,960)**	(60,293)
At the end of the year	**8,503**	176,714
Net Investments at the end of the year	**508,503**	18,039,084

8. RENT RECEIVABLE

	31 December 2020	31 December 2019
At the beginning of the year	**530,728**	530,728
Earned during the year	**7,811,852**	38,637,000
Received during the year	**(7,727,400)**	(38,637,000)
At the end of the year	**615,180**	530,728

9. INVESTMENT PROPERTIES

As of 31 December 2020

	Note	Land	Building	Total
Cost				
Balance as of 31 December 2019		**330,241,376**	**242,158,624**	**572,400,000**
Additions		-	-	-
Balance as of 31 December 2020		**330,241,376**	**242,158,624**	**572,400,000**
Accumulated Depreciation				
Balance as of 31 December 2019		-	**13,837,636**	**13,837,636**
Charge for the year	9.1	-	**6,918,818**	**6,918,818**
Balance as of 31 December 2020		-	**20,756,454**	**20,756,454**
Accumulated Impairment losses				
Balance as of 31 December 2019		-	-	-
Charge for the year		-	**53,442,806**	**53,442,806**
Balance as of 31 December 2020			**53,442,806**	**53,442,806**
Book Value:				
as of 31 December 2020		**330,241,376**	**167,959,364**	**498,200,740**

(Amounts in Saudi Riyals)

9. INVESTMENT PROPERTIES (continued)

As of 31 December 2019

	Note	Land	Building	Total
Cost				
Balance as of 31 December 2018		330,241,376	242,158,624	572,400,000
Additions		-	-	-
Impairment		-	-	-
Balance as of 31 December 2019		330,241,376	242,158,624	572,400,000
Accumulated Depreciation				
Balance as of 31 December 2018		-	6,918,818	6,918,818
Charge for the year	9.1	-	6,918,818	6,918,818
Balance as of 31 December 2019		-	13,837,636	13,837,636
Book Value:				
as of 31 December 2019		330,241,376	228,320,988	558,562,364

The investment properties represent the following three properties:

- The Eskan 4 building is located in Makkah with an annual rental income of SAR 12.8M;
- The Eskan 5 building is located in Makkah with an annual rental income of SAR 12.3M; and
- The Eskan 6 building is located in Makkah with an annual rental income of SAR 13.5M.

9.1 The Fund has the policy of charging depreciation on building over 35 years using the straight-line method.

9.2 Rentals from investment properties:

	31 December 2020	31 December 2019
Rentals from investment properties	**38,637,000**	38,637,000
Less: Discount allowed on rentals*	**(30,825,148)**	-
Net rentals from investment properties	**7,811,852**	38,637,000

*Due to ongoing Covid-19 crisis and lockdown in the Kingdom, the Fund Manager has waived off the rent for the period from 15 March 2020 to 31 December 2020 and has given discount to its lessees against the lease rentals.

10. NET REALIZED AND UNREALIZED GAIN FROM INVESTMENTS CARRIED AT FVTPL

	31 December 2020	31 December 2019
Unrealized gain from investments carried at FVTPL	**8,503**	176,714
Realized gain from investments carried at FVTPL	**8,960**	60,293
Total	**17,463**	237,007

(Amounts in Saudi Riyals)

11. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED

In accordance with Article 22 of the Real Estate Investments Funds Regulations issued by CMA in the Kingdom of Saudi Arabia, the Fund Manager evaluates the Fund's assets based on an average of two evaluations prepared by independent evaluators. As set out in the terms and conditions of the Fund, net asset value declared is based on the market value obtained. However, in accordance with accounting policy of the Fund, investment properties are carried at cost less accumulated depreciation and impairment losses, if any. Accordingly, the fair value below is disclosed for information purposes and has not been accounted for in the Fund's financial statements.

The valuation of the investment properties (the "properties") is determined by **White Cubes Real Estate Company** and **Value Experts**. These two valuers are licensed by the Saudi Authority for Accredited Valuers ("TAQEEM"). The Fund Manager has used the average of two valuations for the purpose of disclosing the fair value of the properties. The properties were valued taking into consideration a number of factors, including the area and type of properties, and valuation techniques using significant unobservable inputs, including the land plus cost model, direct comparison method and discounted cash flow method.

As of 31 December 2020, the valuation of the investment properties are as follows:

31 December 2020	First Appraiser	Second Appraiser	Average
Investment properties	**515,200,000**	**481,201,480**	**498,200,740**
Total	**515,200,000**	**481,201,480**	**498,200,740**

31 December 2019	First Appraiser	Second Appraiser	Average
Investment properties	572,400,000	572,400,000	572,400,000
Total	572,400,000	572,400,000	572,400,000

Management has used the average of the two valuations for the purposes of disclosing the fair value of the investment properties.

The investment properties were valued taking into consideration a number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, including the financial & fragmentation plot analysis, land plus cost model, direct comparison method and discounted cash flow method. The analysis of investment properties fair value versus cost is disclosed below:

	31 December 2020	31 December 2019
Estimated fair value of investment properties based on the average of the two valuers used	**498,200,740**	572,400,000
Less: the carrying value of investment property	**(498,200,740)**	(558,562,364)
Estimated fair value in surplus of book value	-	13,837,636
Units in issue (numbers)	**57,240,000**	57,240,000
Additional value per unit based on fair value	-	0.24

(Amounts in Saudi Riyals)

11. EFFECT OF NET ASSET (EQUITY) VALUE IF INVESTMENT PROPERTIES ARE FAIR VALUED (continued)

Net asset (Equity) value:

	31 December 2020	31 December 2019
Net assets (Equity) attributable to unitholders as per the financial statements before fair value adjustment	**501,181,695**	576,826,393
Estimated fair value in surplus of book value	-	13,837,636
Net assets (Equity) attributable to unitholders based on fair valuation of investment properties	**501,181,695**	590,664,029

Net asset attributable to each unit:

	31 December 2020	31 December 2019
Net Assets (Equity) value per unit as per the financial statements before fair value adjustment	**8.76**	10.08
Increase in value per unit based on fair value	-	0.24
Net assets (Equity) attributable to each unit based on fair valuation	**8.76**	10.32

The following table shows the valuations techniques used in determining the fair value of investment properties, as well as key unobservable inputs used in valuation models.

Measurement data of fair value according to IFRS 13 as at 31 December 2020 as follows:

White Cubes

Properties	Valuation approach	Key inputs and valuation assumptions	Rate
Eskan 4	Income Approach	Capitalization rate	7.5%
Eskan 5	Income Approach	Capitalization rate	7.5%
Eskan 6	Income Approach	Capitalization rate	7.5%

Value Experts

Properties	Valuation approach	Key inputs and valuation assumptions	Rate
Eskan 4	DCF	Discount rate	10%
Eskan 5	DCF	Discount rate	10%
Eskan 6	DCF	Discount rate	10%

All properties are held in the name of Al Masha'ar REIT real estate Company (the "SPV"). The SPV is holding these properties for the beneficial ownership of the Fund and does not possess any controlling interest or any stake in the properties.

12. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Fund include "Muscat Capital" being the Fund Manager, (Bank Muscat being the shareholder of Muscat Capital), with the underlying properties of the Fund being custodized with Riyad Capital (being the custodian of the Funds).

For management services, the Fund pays quarterly, the management fees at an annual rate of 1% of the net assets (equity) of the Fund attributable to Unitholders, at each valuation date, as set out in the Fund's terms and conditions. However, in light of the Fund manager's announcement on Tadawwul on 8 July 2020, for waiver of the management fee, the accrual of management fee was restricted till 14 March 2020.

(Amounts in Saudi Riyals)

12. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The Fund pays fixed custodian fees of SR 175,000 per annum, as set out in the Fund's terms and conditions and is paid quarterly.

The significant related party transactions entered into by the Fund during the year are as follows:

		31 December 2020	31 December 2019
Related Party	**Nature of transaction**	**Amount of transaction**	**Amount of transaction**
Muscat Capital	Management fee	**(1,166,261)**	(5,807,400)
	Admin fee	**(281,436)**	(290,370)
	Others	**(86,187)**	(313,600)
Riyad Capital	Custodial fees	**(175,000)**	(174,222)

The balances resulting from related party transactions are as follows:

		31 December 2020	31 December 2019
Related Party	**Nature of transaction**	**Balance**	**Balance**
Muscat Capital	Management fee **	**142,431**	(1,323,320)
	Admin fee *	**(201,603)**	(193,662)
	Others *	**(12,027)**	(78,134)
Riyad Capital	Custodial fees *	**(40,565)**	(45,692)
Bank Muscat	Current account	**1,330,686**	1,499,302
Muscat Capital Money Market fund	Investments	**508,503**	18,039,084

* These balances have been recorded under accrued expenses and other liabilities.

** This is recorded under prepayments and other assets.

13. RISK MANAGEMENT

13.1 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The REIT's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The REIT's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the REIT's financial performance.

Financial instruments carried in these financial statements principally include cash and cash equivalents, rent receivable, and accrued expenses and other liabilities. Financial assets and liabilities are offset and net amounts reported in the financial statements, when the REIT has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.

(a) Market risk

The REIT will be subject to the general conditions of the real estate sector in Saudi Arabia, which itself is influenced by a variety of factors such as, but not limited to the overall macroeconomic growth in the kingdom, commission rates, demand-supply, availability of financing, investor sentiment, liquidity, legal and regulatory requirement. The REIT management monitors on a regular basis the fluctuation and changes in the overall economic environment and believes that the impact of such changes is not significant to the REIT.

(Amounts in Saudi Riyals)

13. RISK MANAGEMENT (Continued)

13.1 Financial risk management (Continued)

(a) Market risk (continued)

Currency risk

Currency risk is the risk that the value of financial instrument may fluctuate due to a change in foreign exchange rates. The financial instruments of the Fund i.e., bank balances, financial assets held at FVTPL, rent receivable, accrued management fee and accrued expenses and other liabilities are denominated in Saudi Arabian Riyals. Accordingly, the Fund is not exposed to any currency risk.

Price risk

Price risk is the risk that the value of Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than foreign currency and commission rate movements. The price risk arises primarily from uncertainty about the future prices of the financial instruments that the Fund holds. The Fund closely monitors the price movement of its investment in financial instruments. As of the statement of financial position date, the Fund has investment in Muscat Capital Money Market Fund.

The effect on the net assets (Equity) (as a result of change in fair value of investments as 31 December) due to a reasonably possible change in equity of FVTPL investments, with all other variable held constant, is as follows:

		31 December 2020	31 December 2019
Effect on Net Assets	±5%	**25,425**	901,954

Commission rate risk

Commission rate risk is the risk that the value of future cashflows of financial instruments or fair value of fixed coupon financial instruments will fluctuate due to changes in the market commission rates.

The Fund is not subject to commission rate risk, as it does not currently have any commission bearing financial instruments.

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is exposed to credit risk for its rent receivable and cash at bank.

Its Fund's policy to enter into financial instrument contracts with reputable counterparties. The Fund seeks to limit its credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. The credit quality of the Fund's bank balance is assessed with reference to external credit ratings. The bank balances along with credit ratings are tabulated below.

Rating of Financial Institution	31 December 2020	31 December 2019
Cash at bank		
Ba2	**1,330,686**	1,499,302
	1,330,686	1,499,302

The following table shows maximum exposure to credit risk for the components of the statement of financial position.

(Amounts in Saudi Riyals)

13. RISK MANAGEMENT (continued)

13.1 Financial risk management (continued)

(b) Credit risk

	Note	31 December 2020	31 December 2019
Cash and cash equivalents	6	**1,330,686**	1,499,302
Rent Receivable	8	**615,180**	530,728

(c) Liquidity risk

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities which comprises of management fee payable and other liabilities. The Fund is a closed-ended fund and further to subscribing to the Fund's units during the offering period, no sales and purchase of units are permitted unless specifically approved by CMA.

The remaining contractual maturities at the reporting date of the Fund's financial liabilities consisting of accrued management and accrued expenses and other liabilities are all due as follows:

31 December 2020

	Carrying amount	Up to three months	More than 3 months and up to one year	More than one year
Accrued expenses and other liabilities	464,403	464,403	-	-
	464,403	464,403	-	-

31 December 2019

	Carrying amount	Up to three months	More than 3 months and up to one year	More than one year
Accrued management fee	1,323,320	1,323,320	-	-
Accrued expenses and other liabilities	645,840	279,546	366,294	-
	1,969,160	1,602,866	366,294	-

The Fund Manager already has adequate cash and liquid assets to settle its financial liabilities as they fall due.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

(Amounts in Saudi Riyals)

13. RISK MANAGEMENT (continued)

13.2 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are observable inputs for the asset or liability.

As of December 31, 2020, the Fund's financial instruments comprise cash and cash equivalent, Investment carried at fair value through profit and loss, rent receivable, accrued management fee and accrued expenses and other liabilities. Except for Investments carried at fair value through profit or loss, all the financial instruments are measured at amortised cost and their carrying value is a reasonable approximate of fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments.

31 December 2020	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	**508,503**	**-**	**508,503**	**-**	**508,503**

31 December 2019	**Carrying value**	**Fair Value**			
		Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value					
Investments carried at Fair Value Through Profit or Loss (FVTPL)	18,039,084	-	18,039,084	-	18,039,084

Valuation technique for calculating the fair value of investments under Level 2 comprises of determining the net asset value per unit of the investee funds.

14. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and financial liabilities are classified under amortised cost (except for investments carried at fair value through profit or loss which are classified at fair value) as of 31 December 2020 and 31 December 2019.

15. SEGMENT REPORTING

The Fund has invested in three real estate investments in the Kingdom of Saudi Arabia. As it is invested in a single industry sector and in a single country, no segment information has been presented.

16. DIVIDEND DISTRIBUTION

In accordance, with the approved terms and conditions of the Fund, On 13 January 2020 and 15 July 2020, the Fund's board of directors recommended to distribute dividends with regards to the six-month period ended 31 December 2019 and six-month period ended 30 June 2020 amounting to SR 0.26 and 0.10 per unit amounting to SR 14,882,400 and SR 5,724,000 to its unitholders respectively. The same was paid on 13 February 2020 and 17 August 2020 respectively.

17. CHANGES IN FUNDS TERMS AND CONDITIONS

During the year, the Fund has made changes in the membership of Board of Directors of the Fund.

18. EVENTS AFTER THE REPORTING DATE

During 2019, the Fund manager entered into a contract with Riyad Bank for a financing facility amounting to SAR 500 Million to be utilized by the Fund for acquiring new properties and assets within the Kingdom of Saudi Arabia. On 28 February 2021, the Fund signed a Memorandum Letter to invest SAR 135 Million in a Commercial building namely, "i- Offices" in the City of Riyadh, which subsequently dated on 11 March 2021 the Sale & Purchase Agreement was completed and the process of transferring the ownership of the building to the Funds initiated and under progress as of the date of approval of these financial statements.

The Property comprises of 3 Class an income generating Commercial office Towers located on a prime location in Thumamah Road, next to the Aliya plaza Complex in the District of Rabeea. The total land area is 6155 square meters while the built-up area is 23,195 square meters. The gross leased area is 10,700 square meters. The property has three tenants, out of which two include Al Rajhi Takaful and Amlak International. The acquisition is on a 100% occupancy basis. This acquisition is financed from the available Shariah Compliant loan facility signed between Riyad Bank and the Fund.

Dated March 1, 2021, the CMA announced the approval of amendments to the Investment Funds Regulations and Real Estate Investment Funds Regulations and Glossary of Defined Terms Used in the Regulation (the "Amendments") with an effective date of May 1, 2021. As of the date of approval of these financial statements, the Fund Manager is assessing the Amendments' impact on the Fund's financial statements.

19. SIGNIFICANT STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and interpretations have been issued but are not yet effective. The Fund intends to adopt all the applicable standards and interpretations when these become effective. The Fund manager has assessed the impact of these new standards and interpretations and believes that none of these would have any effect on the future financial statements of the Fund.

20. COMPARATIVE FIGURES

Certain prior year amounts have been reclassified to conform with the presentation in the current year.

21. IMPACT OF CORONAVIRUS (COVID-19) OUTBREAK AND THE GOING CONCERN

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the fair value. The changing COVID-19 circumstances and the Government, business and customers responses could result in significant adjustments to the fair value in future financial years.

22. LAST VALUATION DAY

The last valuation day of the year was at 31 December 2020.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board on 30 March 2021 (Corresponding to 17 Shaban, 1442H).

Signed on behalf of Fund's Board of Directors

Authorized Signatory