



QuantumWarrants Pty Ltd
AFSL# 284 983

Accountants Guide
for
Portfolio Warrants

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1. INTRODUCTION

QuantumWarrants Pty Ltd has prepared this reference guide to assist with the administration of Portfolio Warrant. Demand for a resource such as this has been driven by strong growth in the number of investors in this product, and their accountants and advisers wishing to understand more about this product.

In particular this guide is designed to assist with:

- Preparation of financial statements; and
- Preparation of tax returns.

It is assumed throughout this guide that the investor is:

- An individual who:
 - (a) Is not a trader in these products; and
 - (b) Holds the products acquired on capital account; or
- A complying superannuation fund.

If you would like further information or assistance please:

1. Visit <http://www.quantumwarrants.com.au/portfolio-warrants/> for information;
2. Email investors@davinciadvisors.com.au if you have a question; or
3. Call (02) 8823 5222 to speak to one of our investor relations representatives.

2. Quantum Portfolio Warrants

Eligible for Self Managed Super Funds (SMSF)

Instalment warrants have become a very popular investment tool for self managed superannuation funds. Reasons for this included:

1. They are one of the few investments which can provide a regulated super funds with leverage without breaching the borrowing restrictions imposed by the SIS Act, if conditions under s.67 (4A) of SIS Ac are met.
2. While the fund only outlays a portion of the cost of the underlying securities, it is still entitled to the full taxation benefits from interest deductions which may be used to offset any income tax liability.

While instalment warrants do not constitute a borrowing under the SIS Act & regulations, the interest charge associated with instalment warrants may still be allowable as tax deduction.

3. ACCOUNTING IMPLICATIONS

This section provides examples to assist in preparing financial statements for self managed superannuation funds. It also addresses the question of whether the Loan Payment represents a liability which needs to be accounted for.

WORKED EXAMPLE

A self managed superannuation fund ("SMSF") had approximately an additional \$50,000 to invest and wished to acquire shares worth \$80,000. The Trustees of the SMSF decided to acquire those shares using a Portfolio Warrant.

On or about 1 July 2008, the SMSF applied to QuantumWarrants Pty Ltd for a Portfolio Warrant via the PDS. The amount paid was \$50,000 (Initial Amount). The Security Trustee then acquired the selected shares using the Initial Amount and the Loan Amount provided by QuantumWarrants Pty Ltd on the same day.

Details of the acquisition were as follows:

Issue Date	1 July 2008
Loan Amount	\$30,800
Initial Amount (includes amounts below)	\$50,000
Facility Fee (included in Initial Amount)	\$800

Accounting Entries

The following entries should be made on the date of purchase:

	DR	CR
DR- Investments- Portfolio Warrant	\$49,200	
DR- Facility Fees	\$800	
CR- Cash		\$50,000

Facility fees are generally amortised over a 5 year period or the life of the loan.

Journal entries for each year are

DR- Setup costs (\$800/5 years)	\$160	
CR- Facility Fees		\$160

The loan associated with a Portfolio Warrant is netted off with the underlying shares due to the contractual relationship of the Portfolio Warrant where the settlement will always be made on a net basis.

Accounting Entries (continued)

Now consider the following three transactions occur during the financial year 2008-2009.

1. *The SMSF elects to retain the Portfolio Warrant by paying the interest & management fee as the following information:*

Interest Expenses	\$350
Management Fees	\$250
Investment Income	\$2,000
Value of Portfolio Warrant	\$55,000

The following accounting entries should be made

	DR	CR
DR- Interest Expenses	\$350	
DR- Management Fees	\$250	
DR- Portfolio Warrant (\$55,000 - \$49,200)	\$5,800	
CR- Income		\$2,000
CR- Unrealised Gain (\$5,500 - \$2,000 - (\$350 - \$250))		\$4,400

2. *The SMSF elects to retain the Portfolio Warrant and repaying \$10,000 of the loan.*

DR- Portfolio Warrant	\$10,000	
CR- Cash		\$10,000

3. *The SMSF elects to payoff the loan amount of \$30,800 and take delivery of shares.*

DR- Shares	\$95,800	
CR- Portfolio Warrant		\$65,000
CR- Cash		\$30,800

4. TAXATION IMPLICATIONS

The analysis of the tax consequences of an investment in a Portfolio Warrant should be read together with the PDS under which the Portfolio Warrant was offered and in particular the Australian Taxation Office Product Ruling (PR2005/27). Remember the taxation treatment for an investor will depend on their individual circumstances and investors are encouraged to seek their own advice.

Interest Amounts

Interest on the Loan Amount should, generally, be allowed as deduction because it is incurred in respect of an investment acquired to gain or produce assessable income (e.g. dividend income) other than capital gains.

Facility Fees

The facility fees relate to the cost of Portfolio Warrant making the loan available to the investor. As the loan funds are used for income producing purposes and the loan term is 10 years, any facility fee charged will be deductible over 5 years under section 25-25 of the ITAA 1997.

Annual Tax Statements for Portfolio Warrants

After the end of each financial year, Quantum will send to clients who have held a Portfolio Warrant an Annual Tax Statement containing a summary of all transactions for the year including the following information relevant to their tax return:

- Assessable income including franking credit and foreign tax credit;
- Summary of all expenses;
- Current portfolio market value (for information purposes only); and
- Current loan amount.