Augusta Kedron Partnership Prospective Financial Information, a reconciliation of GAAP to non-GAAP information and supplementary financial information

Prospective Financial Information

The Prospective Financial Statements of Augusta Kedron Partnership (the Partnership) comprise the following Prospective Financial Information (PFI) and other PFI related information for the 3 months ending 30 June 2019 (FY2019) and the 12 months ending 30 June 2020 (FY2020).

Introduction

These Prospective Financial Statements comprise the following:

- Prospective statement of comprehensive income;
- Prospective statement of changes in equity;
- Prospective statement of financial position;
- Prospective statement of cash flows;
- Description of general and specific assumptions, and policies applied in preparing the PFI;
- Sensitivity analysis to prospective financial information; and
- Reconciliation of GAAP to non-GAAP Information

This document should be read in conjunction with the Product Disclosure Statement ("PDS") dated 15 February 2019 and other information provided on the Disclose Register (www.business.govt.nz/disclose, offer number 12562). Capitalised terms used but not defined in this document have the meanings given to them in the PDS.

Financial information is presented in Australian dollars.

Basis of preparation and presentation

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: *Prospective Financial Statements.*

The PFI, and underlying assumptions, have been prepared by management and approved by the Augusta Funds Management Limited's Board (the "Directors") specifically for the purpose of a Public Offer of units in the Partnership (the "Offer").

The Directors have given due care and attention to the preparation of the PFI and authorised the PFI as at 15 February 2019 for the purpose stated above. The PFI may not be suitable for any other purpose.

PFI, by its nature, is inherently uncertain. It involves predictions of future events that cannot be assured as well as risks and uncertainties which are often beyond the control of the Partnership. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated.

Various risk factors and the management thereof may influence the success of the Partnership's business - with specific reference to Section 7 "Risks to returns from Augusta Kedron Partnership" in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Directors cannot and do not guarantee the achievement of the PFI.

Financial periods

The PFI covers the following reporting periods:

- Forecast financial information for FY2019 (3 months ending 30 June 2019); and
- Forecast financial information for FY2020 (12 months ending 30 June 2020).

FY2020 represents the first financial period where the investment property is held for a full 12 month period alongside an ongoing cost base, and therefore represents the first period where the Partnership's profitability is fully demonstrated.

The Directors are responsible for and have authorised the issue of the PFI on 15 February 2019. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Partnership will present a comparison of the PFI with actual financial results in its FY2019 and FY2020 annual reports, as required by clause 59, Schedule 5, of the Financial Markets Conduct Regulations 2014.

Explanation of certain non-GAAP financial measures

Refer to Section 4 *Reconciliation of non-GAAP financial information* for a description and reconciliation of each adjustment to GAAP financial information.

Augusta Kedron Partnership

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME

	Note	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Rental income	**1.2.3**	393,962	1,590,616
Adjustment for fixed rental growth accrual	**1.2.3**	54,595	167,403
Property operating expense recoveries		20,541	82,700
Gross property income		**469,098**	**1,840,719**
Recoverable property operating expenses	**1.2.3**	(19,140)	(82,700)
Non recoverable property operating expenses	**1.2.3**	(30,968)	(150,544)
Net property income		**418,990**	**1,607,475**
Scheme expenses	**1.2.3**	(29,563)	(143,092)
Operating profit before finance costs		**389,427**	**1,464,383**
Net finance expenses	**1.2.3**	(109,876)	(433,326)
Operating profit before taxation		**279,551**	**1,031,057**
Income tax		358,759	62,920
Operating profit after taxation		**638,310**	**1,093,977**
Change in fair value of investment property	**1.2.2**	(1,825,930)	(167,403)
Total (loss)/profit for the period		**(1,187,620)**	**926,574**
Other comprehensive income		-	-
Total comprehensive income for the period		**(1,187,620)**	**926,574**

These financial statements should be read in conjunction with the notes on pages 7 to 23.

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	Note	Capital $	Retained earnings $	Total $
Equity as at 29 March 2019		**-**	**-**	**-**
Issued Capital	**1.2.8**	14,800,000	-	14,800,000
Establishment costs	**1.2.14**	(1,058,553)	-	(1,058,553)
Total comprehensive income for the period		-	(1,187,620)	(1,187,620)
Distributions paid	**1.2.9**	-	(230,553)	(230,553)
Equity as at 30 June 2019		**13,741,447**	**(1,418,173)**	**12,323,274**
Equity as at 1 July 2019		**13,741,447**	**(1,418,173)**	**12,323,274**
Total comprehensive income for the year		-	926,574	926,574
Distributions paid	**1.2.9**	-	(902,800)	(902,800)
Equity as at 30 June 2020		**13,741,447**	**(1,394,399)**	**12,347,048**

These financial statements should be read in conjunction with the notes on pages 7 to 23.

Augusta Kedron Partnership

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2019 $	As at 30 June 2020 $
Current assets			
Cash and cash equivalents	**1.2.10**	245,257	246,861
Trade and other receivables	**1.2.5**	-	-
Total current assets		**245,257**	**246,861**
Non-current assets			
Deferred tax asset	**1.2.15**	358,759	421,679
Investment property	**1.2.2**	21,445,405	21,278,002
Accrual for fixed rental growth	**1.2.2**	54,595	221,998
Total non-current assets		**21,858,759**	**21,921,679**
Total assets		**22,104,016**	**22,168,540**
Current liabilities			
Trade and other payables	**1.2.6**	140,843	141,548
Total current liabilities		**140,843**	**141,548**
Non-current liabilities			
Borrowings	**1.2.7**	9,750,024	9,750,024
Borrowing Costs		(110,125)	(70,080)
Total non-current liabilities		**9,639,899**	**9,679,944**
Total liabilities		**9,780,742**	**9,821,492**
Equity		**12,323,274**	**12,347,048**
Total liabilities and equity		**22,104,016**	**22,168,540**

These financial statements should be read in conjunction with the notes on pages 7 to 23.

Augusta Kedron Partnership

PROSPECTIVE STATEMENT OF CASH FLOWS

	Note	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Cash flows from operating activities			
Cash was provided from :			
Rental receipts	**1.2.12**	393,962	1,590,616
Operating expense recoveries		20,541	82,700
Goods and services tax		36,137	-
		450,640	**1,673,316**
Cash was applied to :			
Payments to suppliers		(50,198)	(375,631)
Interest paid		(99,865)	(393,281)
		(150,063)	**(768,912)**
Net cash flow from operating activities		**300,577**	**904,404**
Cash flows from investing activities			
Cash was applied to :			
Purchase of property	**1.2.2**	(21,520,000)	-
Transaction costs in relation to purchase of property	**1.2.14**	(1,495,335)	-
Capital improvements		(256,000)	-
		(23,271,335)	**-**
Net cash flow from investing activities		**(23,271,335)**	**-**
Cash flows from financing activities			
Cash was provided from :			
Investor capital	**1.2.8**	14,800,000	-
Borrowings	**1.2.7**	9,750,024	-
		24,550,024	**-**
Cash was applied to :			
Distributions to investors	**1.2.9**	(155,320)	(902,800)
Establishment issue costs	**1.2.14**	(1,058,553)	-
Establishment financing costs	**1.2.14**	(120,136)	-
		(1,334,009)	**(902,800)**
Net cash flow from financing activities		**23,216,015**	**(902,800)**
Net increase in cash and cash equivalents		245,257	1,604
Cash and cash equivalents at start of period		-	245,257
Cash and cash equivalents at end of period	**1.2.10**	**245,257**	**246,861**

**GST has been presented for all periods on a net basis within the Cash Flow Statement.*

These financial statements should be read in conjunction with the notes on pages 7 to 23.

NOTES AND ASSUMPTIONS FOR THE PERIOD ENDED 30 JUNE 2019 AND THE YEAR ENDED 30 JUNE 2020.

The purpose of the prospective financial statements is to assist investors in assessing the viability of and return on funds invested. The Product Disclosure Statement and the prospective financial information contained in it may not be appropriate for any other purpose.

Augusta Kedron Partnership (the Partnership) is to be established and domiciled in Australia.

The Partnership will be a commercial property investment that owns land and buildings located at 255-257 Gympie Rd, Kedron, Queensland, Australia. The registered office of the Manager is situated at Level 2, Bayleys House, 30 Gaunt Street, Wynyard Quarter, Auckland 1010, New Zealand.

The prospective financial statements were authorised for issue on 15 February 2019. The Manager is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures. It is not intended to update the prospective financial information subsequent to issue.

1 ASSUMPTIONS

The following general and specific assumptions have been adopted in preparing the PFI. The general assumptions contained in this section should be read in conjunction with Section 7 'Risks to returns from Augusta Kedron Partnership' in the PDS.

1.1 General Assumptions in respect of the PFI

- Economic environment - there will be no material changes in the general economic environment for the Austalian market, in which the Partnership operates.

- Political, legislative & regulatory environment - there will be no material change to the political, legal or regulatory environments in which the Partnership operates.

- Markets operating in - the Partnership will continue to operate only in Australia over the prospective period.

- Competitive environment - there will be no material change to the competitive dynamics of the market in which the Partnership operates, including any material change in competitor activity. It is assumed that no new entrants will materially change the competitive environment in which the Partnership operates and no existing participant will leave the market.

- Industry conditions - there will be no change in the general industry structure, third party relationships, supply and the rental property or general employment conditions.

- Key tenants and suppliers - existing contractual, business and operational relationships are assumed to continue throughout the prospective period. There will be no unanticipated loss of key tenants, suppliers or agents.

- Disruption to operations - there will be no material disruption to operations such as natural disasters, fires or explosions and normal hazards associated with operating the Partnership's business.

- Legal exposure - there will be no unexpected litigation or contractual disputes.

- Property / business acquisitions or disposals - there will be no material acquisitions or disposals by the Partnership other than those detailed within the PFI.

- Interest rate environment - there will be no material and/or sudden changes to the interest rate environment.

- Financial Reporting Standards - there will be no change in the financial reporting standards or accounting interpretations which would have a material effect on the Partnership.

- Accounting for the Offer costs - offer costs of $1,495,335 to be capitalised on the statement of financial position in FY19 as appropriate.

- Management of the Partnership - the Partnership will be managed by Augusta Funds Management Limited ("AFML"), who will be sufficiently resourced to manage the Partnership with no significant changes to key personnel involved in management of the Partnership.

- Taxation - there will be no material change to the tax rates or laws (including in relation to GST) in New Zealand and Australia. It is assumed that there will be no change to the existing legislation regarding taxation of capital gains and that the Partnership will depreciate the acquired assets for income tax purposes.

1.2 Specific Assumptions

1.2.1 Settlement

Pursuant to the sale and purchase agreement for 255-257 Gympie Rd, Kedron, Queensland, Australia, settlement is expected to occur on 29 March 2019. Therefore for the purpose of the financial statements, rental income has been recognised from 30 March 2019 when trading will commence.

The Property is assumed to be purchased by the Partnership on 29 March 2019 at a purchase price of $21,520,000.

It is assumed that $14,800,000 of equity is raised in the Offer and $9,494,024 of debt drawn to facilitate settlement and pay the establishment costs.

	2019 $
Investment, establishment and acquisition costs: *	
Investment Property	21,520,000
Capitalised establishment costs	1,495,335
Costs of raising equity	1,058,553
Financing costs	120,136
Future capex fund	100,000
Total investment, establishment and acquisition costs	**24,294,024**
Funded by:	
Debt	9,494,024
Equity	14,800,000
Total	**24,294,024**

* Costs are assumed to be incurred on date of settlement (29 March 2019).

1.2.2 Investment property

Investment property comprises land and buildings situated at 255-257 Gympie Rd, Kedron, Queensland, Australia. It includes a two storey commercial building, two storey showroom/office building and a two storey childcare facility. It will provide security for the borrowings.

The following table reconciles the opening balances to the closing balances for fair values as accounted for.

	2019 $	2020 $
Balance at beginning of financial year	-	21,445,405
Purchase price of property	21,520,000	-
Transaction costs to purchase property	1,495,335	-
Capital improvements	256,000	-
Change in fair value of investment property	(1,825,930)	(167,403)
Balance at end of financial year	**21,445,405**	**21,278,002**
Carrying value of investment property at balance date	21,445,405	21,278,002
Adjustment for fixed rental growth accrual	54,595	221,998
Fair value of investment property- assumed independent valuation	**21,500,000**	**21,500,000**

At each financial year ending 30 June a valuation of the property will be carried out by an independent registered valuer not related to the Partnership. The independent valuation amount is allocated to two independent assets on the balance sheet under the fair value model: the fixed rental growth accrual representing the amount attributed to future fixed rental growth when recognising contractual lease income on a straight line basis over the lease term in accordance with IAS 9; and the balance to the carrying value on investment property as shown above.

Since the future fair value gain or loss on the investment property cannot be reliably predicted, the valuation has been assumed to hold at the valuation of the property as at 21 November 2018. Therefore the movement in the fixed rental growth accrual, the capitalised establishment costs, budgeted capital additions and the difference between the purchase price and valuation have been written off in the financial period ended 30 June 2019 through the change in fair value of investment property.

The valuation of the property as at 21 November 2018 was undertaken by m3property (Qld) Pty Ltd, a registered valuation firm, which supports the purchase price with a market value of $21,500,000 for first mortgage security. This valuation has been arrived at having regard to the results of both a discounted cash flow valuation approach and a capitalisation valuation approach reconciled with the 'direct comparison' approach on a rate per square metre of gross lettable area basis combining available market evidence and present market sentiment. The valuation assumptions used in the capitalisation approach include a net market rental income of A$1,593,853 at a reversionary yield of 6.47%.

1.2.3 Revenue and expenses

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Rental income		
Rental income before fixed rental growth adjustment	393,962	1,590,616
Adjustment for fixed rental growth	54,595	167,403
Total rental income	**448,557**	**1,758,019**

Rental income from operating leases is recognised in income on a straight-line basis over the lease term according to the tenancy schedule. Hence the income reported reflects the impact of the future fixed annual rental growth being straight-lined over the remaining lease terms from settlement.

Rental income is assumed to commence on 30 March 2019 in respect to the existing leases.

For the financial period ending 30 June 2019 and the year ending 30 June 2020, it is assumed that there is no vacancy and no tenant default. It is also assumed there are no delays in receipt of debtors.

Tenant	Lease type	Passing annual rent on settlement	Next rent review	Review mechanism	Right of renewal
Planbuild Homes	Net	$127,073	1/09/2019	Annual fixed 3.0%	31/08/2021
Ingenia	Gross	$313,125	1/07/2019	Annual fixed 4.0%	30/06/2023
C&K	Gross	$552,780	23/07/2019	Annual fixed 3.50%	22/07/2028
Dulux/Orica	Semi	$185,738	29/09/2019	Annual fixed 3.0%	28/09/2020
Accoras	Gross	$83,960	8/08/2019	Annual fixed 3.75%	7/12/2021
C&K Childcare	Net	$280,000	23/07/2019	Annual fixed 3.0%	22/07/2033
		$1,542,676			

All operating costs are assumed to be payable (including rates, management fees, material damage insurance premiums, utilities and maintenance costs) by the tenants according to their lease agreements. It is assumed that all operating cost payments will be made on time and that there are no creditors or debtors associated with these operating costs. Costs and recoveries have been assumed to increase by 2% CPI each year.

Recoverable and non-recoverable property operating expenses have been forecast based on a combination of assumptions. The assumptions include those identified during the due diligence process, and those based on quotes received.

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Recoverable property operating expenses		
Repairs and Maintenance	4,206	16,909
Property Management Fees	-	5,754
Utilities and Rates	8,706	34,999
Land tax	4,390	17,648
Insurance	1,838	7,390
Total recoverable property operating expenses	**19,140**	**82,700**
Non recoverable property operating expenses		
Repairs and Maintenance	6,836	27,477
Property Management Fees	-	26,058
Utilities and Rates	11,281	45,347
Land tax	10,316	41,471
Insurance	2,535	10,191
Total non-recoverable property operating expenses	**30,968**	**150,544**
Scheme expenses		
Legal, valuation and consultancy fees	14,020	14,300
Management fees	-	88,188
Supervisor fees	1,925	7,853
Audit fees	13,528	13,798
Accountancy fees	-	12,592
Other administration expense	90	6,360
Total scheme expenses	**29,563**	**143,092**

The manager will charge the Partnership management fees of $120,000 for the year commencing 1 July 2019. These fees will increase at the greater of 3% or CPI per year on 1 July thereafter.

Administration expenses have been based on contractual obligations, quotes received and/or estimates made using experience of managing similar schemes. Expenses for services are assumed to increase at 2% per year.

Finance expenses		
Bank loan interest	99,865	393,282
Amortisation of borrowing costs	10,011	40,044
Net finance expense	**109,876**	**433,326**

One loan drawdown of $256,000 and no principal repayments have been assumed (interest only) during the 15 month period ending 30 June 2020. The long term interest rate is assumed to be managed with an interest rate swap agreement for 3 years from 30 March 2019 on 100% of the settlement drawdown with the balance floating. The interest expense assumes a starting floating rate (base rate plus margin) of 4.03% and a hedged rate (swap rate plus margin) of 3.98% per annum. The margin is based on credit approved terms provided by the bank. The floating base rate is assumed to increase by 15 bps per annum. Interest expense includes a line fee charged on the undrawn facility limit. Borrowing costs have been amortised over the 3 year term of the loan in accordance with IAS 23.

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Auditor's remuneration		
Initial taxation advisory services for NZ investors	2,950	-
Financial statements audit	13,528	13,798
Annual tax services for NZ investors	-	3,168
Assurance engagement for the prospective financial statements*	13,602	-
Total auditor's remuneration	**30,080**	**16,966**

*The cost of the preliminary assurance engagement and initial taxation advisory services for NZ investors have been recognised directly in equity as an establishment cost.

1.2.4 Reconciliation of the net profit to the net cash flow from operating activities

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Total (loss)/profit for the period	(1,187,620)	926,574
Adjustments for:		
Change in fair value of investment property	1,825,930	167,403
Income tax	(358,759)	(62,920)
Amortisation of finance costs	10,011	40,044
	289,562	**1,071,101**
Changes to assets and liabilities relating to operating activities:		
Increase in trade and other payables	65,610	706
(Increase) in accrual for fixed rental growth	(54,595)	(167,403)
Net cash flow from operating activities	**300,577**	**904,404**

1.2.5 Trade and other receivables

	2019 $	2020 $
Trade and other receivables	-	-
Total	**-**	**-**

It is assumed that there is no tenant default and that there are no delays in receipt of debtors.

1.2.6 Trade and other payables

	2019 $	2020 $
Accrued expenses	29,473	30,178
GST payable	36,137	36,137
Distributions payable	75,233	75,233
Total	**140,843**	**141,548**

The above records current liabilities due within 30 days of the balance date.

1.2.7 Borrowings

The loan facility will be for a limit of $10,000,000. $9,494,024 is expected to be drawn down on settlement date of 29 March 2019 to fund the purchase of the property at 255-257 Gympie Rd, Kedron, Queensland, Australia. A further $256,000 is assumed to be drawn down to fund capital works in the period ending 30 June 2019 post settlement.

The loan agreement is a 3 year loan facility from the date of drawdown and will be interest only. Borrowing costs are estimated at $120,136 and amortised over the initial loan term.

Borrowing summary	2019	2020
Maturity date	31 March 2022	31 March 2022
Loan to value ratio (LVR) not to be greater than	52.5%	52.5%
Interest coverage ratio (ICR) not to be less than	2.00 times	2.00 times
Bank loan balance	9,750,024	9,750,024
Total facility available	10,000,000	10,000,000
The interest rate is made up as follows:		
Variable base rate	2.13%	2.28%
Lending margin (fixed)	1.90%	1.90%
Total	**4.03%**	**4.18%**

It is assumed that 100% of this loan on the settlement drawdown has the variable base rate hedged with an interest rate swap. This is assumed to be at a rate of 2.08%. Further drawdowns are assumed to be at a floating rate.

The table below reconciles movements in liabilities arising from financing activities (as classified in the statement of cash flow) that have occurred in the periods presented within the Scheme's financial statements.

2019	Borrowings due < 1 year	Borrowings due > 1 year	Associated borrowing costs	Total
Borrowings as at 29 March 2019	-	-	-	-
Changes arising from cash flows	-	9,750,024	(120,136)	9,629,888
Non-cash changes	-	-	10,011	10,011
Borrowings as at 30 June 2019	**-**	**9,750,024**	**(110,125)**	**9,639,899**

2020	Borrowings due < 1 year	Borrowings due > 1 year	Associated borrowing costs	Total
Borrowings as at 01 July 2019	-	9,750,024	(110,125)	9,639,899
Changes arising from cash flows	-	-	-	-
Non-cash changes	-	-	40,044	40,044
Borrowings as at 30 June 2020	**-**	**9,750,024**	**(70,080)**	**9,679,944**

Loan security

The loan will be secured by a registered first mortgage over 255-257 Gympie Rd, Kedron, Queensland, Australia and a first general security interest over the assets of the Partnership.

1.2.8 Issued interests

It is assumed that funds of $14,800,000 are raised by the issue of 296 units at an issue price of $50,000 per unit under the PDS for the purposes of funding the acquisition of the investment property and associated establishment costs.

The holders of Interests will be entitled to receive distributions as declared from time to time and are entitled to one vote per Interest at meetings of the Partnership, and rank equally with regard to the Partnership's residual assets.

1.2.9 Distributions

Cash distributions are forecast to be paid out of cash reserves from the operating activities of the Partnership monthly in arrears at a rate of 6.10% per annum for the financial periods ending 30 June 2019 and 30 June 2020. This rate is disclosed as a percentage of the initial investment based on the forecast number of units on issue.

The Manager's objective is to ensure the Partnership continues as a going concern as well as to maintain optimal returns to the investors. As the market is constantly changing, the Manager will consider capital management initiatives, such as changing the level of distributions paid or providing funding for capital expenditure requirements.

The following gross distributions are included in the prospective financial statements.

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Per unit – gross distributions	779	3,050

1.2.10 Cash and cash equivalents

	2019 $	2020 $
Bank balances	245,257	246,861

The current account will have no overdraft facility.

1.2.11 Related parties

Augusta Funds Management Limited is the Manager of the Partnership. Augusta Funds Management Limited is also the issuer in respect of this Product Disclosure Statement. The following is a schedule of the fees to be paid to Augusta Funds Management Limited:

	2019 $	2020 $
Property Management fees	-	31,812
Management fees	-	88,188
Establishment fees	700,000	-
Total related party transactions	**700,000**	**120,000**

Augusta Funds Management Limited's parent is Augusta Capital Limited. The directors of Augusta Capital Limited (Bryce Barnett, Mark Francis, Paul Duffy, Mark Petersen and Kevin Murphy) are also directors of Augusta Funds Management Limited.

1.2.12 Lessor operating lease

The Partnership's property has operating leases attached to it, under which the current contractual payments due to be received as at 15 February 2019 are as follows:

	$
Formation to 30 June 2019	393,962
1 July 2019 to 30 June 2023	5,730,718
From 1 July 2023	7,294,451
Total	**13,419,131**

The above rental income accounts for future rental reviews in respect to the existing leases for the initial term. In addition only current lease terms are included in the above table and it does not include rights of renewal in respect to the current leases.

1.2.13 Contingent liabilities

The Partnership does not anticipate having any contingent liabilities as at 30 June 2019 and 2020.

1.2.14 Establishment costs

Total establishment costs are assumed to be no more than $2,674,024. This includes stamp duty and title registration fees, offeror fee, brokerage, due diligence, legal, compliance and valuation fees as well as financing, administration and marketing costs. An amount of $1,058,553 are deemed issue costs, $120,136 are allocated to financing costs and $1,495,335 capitalised which are directly related to the acquisition of the property.

The establishment costs are based on contractual obligations, quotes received and/or estimates made using experience of establishing similar schemes.

The establishment costs for the Partnership (excluding the purchase price of the property) are tabled below.

Summary of establishment costs	Property purchase costs $	Financing costs $	Issue costs $	Total $
Stamp duty and title registration fees	1,292,837	-	-	1,292,837
Offeror's fee	140,000	70,000	490,000	700,000
Legal (New Zealand)	29,498	-	68,828	98,326
Legal (Australia)	18,000	6,000	36,000	60,000
Due diligence reports	15,000	-	-	15,000
Brokerage on equity raised	-	-	297,850	297,850
Registration fees and FMA levy	-	-	5,406	5,406
Supervisor fees	-	-	5,463	5,463
Accountancy	-	-	10,479	10,479
Audit fee	-	-	13,602	13,602
Printing and advertising	-	-	98,325	98,325
Chattels valuation	-	-	11,000	11,000
Bank fee	-	30,000	-	30,000
Bank legal	-	5,000	-	5,000
Legal disbursements	-	-	21,600	21,600
Valuation	-	9,136	-	9,136
Total	**1,495,335**	**120,136**	**1,058,553**	**2,674,024**

1.2.15 Taxation

	3 months ending 30 June 2019 $	12 months ending 30 June 2020 $
Operating profit before taxation	279,551	1,031,057
Less: Depreciation	(362,266)	(1,073,388)
Less: Amortisation of issue costs recognised directly in equity	(52,928)	(211,711)
Less: Fixed rental growth adjustment	(54,595)	(167,403)
Profit/ (loss)	**(190,238)**	**(421,445)**
Taxable income	-	-
Tax at 30%	**-**	**-**
Loss carried forward	**(190,238)**	**(611,682)**

Depreciation has been claimed on a diminishing value basis.

A deferred tax asset is assumed to be recognised in respect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The balance comprises of temporary differences attributable to:

	2019 $	2020 $
Issue costs recognised directly in equity	301,688	238,174
Tax losses carried forward	57,071	183,505
Total deferred tax asset	**358,759**	**421,679**

1.2.16 Capital Commitments

The Partnership does not anticipate having any capital commitments as at 30 June 2019 and 2020.

1.2.17 Actual Results

Actual results may differ from the prospective financial statements. The resulting variance may be material. The prospective financial statements also do not include the potential impact of a swap revaluation as at each reporting date which has the potential to be material, but is a non cash item. The Partnership and Manager give no guarantee or assurance that the prospective financial information presented will be achieved.

2 STATEMENT OF ACCOUNTING POLICIES

The prospective financial statements here are for the reporting entity Augusta Kedron Partnership (the Partnership).

The Partnership will be an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and will report as a Tier 1 For Profit entity. The prospective financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) as it relates to the prospective financial statements, and comply with FRS-42 Prospective Financial Statements. The accounting policies and disclosures adopted in these prospective financial statements reflect those required by the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit orientated entities.

The actual annual financial statements for the Partnership will be prepared in accordance and comply with NZ IFRS and also International Financial Reporting Standards. The accounting policies adopted in the prospective financial statements reflect the policies expected to be adopted in the actual annual financial statements.

Measurement Base

The prospective financial statements have been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Standards issued not yet effective

There are no NZ IFRS standards and interpretations that have been recently issued or amended and come into effect during the reporting periods covered by the PFI.

Comparatives

The Partnership has not yet commenced trading and therefore there are no comparatives available. These prospective financial statements represent the first period of trading to 30 June 2019 and also the year ended 30 June 2020.

Investment property

Investment property is initially measured at cost, plus any directly related acquisitions costs. The future fair value gain or loss on the Property cannot be reliably predicted, and accordingly no revaluation has been assumed during the prospective period.

Revenue and expenses

Rental income is recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the underlying asset is diminished. Lease incentives provided to tenants are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income.

Property operating expense recoveries are recognised when a performance obligation is satisfied by transferring control of goods or services to tenants that are recoverable in accordance with the terms and conditions of lease agreements. A performance obligation is a promise in a lease to provide a distinct good or service (or a bundle of goods and services) to a tenant.

Depreciation

Depreciation will be claimed by the Partnership from the settlement of the acquisition of the investment property for taxation purposes only.

Finance expenses

Finance expenses consists of interest payable on borrowings which is recognised as an expense using the effective interest rate method.

Goods and Services Tax (GST)

All amounts are shown exclusive of GST except for receivables and payables that are stated inclusive of GST and where the amount of GST incurred is not recoverable from the Australian Tax Office.

Taxation

As the Partnership will be an Australian Limited Liability Partnership, the LLP has to comply with the tax requirements in Australia. In Australia the LLP is treated as a company for taxation purposes and a 30% tax rate will apply to its taxable income. The LLP will file its Australian tax return and pay this tax from net profit.

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit and loss except to the extent it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous periods.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at reporting date.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and which are subject to an insignificant risk of changes in value and are readily accessible.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any impairment losses.

At each reporting period an assessment is made if there has been a significant increase in credit risk since the asset was originated to determine if an expected loss should be recorded in accordance with NZ IFRS 9 Financial Instruments (IFRS 9). The provision is recognised in profit or loss and subsequent recoveries of amounts written off are recognised in profit or loss. Trade receivables are non-interest bearing and on 30-day terms. IFRS 9 also requires the use of a forward-looking expected loss model to determine impairment provisioning on financial assets, including trade receivables. The impact of the expected credit loss model is not material for the Scheme and accordingly no adjustment has been required to opening net assets.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent unsecured liabilities for goods and services provided to the Partnership prior to year end which are unpaid and arise when the Partnership becomes obliged to make future payments in respect to the purchase of goods and services. As trade and other payables are usually paid within 30 days they are not discounted. As accounts payable do not accrue interest and are generally paid within 30 days of recognition, they are stated at the invoice amount.

Borrowings

Borrowings are recognised initially at fair value (net of transaction costs) and are subsequently stated at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Partnership has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Derivatives

The Partnership will use derivative financial instruments (interest rate swaps) to hedge its exposure to a variable interest rate risk on borrowings. Derivative financial instruments will be carried at fair value. Any resulting gain or loss on measurements is recognised in the profit and loss.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Establishment costs

Establishment costs are treated in a number of ways depending on the nature of the costs; (1) costs associated with respect to raising equity are deducted from the equity proceeds, (2) costs associated with obtaining finance are capitalised and amortised over the initial period of the borrowings, and (3) cost associated with purchasing the property are capitalised as part of the investment property asset.

Statement of cash flows

The statement of cash flows is presented on a direct basis. The following terms are used in the statement of cash flows:

(a) Cash and cash equivalent means cash on deposit with banks;

(b) Operating activities means the gross cash received from and paid in relation to the principal revenue producing activities and other that are not investing or financing activities;

(c) Investment activities means the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and

(d) Financing activities means the activities which result in changes in the equity and debt capital structures, this includes the payment of distributions.

3 SENSITIVITY ANALYSIS TO PROSPECTIVE FINANCIAL INFORMATION

Prospective Financial Statements are inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from Prospective Financial Statements, and this variation could be material. A summary of the likely effects of variations in key assumptions on the net tangible assets of the scheme and total operating profit available for distribution, see note 4. The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set out below. The approach taken in respect of the sensitivities has been to determine those variables most likely to materially affect results in the period ending 30 June 2019 and the year ending 30 June 2020.

Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. The below sensitivities do not take account of any risk management initiatives that the Partnership may take should a change in these assumptions arise.

	$'000	$ per unit
FY19 Impact		
Total operating profit available for distribution (see note 4)	**235**	**794**
Increase in interest rates (+50 bps)	(13)	(43)
Decrease in interest rates (-50 bps)	13	43
Loss of tenant	(92)	(309)
NTA	**11,854**	**40,049**
Increase in property valuations (+5%)	1,075	3,632
Decrease in property valuations (-5%)	(1,075)	(3,632)
FY20 Impact		
Total operating profit available for distribution (see note 4)	**904**	**3,053**
Increase in interest rates (+50 bps)	(50)	(169)
Decrease in interest rates (-50 bps)	50	169
Loss of tenant	(239)	(806)
NTA	**11,791**	**39,836**
Increase in property valuations (+5%)	1,075	3,632
Decrease in property valuations (-5%)	(1,075)	(3,632)

Notes

Interest rate sensitivity

Exposure to interest rate risk is in the normal course of operations. The Partnership is adopting a hedging profile which is set out in the PFI. Sensitivity analysis on changes in interest rates shows immaterial impact in the above. This is because the margin is fixed under the facility agreement and the variable base rate has been fixed by way of an interest rate swap for the majority of the loan.

Property valuation sensitivity

There is no impact of an increase or decrease in property values on the total operating profit available for distribution, given the revaluation gains and losses are excluded from the definition (see Reconciliation section appended to this document for further details).

Loss of tenant

The PFI assumes that there will be no tenant defaults in the FY19 and FY20 periods, however such a default is a risk with property investment. The sensitivity reflects the impact of a tenant defaulting on the their lease agreement (based on an average of tenancies weighted based on floor area) and being replaced with a new tenant after six months of vacancy. A 6 month rent free period and a 15% leasing fee has been assumed for the sensitivity calculation (leasing fees have only been assumed to be incurred in FY20 as the FY19 sensitivity assumes that a replacement tenant is not found until the following financial year).

4 RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

The following table reconciles the net profit before taxation from the prospective financial information to the total operating profit available for distribution for the period. The reconciliation adjusts for material non-cash items included within the accounting profit. These adjustments include adding back the deferred element of income tax, amortisation of borrowing costs, the adjustment to rent for the fixed rental growth accrual and the revaluation of investment property. Such a calculation will also adjust for other non-cash items such as the revaluation of an interest rate swap, but this items is not reported within these prospective financial statements. These are not one off transactions but are items that do not impact the cash flows generated which are available for distribution.

This is a non-GAAP disclosure which the manager believes is important as it is consistent with the calculation prepared internally by management to assist in forecasting future distribution levels. The total operating profit available for distribution benchmark does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The auditors have considered it for material inconsistency with the financial statements and their knowledge obtained during the assurance engagement of the prospective financial information.

	3 months ending 30 June 2019 ($)	12 months ending 30 June 2020 ($)
Reconciliation of total (loss)/ profit for the period to the total operating profit available for distribution		
Prospective net profit	(1,187,620)	926,574
Adjust for: Non cash items		
Deferred tax	(358,759)	(62,920)
Change in fair value of investment property	1,825,930	167,403
Initial finance costs amortised	10,011	40,044
Adjustment for fixed rental growth accrual	(54,595)	(167,403)
Total operating profit available for distribution	**234,967**	**903,698**