SIR WILLIAM PICKERING DRIVE LIMITED PARTNERSHIP

Prospective Financial Information

Prospective financial information in respect of the Limited Partnership for the first accounting period of 13 months and 22 days ending 31 March 2019 and for the year ending 31 March 2020 are presented. These prospective financial statements comprise the Prospective Statement of Profit and Loss and Other Comprehensive Income, Prospective Statement of Changes in Equity, Prospective Statement of Financial Position and Prospective Statement of Cash Flows in accordance with FRS42 Prospective Financial Statements and generally accepted accounting practice as it relates to prospective financial statements and have been subject to a reasonable assurance engagement by KPMG, Chartered Accountants of Auckland (whose report can be found on the disclose register). These should be read in conjunction with the assumptions and notes on pages 6-17.

These prospective financial statements were authorised for issue on 15 February 2018.

______________________________ Director of Augusta Funds Management

15 February 2018

______________________________ Director of Augusta Funds Management

15 February 2018

PROSPECTIVE STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	13 months & 22 days ending 31 March 2019 $	12 months ending 31 March 2020 $
Gross property income	**4**	2,823,237	2,830,330
Non recoverable property operating expenses	**4**	(12,097)	(12,000)
Net property income		**2,811,140**	**2,818,330**
LP expenses	**4**	(198,847)	(203,566)
Amortisation of lease incentive		-	(84,748)
Operating profit before finance costs		**2,612,293**	**2,530,016**
Net finance expenses	**4**	(371,736)	(940,445)
Operating profit		**2,240,557**	**1,589,571**
Other income		20,775	6,114
Total profit before revaluations		**2,261,332**	**1,595,685**
Change in fair value of investment property	**3**	(690,273)	1,468,279
Total profit for the year attributable to investors		**1,571,059**	**3,063,964**
Other comprehensive income		-	-
Total comprehensive income for year attributable to investors		**1,571,059**	**3,063,964**

These financial statements should be read in conjunction with the notes on pages 6 to 17

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	Note	Capital $	Retained earnings $	Total $
Equity as at 7 February 2018		**-**	**-**	**-**
Contributions from investors		22,750,000	-	22,750,000
Issue costs on establishment of LP	**18**	(1,534,550)	-	(1,534,550)
Total profit for the period attributable to investors		-	1,571,059	1,571,059
Distributions to investors		-	(1,605,343)	(1,605,343)
Equity as at 31 March 2019	**10**	**21,215,450**	**(34,284)**	**21,181,166**

	Note	Capital $	Retained earnings $	Total $
Equity as at 1 April 2019		**21,215,450**	**(34,284)**	**21,181,166**
Contributions from Investors		-	-	-
Issue costs on establishment of LP		-	-	-
Total profit for the period attributable to investors		-	3,063,964	3,063,964
Distributions to investors		-	(1,592,500)	(1,592,500)
Equity as at 31 March 2020	**10**	**21,215,450**	**1,437,180**	**22,652,630**

These financial statements should be read in conjunction with the notes on pages 6 to 17

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2019 $	As at 31 March 2020 $
Current assets			
Cash and cash equivalents	**12**	430,653	619,845
Trade and other receivables	**6**	696,859	-
Total current assets		**1,127,512**	**619,845**
Non-current assets			
Investment property	**3**	33,573,989	37,306,006
Capitalised lease incentive		-	2,915,253
Accrual for fixed rental growth		690,273	1,003,741
Total non-current assets		**34,264,262**	**41,225,000**
Total assets		**35,391,774**	**41,844,845**
Current liabilities			
Trade and other payables	**7**	201,193	264,031
Associated finance costs		(71,817)	(71,816)
Total current liabilities		**129,376**	**192,215**
Non-current liabilities			
Borrowings	**8**	14,153,049	19,000,000
Associated finance costs		(71,817)	-
Total non-current liabilities		**14,081,232**	**19,000,000**
Equity	**10**	**21,181,166**	**22,652,630**
Total liabilities and equity		**35,391,774**	**41,844,845**

These financial statements should be read in conjunction with the notes on pages 6 to 17

SIR WILLIAM PICKERING DRIVE LIMITED PARTNERSHIP

PROSPECTIVE STATEMENT OF CASHFLOWS

	Note	13 months & 22 days ending 31 March 2019	12 months ending 31 March 2020 $
Cash flows from operating activities			
Cash was provided from :			
Rental receipts		2,132,964	2,516,862
Interest received		3,933	5,835
Operating expense recoveries		300,380	305,434
		2,437,277	**2,828,131**
Cash was applied to :			
Payments to suppliers		(492,723)	(520,627)
Interest paid		(253,968)	(845,359)
		(746,691)	**(1,365,986)**
Net cash flow from operating activities	**5**	**1,690,586**	**1,462,145**
Cash flows from investing activities			
Cash was provided from :			
Goods and services tax		-	570,236
Development incentive		515,077	166,097
		515,077	**736,333**
Cash was applied to :			
Purchase of property		(20,500,000)	-
Goods and services tax		(536,875)	-
Transaction costs to purchase property		(353,000)	(100,000)
Development incentive		(654,286)	-
Lease incentive		-	(3,000,000)
Capital improvements/development	**3**	(13,411,263)	(2,163,738)
		(35,455,424)	**(5,263,738)**
Net cash flow from investing activities		**(34,940,347)**	**(4,527,405)**
Cash flows from financing activities			
Cash was provided from :			
Investor capital	**10**	22,750,000	-
Borrowings	**8**	14,153,048	4,846,952
		36,903,048	**4,846,952**
Cash was applied to :			
Distributions to investors		(1,472,634)	(1,592,500)
Issue costs	**18**	(1,534,550)	-
Loan establishment fees	**18**	(215,450)	-
		(3,222,634)	**(1,592,500)**
Net cash flow from financing activities		**33,680,414**	**3,254,452**
Net increase/(decrease) in cash and cash equivalents		430,653	189,192
Cash and cash equivalents at start of year		-	430,653
Cash and cash equivalents at end of year		**430,653**	**619,845**

* GST has been presented for all periods on a net basis within the cash flow statement.

NOTES AND ASSUMPTIONS FOR THE PERIOD ENDED 31 MARCH 2019 AND THE YEAR ENDED 31 MARCH 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.

The Limited Partnership (LP) is to be established and domiciled in New Zealand. The LP was incorporated on 7 February 2018 which will be the start of the first accounting period of 13 months and 22 days to 31 March 2019.

The LP will be a commercial property investment that owns land and buildings located at 20-28 Sir William Pickering Drive, Burnside, Christchurch. The registered office of the Manager is situated at Level 2, Bayleys House, 30 Gaunt Street, Wynyard Quarter, Auckland 1010.

The prospective financial statements were authorised for issue on 15 February 2018. 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

Settlement

Pursuant to the sale and purchase agreement for 20-28 Sir William Pickering Drive, Burnside, Christchurch, settlement is expected to occur on 29 March 2018. Therefore for the purpose of the financial statements, rental income has been recognised from 30 March 2018 when trading will commence.

The Property is assumed to be purchased by the LP on 29 March 2018 at a purchase price of $20,500,000.

Establishment costs

Total establishment costs are assumed to be no more than $2,203,000. This includes offeror, development, underwriting, guarantee, brokerage, due diligence, legal, compliance and valuation fees as well as financing, administration and marketing costs. The bulk of these costs are deemed to be issue costs, with the exception of $215,450 allocated to financing costs and $453,000 capitalised with are directly related to the acquisition of the property.

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

Development

The development of a fourth office building on the premises is assumed to total $15.575 million (including contingencies of $1.086 million) with a targeted practical completion of 17 July 2019. Any development costs incurred by the Manager will be reimbursed on settlement.

The development project costs are assumed to be incurred in line with the project development plan. The Manager will cover initial development related costs prior to settlement and establishment of the new LP. These costs will then be refunded to the Manager.

Lease incentive

A lease incentive of $3 million is assumed will be paid on 17 July 2019 to coincide with the assumed practical completion date and the signing of the new lease.

Development incentive

The LP will pay a development incentive to the Tenant of $654,286 on settlement which will be repaid to the LP over the development period.

Investment property

On 31 March 2019, the value of 20-28 Sir William Pickering Drive, Burnside, Christchurch is assumed to equal the cost, plus any directly related acquisition costs and any capital costs incurred during the prospective period. On 31 March 2020, the value is assumed to equal the as if complete valuation dated 16 November 2017 completed by CBRE at $41,225,000 subject to the new lease structure.

Rental income

Rental income is assumed to commence on 30 March 2018 in respect to the existing lease. It is assumed that the new lease, as described in the development agreement, will be enforced from the assumed practical completion date of 17 July 2019.

For the financial period ending 31 March 2019 and the year ending 31 March 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.

The tenant is responsible for operating costs including rates, insurance premiums, utilities and certain maintenance obligations, however the tenant is not responsible for management fees, roof and structural repairs and external repainting. It is assumed that all operating cost payments will be made on time and that there are no creditors associated with these operating costs. Costs and recoveries have been assumed to increase by 2% CPI each year.

Fees charged by the manager after establishment

The manager will charge the LP management fees of $150,000 and accounting fees of $5,000 in the first year. These fees will increase at the greater of 3% or CPI thereafter per year.

The Manager will charge a total development management fee of $200,000 for managing the development project. This fee will be payable in two equal instalments of $100,000 on 31 March 2019 and the balance on practical completion which is expected to be by 17 July 2019. This cost is capitalised as a cost of the development.

Borrowings

The loan agreement is an extendable agreement and will be interest only. It will have an initial loan term of 3 years from date of the first drawdown. The loan facility will be subject to annual review by the bank and extension each year. It is assumed that a 1 year extension will be granted on 29 March 2019 extending the term to 29 March 2022 on the same terms.

	2019 $	2020 $
Opening balance	-	14,153,048
Drawdowns	14,153,048	4,846,952
Closing balance	**14,153,048**	**19,000,000**

The loan facility will be for $19 million and is expected to be drawn down over the life of the development project to fund the $15.575 million capital development works (including contingencies of $1.086 million), $3 million lease incentive and $654,286 development incentive.

Interest expense

The interest expense assumes an all up floating interest rate of 3.90% per annum from the first drawdown. No principal repayments have been assumed (interest only) during the 3 year term of the loan. The long term interest rate will be managed with an interest rate swap agreement on the base rate (excludes margin) for 4 years from 1 April 2019 on $9,500,000 of the loan facility. The all up interest rate on this portion of the loan is assumed to be 5.14% when the swap commences which assumes the margin remains at 2.00% on this date. The balance is expected to remain floating in the initial term and therefore is subject to changes in the variable base rate. The variable base rate is assumed to increase according to OCR forecast estimates at the time of preparing the prospective financial information. The interest expense reflects the expected timing of loan drawdowns to fund the development spend which is expected to run from 29 March 2018 to 17 July 2019.

LP expenses

LP expenses have been based on contractual obligations, quotes received and/or estimates made using experience of managing similar schemes.

Distributions to investors

Cash distributions are forecast to be paid out of cash reserves from the operating activities of the LP monthly in arrears at a rate of 7.00% per annum for the financial period ending 31 March 2019 and 7.00% per annum for the financial year ending 31 March 2020. These rates are disclosed as a percentage of the initial investment based on the forecast number of units on issue.

Capital raising

It is assumed that funds of $22.75 million are raised by the issue of units under the PDS.

Environment

The prospective financial statements have been based on the assumption that there will be no material change in the economic environment, legal requirements or the current tax regulations and that the lease is enforceable and is performed in accordance with its terms.

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 an independent property revaluation as at 31 March 2019 or a swap revaluation as at each reporting date which have the potential to be material, but are non cash items. They also do not include potential exposure to interest rate changes between the time that this information is prepared and execution of the loan agreement due to changes in the base rate which is a cash item. The LP 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 Sir William Pickering Drive Limited Partnership (the LP).

The LP 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 Practise in New Zealand (NZ GAAP) as it related 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 LP 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. Accounting policies are stated below where they are not stated within the notes of the accounts.

(a) Investment properties: This investment property is initially recognised at cost, which includes transaction costs. The fair value of the investment property as at 31 March 2019 has been arrived at on the basis of the purchase price paid as per the sale and purchase agreement plus capitalised acquisition costs and development costs incurred to date. Thereafter it is measured at fair value. Fair value will be determined annually by external valuers having regard to recent market transactions for similar properties in the same location as the investment. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

(b) Comparatives: The LP has not yet commenced trading and therefore there are no comparatives available. These prospective financial statements represent the first period of trading to 31 March 2019, and also the year ending 31 March 2020.

(c) Changes in accounting policies: There are no changes in the accounting policies anticipated in the first two reporting periods.

(d) 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.

(e) Depreciation: Each subscriber will be entitled to a depreciation deduction based on their proportional share of the depreciation of the property fit out and chattels only and is dependent on their individual circumstances. Accordingly, no allowance has been made for depreciation in the prospective statement of profit and loss and other comprehensive income for the period ending 31 March 2019 and the year ending 31 March 2020.

(f) Derivatives: The LP 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.

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 Investment property

Investment property comprises land and buildings situated at 20-28 Sir William Pickering Drive, Burnside, Christchurch. The property is currently leased by Airways Corporation of New Zealand Limited. It will provide security for the borrowings. Refer to Note 8 for further information.

	2019 $	2020 $
Balance at beginning of financial year	-	33,573,990
Purchase price of property	20,500,000	-
Transaction costs to purchase property	353,000	100,000
Capital improvements/development	13,411,263	2,163,738
Change in fair value of investment property	(690,273)	1,468,279
Balance at end of financial year	**33,573,990**	**37,306,006**

The fair value at 31 March 2020 assumes the valuation on this date is equal to the independently valuation prepared by Scott Ansley and Marius Ogg of CBRE at $41,225,000 plus GST (if any) on a market value “as if complete” basis and subject to the new lease structure as at 16 November 2017. The valuation was in accordance with current Australia and New Zealand Valuation and Property Standards and used both a capitalisation of net income approach and a discounted cash flow approach.

The valuation was adjusted for the carrying value of fixed rental accrual and capitalised lease incentive as in determining the carrying amount of investment property under the fair value model, an entity does not double-count assets or liabilities that are recognised as separate assets or liabilities.

Reconciliation to independent valuation	
Carrying value of investment property at 31 March 2020	37,306,006
Capitalisation of lease incentive	2,915,253
Adjustment for fixed rental growth accrual	1,003,741
Investment property - independent valuation	**41,225,000**

The tables below represents some further sensitivity in respect to applied yields or capitalisation rates. The 'as is' valuation of $41,225,000 equates to a 6.34% passing yield from the net passing rental of $2,613,884. The net passing rental reflects the contract rent of $2,633,884 less a non-recovered management expense allowance of $20,000 per annum. Net passing rental is the rental that the tenant is contractually obliged to pay under the lease agreements.

	Low yields		"As if complete" valuation		High yields		
Net passing yield	5.59%	5.84%	6.09%	**6.34%**	6.59%	6.84%	7.09%
Valuation	$46,755,557	$44,754,217	$42,917,176	**$41,225,000**	$39,661,203	$38,211,711	$36,864,431
Variance	$5,530,557	$3,529,217	$1,692,176	**-**	($1,563,797)	($3,013,289)	($4,360,569)
Change in equity per unit	$12,155	$7,757	$3,719	**-**	($3,437)	($6,623)	($9,584)
Change in equity %	12.36%	8.22%	4.10%	**-**	(3.79%)	(7.60%)	(11.41%)

4 REVENUE AND EXPENSES

	2019 (13 months & 22 days) $	2020 (12 months) $
Rental income		
Rental income before fixed rental growth adjustment	2,132,964	2,516,862
Adjustment due to fixed rental growth	690,273	313,468
Total rental income	**2,823,237**	**2,830,330**

The contractual fixed rental growth in the lease agreements will be recognised from settlement until the market review on the 10th anniversary of the assumed practical completion. It will be recorded on a straight line basis as an increase or reduction in rental income.

Non recoverable property operating expenses		
Repairs and maintenance	12,097	12,000
Total non-recoverable property operating expenses	**12,097**	**12,000**
LP expenses		
Valuation fees	10,200	10,404
Management fees	155,822	159,651
Supervisor fees	11,527	11,757
Audit fees	8,400	8,568
Accountancy fees	2,000	2,040
Other administration expense	10,898	11,147
Total LP expenses	**198,847**	**203,566**
Finance expenses		
Bank loan interest	303,853	874,464
Amortisation of borrowing costs	71,817	71,817
Bank interest earned	(3,933)	(5,835)
Net finance expense	**371,736**	**940,445**
Auditor's remuneration		
Financial statement audit	8,400	8,568
Assurance engagement for the prospective financial statements*	18,500	-
Total auditor's remuneration	**26,900**	**8,568**

*The cost of the assurance engagement has been recognised directly in equity as an establishment cost.

Accounting policy - revenue and expenses

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the LP and that the revenue can be reliably measured. The principal sources of revenue are rental income and interest.

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 investment property 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.

Operating expense recoveries are recognised in accordance with the terms and conditions of the tenancy agreements as and when recoverable expenditure is incurred on behalf of the tenant.

Finance income

Finance income consists of interest income and is recognised as interest accrues on cash deposits using the effective interest method.

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.

Taxation

As a proportionate ownership LP, the LP itself is not liable for income tax. No account has been taken for income tax under the LP as each Investor will be assessed individually on their proportional share of rental income and any other distribution from the LP. Investors will be individually responsible for the payment of their taxes.

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

	2019 (13 months & 22 days) $	2020 (12 months) $
Net profit/(loss)	1,571,059	3,063,964
Adjustments for:		
Change in fair value of investment property	690,273	(1,468,279)
Other income	(20,775)	(6,114)
Amortisation of finance costs	71,817	71,817
Amortisation of lease incentive	-	84,748
	2,312,373	**1,746,136**
Changes to assets and liabilities relating to operating activities:		
Increase/(decrease) in trade and other payables	68,485	29,477
(Increase)/decrease in accrual for fixed rental growth	(690,273)	(313,468)
Net cash flow from operating activities	**1,690,586**	**1,462,145**

Accounting policy - cash and cash equivalents

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.

Statement of cash flows

The following is the definition of the terms used in the statement of cash flows:

- Operating activities are the principal revenue producing activities of the LP and other activities that are not investing or financing activities;

- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and

- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the LP.

6 Trade and other receivables

	2019 $	2020 $
GST receivable	536,875	-
Development incentive	159,984	-
Total	**696,859**	**-**

Accounting policy - trade and other receivables

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.

Collectability of receivables is reviewed on an ongoing basis at an individual debtor level. An impairment loss is recognised when there is objective evidence the LP will not be able to collect all amounts due to financial difficulties of the debtor or debts more than 90 days overdue. 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.

7 Trade and other payables

	2019 $	2020 $
Accrued expenses	18,600	18,972
Accrued interest	49,885	78,990
GST payable	-	33,361
Distributions payable	132,708	132,708
Total	**201,193**	**264,031**

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

Accounting policy - 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 LP prior to year end which are unpaid and arise when the LP 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.

8 Borrowings

The loan agreement will be a extendable loan facility and will be interest only. It will have an initial loan term of 3 years from the date of drawdown. The loan facility will be subject to annual review and extension of 1 year at the agreement of the LP and the Bank.

Borrowing costs are estimated at $215,450. These will be amortised over the initial period of the borrowings.

At all times the loan to property valuation ratio (LVR) is to be lower than 50%. Interest cover is at all times to be maintained at not less than 2.00 times, calculated as net rental income generated / interest expense.

Borrowing summary	2019	2020
Maturity date	29 Mar 2021	29 Mar 2021
Loan to value ratio (LVR) not to be greater than	50%	50%
Interest coverage ratio (ICR) not to be less than	2.00 times	2.00 times
ASB bank loan balance	14,153,049	19,000,000
The interest rate is made up as follows:		
Variable base rate	1.90%	1.90%
Lending margin	2.00%	2.00%
Total	**3.90%**	**3.90%**

The loan covenants reflected above differ from the gearing ratio and interest cover ratio recorded in the PDS and reflect the terms of the credit approved funding offer.

It is assumed the full loan facility of $19 million will be drawn down during the development period. This includes the future capex fund of approximately $100,000 which has been included as cash in bank in this prospective financial information.

From 1 April 2019, the base rate on 50% of this loan will be hedged with an interest rate swap at a fixed base rate of 3.14% for four years (this excludes the margin assumed to be 2.00% in the prospective financials).

Loan security

The loan will be secured by a registered first mortgage over 20-28 Sir William Pickering Drive, Burnside, Christchurch and a first general security interest over the assets of the LP. The Custodian will enter into the loan for and on behalf of all investors and ASB Bank's recourse will only be against the Custodian in respect to the LP, limited to the security provided by the general partner. Therefore the loan is effectively non-recourse against the investors.

Accounting policy - 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 LP has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

9 Financial risk management

(i) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the LP's assets and liabilities will fluctuate due to changes in market interest rates. The LP is exposed to interest rate risk primarily through its borrowings. Management intends to actively review exposure through sensitivity analysis in strategic reviews and manage the risk through participating in interest rate swaps or fixed rate agreements.

The level of borrowings is disclosed in Note 8. The interest expense assumes an all up floating interest rate of 3.90% per annum from the first drawdown as quoted from ASB Bank at the time of preparation of the prospective financial information. The base rate is assumed to increase according to OCR forecast estimates at the time of preparing the prospective financial information.

The Manager has secured a four year interest rate swap on the base rate at a fixed rate of 3.14% from 1 April 2019 on $9,500,000 of the loan facility. The all up interest rate on this portion of the loan is assumed to be 5.14% when the swap commences which assumes the margin remains at 2.00% on this date. The Manager currently proposes to have the whole of the LP's debt floating (however the margin is fixed) in the period from settlement to 1 April 2019. As a portion of the interest rate will be floating it will be subject to interest rate risk arising from any movements in the interest rate.

The fair value of the interest rate swap is obtained externally and is the estimated amount the LP would receive or pay to terminate the swap at balance date, taking into account current interest rates and also swap rates on offer. No fair value movements have been estimated in these financial statements.

Changes in interest rates will have an impact on future surpluses for the forecast period and beyond. The impact of this on the return to LP's Capital, and sensitivity is outlined below.

Impact of a variable base interest rate change for a full year

Variances in interest rates and the corresponding changes in forecast cash return are calculated on the basis that variation in the base rate is apparent for the period ending 31 March 2019 and year ending 31 March 2020 and that all other assumed variables are held. It simply outlines the investor return yield should the variable base interest rate be different from the assumed variable base rates of 1.90% and 2.15% at the start of each respective period.

2019			
Variable base rate	Forecast profit available for distribution per unit	Annualised forecast profit available for distribution as percentage of capital raised	Variance in profit available for distribution per unit
2.40%	3,417	6.83%	(83)
2.15%	3,459	6.92%	(41)
1.90%	3,500	7.00%	-
1.65%	3,541	7.08%	41
1.40%	3,583	7.17%	83

2020			
Variable base rate	Forecast profit available for distribution per unit	Annualised forecast profit available for distribution as percentage of capital raised	Variance in profit available for distribution per unit
2.65%	3,405	6.81%	(95)
2.40%	3,453	6.91%	(47)
2.15%	3,500	7.00%	-
1.90%	3,547	7.09%	47
1.65%	3,595	7.19%	95

Derivative interest rate sensitivity

As derivative instruments (interest rate swaps) will be entered into, then the fair values of these instruments is to be recorded, and any movement in the fair values will be recorded in the statement of profit and loss and other comprehensive income in future financial statements. Any variation in interest rates will also impact the fair values of the instruments. The reported movement in the fair values is a non cash transaction and is also excluded for tax purposes. The fair values will also be subject to change on a daily basis and the Manager is not able to accurately predict the future variation in interest rates.

(ii) Capital risk

The LP's objectives when managing capital are to safeguard the LP's ability to continue as a going concern in order to provide returns for investors and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. As the market and the LP's situation will evolve, the Manager will consider various capital management initiatives accordingly, including debt reduction and also a change in the level of distribution to investors. Capital will also be monitored through the gearing ratio (debt/investment property).

If the property is not sold before the expiry of the bank facility, a new finance facility may involve principal repayments which (together with the applicable interest rates) will affect cash returns payable to investors. The above table has been based on the initial contractual terms of the loan offer. It is assumed that the three year facility will continue to be renewed on a rolling basis.

(iii) Credit risk

To the extent the LP has a receivable from another party there is a credit risk in the event of non-performance by that counterparty. Financial instruments which potentially subject the LP to credit risk principally consist of bank balances and receivables.

The LP will hold no collateral or any other security over their financial assets subject to credit risk. However, the LP funds will be held by ASB Bank Limited which is a well-established bank within New Zealand. The LP's tenant will pay rent monthly in advance, and as such there is no anticipated credit risk exposure over the forecast period arising from the tenant. As a result the LP does not anticipate non-performance by the counter parties. During the due diligence process the Manager did not identify any material tenant risk. Maximum exposures to credit risk at balance date are:

	2019 $	2020 $
Bank balances	430,653	619,845
GST receivable	536,875	-
Total	**967,528**	**619,845**

(iv) Currency risk

The LP has no exposure to currency risk. All financial assets will be held in New Zealand dollars.

(v) Liquidity risk

Liquidity risk represents the LP's ability to meet its financial obligations on time. The LP projects to generate sufficient cash flows from its operating activities to make timely payment to meet these obligations. The table below represents all contractual terms of settlement and repayments resulting from expected financial liabilities at the end of each of the financial years covered in these prospective financial statements.

As at 31 March 2019	Less than 1 year $	1 - 5 years $	Total $
Financial liabilities			
Trade payables	18,600	-	18,600
Borrowings	-	14,153,048	14,153,048
Interest payable	253,968	4,792,484	5,046,452
Total financial liabilities	**272,568**	**18,945,532**	**19,218,100**

As at 31 March 2020	Less than 1 year $	1 - 5 years $	Total $
Financial liabilities			
Trade payables	18,972	-	18,972
Borrowings	-	19,000,000	19,000,000
Interest payable	845,359	5,048,209	5,893,568
Total financial liabilities	**864,331**	**24,048,209**	**24,912,540**

10 Issued interests

	2019	2020
Number of interest issued	455	455

The holders of Interests will be entitled to receive distributions as declared from time to time and are entitled to one vote per Interests at meetings of the LP, and rank equally with regard to the LP's residual assets. The issue price for each interest at the commencement of the LP is $50,000.

11 Distributions

The variance between the projected accounting surplus and the operating cash flow is due to the timing differences in respect to working capital, the adjustment to recognise fixed rental growth and incentives on a straight line basis and the amortisation of initial borrowing costs.

The Manager's objective is to ensure the LP 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 during the period ending 31 March 2019 and the year ending 31 March 2020.

	2019 $	2020 $
Per unit – gross distributions	3,528	3,500

Reconciliation of net profit to distributable cash surplus

	13 Months & 22 Days ending 31 March 2019 $	12 Months ending 31 March 2020 $
Prospective net profit before tax (total LP)	1,571,059	3,063,964
Add: development incentive	494,302	159,983
Adjust for: non-cash items *	71,817	(1,625,183)
Less: cash retention to fund development works	(283,500)	-
Less: cash retention for future capex fund	(248,334)	(6,264)
Cash surplus available for distribution	**1,605,343**	**1,592,500**
Total number of interests	455	455
Cash surplus available for distribution per interest	3,528	3,500
% on original investment	*7.00%*	*7.00%*
Distributions paid per unit	**3,528**	**3,500**
% on original investment	*7.00%*	*7.00%*
Variance	**-**	**-**

*Non-cash items include the amortised initial finance costs, the movement in the accrual for the fixed rental growth adjustment, the revaluation of investment property and the amortisation of the capitalised lease incentive.

12 Cash at bank

	2019 $	2020 $
Bank balances	430,653	619,845

The current account will have no overdraft facility. The bank balance at 31 March 2020 assumes the loan is fully drawn down and includes cash to be set aside for the future capex fund.

13 Related parties

Augusta Funds Management Limited is the Manager of the LP. 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:

- Offeror's fee of $600,000 (establishment cost).
- Development management fee of $200,000 (establishment cost).
- Management fees are $150,000 for the first 12 months and then will increase by the greater of 3% or CPI thereafter per year.
- Accounting fees are $5,000 for the first 12 months and then will increase by the greater of 3% or CPI thereafter per year.

No refinancing fees or project fees are assumed to be paid in the forecast period.

Augusta Funds Management Limited's parent, Augusta Capital Limited is providing an underwrite in respect of $15 million of the total subscriptions intended to be raised. The relevant underwriting fee to be charged by Augusta Capital Limited is $450,000 which represents 3% of the $15 million underwrite provided by Augusta Capital Limited. As a result of this underwrite, Augusta Capital Limited will subscribe for the balance of any unsubscribed Interests up to $15 million on the close of the offer period, and hence become an investor in the LP. The directors of Augusta Capital Limited (John Loughlin, Bryce Barnett, Mark Francis, Martin Goldfinch, Paul Duffy and Mark Petersen) are also directors of Augusta Funds Management Limited.

Augusta Capital Limited's chairman, Paul Duffy, as also an independent director of Leighs Construction who was awarded the construction contract. Paul Duffy was not involved in the tender procurement, the evaluation process and the decision to award the contract was not influenced by the common directorship.

14 Lessor operating lease

The LP's property has an operating lease attached to it, under which the current contractual payments due to be received are as follows:

	$
Formation to 31 March 2019	2,132,964
1 April 2019 to 31 March 2024	10,819,067
From 1 April 2024	62,344,123
Total	**75,296,154**

The above rental income accounts for future rental reviews in respect to the existing lease and the new lease for the first 10 years of the lease until a market review occurs. 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 lease.

15 Capital and operating lease commitments

As per the Development Agreement a lease incentive of $3 million will be paid on Practical Completion when the lease is signed. At 31 March 2019 the LP has a capital commitment for building costs of $2,263,738 (includes the second tranche of $100,000 for the development management fee). The LP does not anticipate having any further capital or lease commitments as at 31 March 2019 and 31 March 2020.

16 Contingent liabilities

The LP does not anticipate having any contingent liabilities as at 31 March 2019 and 2020.

17 Operating expenses

All operating costs are payable (including rates, material damage insurance premiums, utilities and maintenance costs) by the tenant directly and not by the landlord (or paid by the landlord and then fully recovered from the tenant) and have been excluded from these prospective financial statements.

18 Establishment costs

The establishment costs for the LP are tabled below.

Summary of establishment costs	Property purchase costs $	Issue costs $	Financing costs $	Total $
Development management fee	200,000	-	-	200,000
Offeror's fee	120,000	420,000	60,000	600,000
Underwriting and guarantee fees	-	605,000	-	605,000
Legal	125,000	85,000	15,000	225,000
Brokerage on equity raised	-	300,000	-	300,000
Registration fees and FMA levy	-	6,100	-	6,100
Supervisor fees	-	5,000	-	5,000
Assurance engagement fee	-	18,500	-	18,500
Printing and advertising	-	86,400	-	86,400
Chattels valuation	8,000	-	-	8,000
Bank fee	-	-	115,000	115,000
Bank legal	-	-	10,450	10,450
Valuation	-	-	15,000	15,000
Miscellaneous – admin expenses & disbursements	-	8,550	-	8,550
Total	**453,000**	**1,534,550**	**215,450**	**2,203,000**