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

Prospective Financial Information

Introduction

The Prospective Financial Statements of Augusta Property Fund (the "Fund") comprise the following Prospective Financial Information ("PFI") and other PFI related information for the 8 months and 19 days ending 31 March 2021 ("FY21") and the 12 months ending 31 March 2022 ("FY22"):

- 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;
- An analysis of the sensitivity of the PFI to changes in specific key assumptions; and
- Reconciliation of non-NZ GAAP to NZ GAAP information.

This document should be read in conjunction with the Product Disclosure Statement ("PDS") dated 14 July 2020 and other information provided on the Disclose Register (www.business.govt.nz/disclose, offer number OFR12901). Capitalised terms used but not defined in this document have the meanings given to them in the PDS.

Financial information is presented in New Zealand dollars.

Basis of preparation and presentation

The PFI has been prepared in accordance with the requirements of Financial Reporting Standard 42: *Prospective Financial Statements, as required by clause 49(1)(b)* of Schedule 5 to the Financial Markets Conduct Regulations 2014.

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

The Directors have given due care and attention to the preparation of the PFI (including the assumptions underpinning the PFI) and authorised the PFI as at 14 July 2020 for the purpose stated above. The PFI may not be suitable for any other purpose. The PFI is based on the Directors' assessment of events and conditions existing at the date of this PDS, the accounting policies and best estimate assumptions.

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 Fund. 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 Fund's business - with specific reference to Section 7 "Risks to returns from the Augusta Property Fund" 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 FY21 (8 months and 19 days ending 31 March 2021, commencing on 13 July 2020 being the date that the Trust Deed was executed); and
- Forecast financial information for FY22 (12 months ending 31 March 2022).

As the period ending 31 March 2021 will be the first financial period of the Fund, there are no comparatives available.

The Directors are responsible for and have authorised the issue of the PFI on 14 July 2020. There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Fund will present a comparison of the PFI with actual financial results in its FY21 and FY22 annual reports, as required by clause 59, Schedule 5, of the Financial Markets Conduct Regulations 2014, and clauses 70 and 71 of FRS-42.

Explanation of certain non-NZ GAAP financial measures

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

PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME

	Note	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Rental income	**1.2.3**	1,610	3,499
Property operating expense recoveries	**1.2.3**	528	1,160
Gross property income		**2,138**	**4,659**
Recoverable property operating expenses	**1.2.3**	(576)	(1,160)
Non-recoverable property operating expenses	**1.2.3**	(69)	(440)
Net property income		**1,493**	**3,059**
Administration expenses	**1.2.3**	(128)	(229)
Management expenses	**1.2.3**	(141)	(283)
Operating profit before finance expenses		**1,224**	**2,547**
Finance expenses	**1.2.7**	(378)	(771)
Operating profit before fair value movements		**846**	**1,776**
Unrealised movement in the fair value of investment property	**1.2.2**	(536)	13
Operating profit before taxation		**310**	**1,789**
Income tax	**1.2.11**	-	-
Net profit after tax		**310**	**1,789**
Other comprehensive income		-	-
Total comprehensive income attributable to investors		**310**	**1,789**

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

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

	Note	Capital $000s	Retained earnings $000s	Total $000s
Equity as at 13 July 2020		**-**	**-**	**-**
Issued capital	**1.2.8**	35,500	-	35,500
Establishment costs	**1.2.12**	(2,525)	-	(2,525)
Total comprehensive income for the period		-	310	310
Distributions to investors	**1.2.9**	-	(1,065)	(1,065)
Equity as at 31 March 2021	**1.2.8**	**32,975**	**(755)**	**32,220**
Equity as at 1 April 2021		**32,975**	**(755)**	**32,220**
Total comprehensive income for the period		-	1,789	1,789
Distributions to investors	**1.2.9**	-	(2,130)	(2,130)
Equity as at 31 March 2022	**1.2.8**	**32,975**	**(1,096)**	**31,879**

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

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

	Note	As at 31 March 2021 $000s	As at 31 March 2022 $000s
Current assets			
Cash and cash equivalents		309	438
Total current assets		**309**	**438**
Non-current assets			
Investment property	**1.2.2**	56,073	56,284
Total non-current assets		**56,073**	**56,284**
Total assets		**56,382**	**56,722**
Current liabilities			
Trade and other payables	**1.2.6**	328	351
Total current liabilities		**328**	**351**
Non-current liabilities			
Borrowings	**1.2.7**	23,834	24,492
Total non-current liabilities		**23,834**	**24,492**
Total liabilities		**24,162**	**24,843**
Equity		**32,220**	**31,879**
Total liabilities and equity		**56,382**	**56,722**

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

Augusta Property Fund

PROSPECTIVE STATEMENT OF CASH FLOWS

	Note	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Cash flows from operating activities			
Cash was provided from :			
Rental receipts	**1.2.3**	1,633	3,604
Operating expense recoveries	**1.2.3**	528	1,160
Receipt of Vendor Rental Underwrite financial asset		444	-
Goods and services tax		17	21
		2,622	**4,785**
Cash was applied to :			
Payments to suppliers		(831)	(2,086)
Lease incentives		(731)	(38)
Leasing fees		(113)	(79)
Interest paid		(270)	(669)
Line fee on undrawn debt		(8)	(15)
		(1,953)	**(2,887)**
Net cash flow from operating activities		**669**	**1,898**
Cash flows from investing activities			
Cash was provided from :			
Receipt of vendor seismic works retention financial asset	**1.2.2**	1,456	-
		1,456	**-**
Cash was applied to :			
Purchase of property	**1.2.2**	(55,000)	-
Transaction costs in relation to purchase of property	**1.2.2**	(765)	-
Seismic works expenditure		(1,456)	
Capital improvements		(474)	(211)
		(57,695)	**(211)**
Net cash flow from investing activities		**(56,239)**	**(211)**
Cash flows from financing activities			
Cash was provided from :			
Investor capital	**1.2.8**	35,500	-
Debt drawn	**1.2.7**	24,048	572
		59,548	**572**
Cash was applied to :			
Distributions to investors and PIE tax	**1.2.8**	(887)	(2,130)
Establishment issue costs	**1.2.12**	(2,525)	-
Establishment financing costs	**1.2.12**	(257)	-
		(3,669)	**(2,130)**
Net cash flow from financing activities		**55,879**	**(1,558)**
Net increase/(decrease) in cash and cash equivalents		309	129
Cash and cash equivalents at start of period		-	309
Cash and cash equivalents at end of period		**309**	**438**

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

NOTES AND ASSUMPTIONS FOR THE PERIOD ENDING 31 MARCH 2021 AND THE YEAR ENDING 31 MARCH 2022

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

The Fund is established and domiciled in New Zealand.

The Fund will invest in property with the initial portfolio consisting of the Anglesea Medical Centre located on the corner of Anglesea, Tristram and Thackeray Streets, Hamilton.

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 14 July 2020. The Directors are 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 the Augusta Property Fund" 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 markets in which the Fund operates.
- **Political, legislative & regulatory environment** - there will be no material change to the political, legal or regulatory environments in which the Fund operates.
- **COVID-19** - New Zealand will not re-enter Alert Level 3 or Alert Level 4 under the 4-level COVID-19 Alert System, and a new state of national emergency will not be declared due to the pandemic in New Zealand following the state of emergency that ended on 13 May 2020.
- **Markets operating in** - the Fund will operate in New Zealand over the prospective period.
- **Competitive environment** - there will be no material change to the competitive dynamics of the market in which the Fund operates, including any material change in competitor activity. It is assumed that no new entrants will materially change the competitive environment in which the Fund 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 of 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, and no key tenant is assumed to go bankrupt or become insolvent.
- **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 Fund'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 Fund 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 Fund.
- **Management of the Fund -** the Fund will be managed by Augusta Funds Management Limited ("the Manager"), who will be sufficiently resourced to manage the Fund with no significant changes to key personnel involved in management of the Fund.
- **Taxation** - there will be no material change to the tax rates or laws (including in relation to GST). It is assumed that there will be no change to the existing legislation regarding taxation of capital gains and that the Fund will depreciate the acquired assets for income tax purposes.

1.2 Specific Assumptions

1.2.1 Settlement and acquisition costs

It is assumed that the Fund acquires one investment property during the PFI period. The assumed purchase price is based on an unconditional sale and purchase agreement. Pursuant to the sale and purchase agreement, the acquisition of Anglesea Medical Centre is expected to settle on 30 September 2020.

It is assumed that $35,500,000 of equity is raised in the Offer and $23,047,435 of debt is drawn to facilitate the acquisition of the property and to pay the associated offer and establishment costs.

	Note	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Investment, establishment and acquisition costs: *			
Investment property		55,000	-
Capitalised acquisition costs		765	-
Costs of establishment and raising equity	**1.2.12**	2,525	-
Borrowing costs	**1.2.12**	257	-
Total investment, establishment and acquisition costs	**1.2.12**	**58,547**	**-**
Funded by:			
Debt		23,047	-
Equity		35,500	-
Total		**58,547**	**-**

* Costs are assumed to be incurred on date of settlement (30 September 2020).

1.2.2 Investment property and capital expenditure

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Balance at beginning of period	-	56,073
Purchase price of property	55,000	-
Transaction costs to purchase property	765	-
Transfer to Vendor Rental Underwrite financial asset	(444)	-
Transfer to seismic works retention financial asset	(1,456)	-
Capital expenditure	474	211
Seismic works expenditure	1,456	-
Movement in capitalised lease incentives	707	(66)
Movement in capitalised leasing fees	107	53
Unrealised movement in the fair value of investment property	(536)	13
Balance at end of period	**56,073**	**56,284**

On settlement date, 30 September 2020, the value of the property is assumed to equal cost, plus any directly related acquisition costs.

Financial assets have been recognised on settlement in relation to a rental underwrite provided by the vendor ("Vendor Rental Underwrite") and a retention held for seismic works. The Vendor Rental Underwrite is available to cover rental income and recoveries of operating expenses on vacant spaces, as well as market level rent free periods (incentives) offered to incoming tenants. The total value of this underwrite is $625,000 and it is assumed that $510,487 including GST ($443,901 excluding GST) is drawn during the PFI period.

It is assumed that the financial assets are released by 31 March 2021 on the basis that all underwritten tenancies are leased and that the seismic works are complete by 31 March 2021.

On 31 March 2021 and 31 March 2022 it is assumed that the investment property will be revalued, with the carrying value of the investment property assumed to represent the independent valuation of $55,200,000 commissioned as part of due diligence plus additional capital expenditure incurred post settlement and the impact of current lease negotiations that are expected to be accretive to value (but are not captured in the valuation) by $400,000. The $400,000 valuation impact from current lease negotiations is based on advice from an independent valuer.

The independent valuation for Anglesea Medical Centre was completed by CBRE and is dated 30 June 2020.

When calculating the unrealised movement in the fair value of investment property, adjustments have been made for the movement in the value of capitalised lease incentives and leasing fees.

Capital expenditure has been forecast based on estimated costs included in external consultant's property condition reports that were commissioned as part of due diligence. Timing of when this expenditure is likely to be incurred has been determined by the Manager based on due diligence findings and experience with similar assets.

A Detailed Seismic Assessment (DSA) assessed the Anglesea Clinic buildings at 40% of New Building Standard (NBS). Gray Partners (structural engineer) has assessed the structural strengthening works required to achieve a NBS rating greater than 67% and the Fund will carry out the work required to achieve a rating no less than 67% NBS. The PFI assumes that the costs of seismic strengthening works will be covered by the vendor retention included in the sale and purchase agreement, and that there will be no cost of this work to the Fund.

The actual movements in fair value are likely to be different to what is assumed in the PFI as the actual valuations will be based on rents, market yields and other contributing factors as at the actual valuation dates.

The valuation draws attention to market volatility and uncertainty associated with COVID-19 as summarised below.

The impact of COVID-19, declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, continues to cause heightened volatility in both local and global market conditions. Given the heightened uncertainty and unknown impact that COVID-19 might have on real estate markets in the future, a higher degree of caution should be exercised when relying on the valuation as values may change more rapidly and significantly than during standard market conditions. If economic and property market conditions deteriorate in the future, the market value of the Anglesea Medical Centre is likely to decline. This inherent risk factor should be considered in any lending or investment decisions.

The valuation takes into account the impact of COVID-19 in the assumptions adopted, including capitalisation rates, discount rates and market rental growth rates.

1.2.3 Revenue and expenses

Rental income

The table below summarises the forecast rental income for the PFI period and the assumed tenancy position.

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Contracted	1,453	2,674
Subject to renewal	25	280
Subject to new lease	156	649
Vendor underwritten	155	-
Vacant	-	-
Total rental income invoiced	**1,789**	**3,603**
Less: Receipt of Vendor Rental Underwrite financial asset	(155)	-
Less: Amortisation of capitalised lease incentives	(24)	(104)
Rental income	**1,610**	**3,499**

	8 months & 19 days ending 31 March 2021	12 months ending 31 March 2022
	Number of tenancies	
Contracted	27	23
Subject to renewal	3	7
Subject to new lease	5	9
Vendor underwritten	3	-
Vacant	1	-
Total tenancies	**39**	**39**

** Tenancies identified as being either 'subject to renewal' or 'subject to new lease' during FY21 have been reported within those same categories for the purposes of preparing the FY22 figures.*

Rental income has been forecast based on existing lease agreements with tenants. It is assumed that there is no tenant default and no tenant termination rights are exercised. It is also assumed that there are no delays in receipt of debtors.

Rental income is assumed to commence on 1 October 2020, being the day following settlement, in respect of all existing leases and rental underwrites. The PFI reflects all market and CPI rent reviews occurring during the reporting periods ending 31 March 2021 and 31 March 2022. CPI is assumed to be 0% for the purpose of rent reviews in November 2020, which are the only CPI rent reviews that occur during the PFI period.

Subject to renewal
During the PFI period 7 tenancies at Anglesea Medical Centre are due for renewal.

It is assumed that all tenancies will be renewed. Lease incentives have been forecast for certain tenancies.

Subject to new lease
It is assumed that new leases will be entered into during the period ended 31 March 2021 for all tenancies underwritten by the vendor during the PFI period. Included in the tables above is a current lease renegotiation which is assumed to be finalised before settlement, and will result in a current tenant occupying two additional spaces (which will otherwise by underwritten by the vendor).

Vacant
At the time of preparing the PFI four tenants are on month to month arrangements. By 1 October 2020 it is assumed that the current lease negotiations (previously mentioned) will result in three of these spaces coming under formal contract. The forth premise is expected to become vacant as a result of those same negotiations, and be re-let by the start of FY22.

Vendor Rental Underwrite
The vendor of Anglesea Medical Centre has provided a 12 month rental and outgoings underwrite for tenancies at the property that are vacant as at settlement. The PFI therefore assumes that rent and operating expense recoveries are received, in full, for these tenancies until 30 September 2021.

The total anticipated drawdown of this underwrite in respect of rent and operating expense recoveries is $203,500 (excluding GST). This is treated as a receipt of a financial asset and is not recognised as rental income in the prospective statement of comprehensive income (refer to Note 1.2.2).

These tenancies are assumed to be occupied during the underwrite period, with incentives payable to tenants to be covered by the Vendor Rental Underwrite and/or the Fund as detailed below. Leasing fees have been assumed as detailed below.

The Vendor Rental Underwrite also covers any rent relief or abatement offered to tenants (including operating expense recoveries) as a result of COVID-19, however no such amounts have been specifically allowed for in the PFI.

Augusta Funds Management Limited underwrite
The Manager has agreed to provide the Fund with a 6 month underwrite of the rent and outgoings payable in respect of the tenancies in place as at settlement, excluding the tenancy at Level 1, Suite 3.130 of Symmans House, as this tenancy is assumed to be vacant in the PFI due to a proposed lease deal. If this excluded tenancy does not become vacant, the Fund will receive rent and outgoings from the existing tenant that are not assumed in the PFI.

The underwrite will also cover the cost of any market level incentives granted and the leasing costs incurred by the Fund during the 6 month period from settlement in securing replacement tenants in the event any tenancies in place at settlement become vacant. It cannot be used to provide incentives to existing tenants or subtenants.

The amount available to be claimed by the Fund for rent, outgoings, incentives and leasing costs pursuant to the Manager's underwrite is capped at $500,000 plus GST. It is assumed that this underwrite is not required to be utilised.

Lease incentives and leasing fees
Lease incentives have been assumed to be paid for certain tenancies where these are considered likely by the Manager and in line with market. Lease incentives of between 3 to 12 months rent have been assumed depending on forecast lease terms. Leasing fees of between 5% to 20% of annual rent have also been assumed in regard to tenancies that are currently vacant or subject to renewal during the PFI period. These assumptions are based on the Manager's experience and understanding of market standards.

Vacancy assumptions
Vacancy assumptions have been made for tenancies that are currently vacant or due to expire during the PFI period. Vacancy periods of zero to six months have been assumed. These assumptions are based on the Manager's experience and discussions with the vendor and certain tenants.

Operating expenses

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Recoverable property operating expenses		
Repairs and maintenance	101	203
Property management fees	67	135
Rates	187	377
Operating services and utilities	132	266
Insurance	68	137
Other expenses	21	42
Total recoverable property operating expenses	**576**	**1,160**
Less: Receipt of Vendor Rental Underwrite financial asset	(48)	-
Total property operating expenses recoveries	**528**	**1,160**
Non-recoverable property operating expenses		
Repairs and maintenance	39	367
Property management fees	8	16
Rates	6	11
Operating services and utilities	7	15
Leasing fees	6	26
Insurance	2	4
Other expenses	1	1
Total non-recoverable property operating expenses	**69**	**440**

Recoverable and non-recoverable property operating expenses have been forecast based on a combination of assumptions. The recoverability of property operating expenses has been assumed based on lease agreements currently in place with tenants. The assumptions include those identified during the due diligence process (which included the commissioning of building condition reports and review of information provided by the vendor), and those based on quotes received.

Property operating expense recoveries received from the Vendor Rental Underwrite are treated as a receipt of a financial asset and are not recognised as property operating expense recoveries in the prospective statement of comprehensive income.

CPI is assumed to be 0.70% per annum during the PFI period and has been applied to all recoverable and non-recoverable property operating expenses in the period ending 31 March 2022.

Tenants with net leases are responsible for the majority of operating expenses including rates, insurance premiums, utilities and certain maintenance obligations. There are elements of non-recoverable operating expenses which are the responsibility of the landlord.

It is assumed that all operating expense payments will be made on time and that there are no creditors associated with these operating expenses at the end of each reporting period.

Administration expenses

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Valuation fees	18	18
Audit fees	35	36
Supervisor fees	11	23
Registry fees	15	30
Legal, tax, bank agency and other consultancy fees	49	122
Total administration expenses	**128**	**229**

Valuation fees, audit fees, supervisor fees, registry fees and bank agency fees have been forecast based on quotes received.

Legal, tax and other consultancy fees have been forecast based on the Manager's estimates and experience in managing other property funds. Legal, tax and other consultancy fees includes a contingency for tax and legal advice and due diligence of potential future acquisitions.

Auditor's remuneration

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Financial statements audit	35	36
Investigating accountant services	90	-
Total auditor's remuneration	**125**	**36**

Financial statements audit costs are based on a quote received.

Fees of $90,000 were charged for investigating accountant services for the initial offer of units in the Augusta Property Fund (registered in February 2020 and subsequently withdrawn in March 2020). The additional quoted charge for the current offer is $55,000. The Manager has agreed to cover the cost of the additional $55,000 and this will not be charged to the Fund.

The $90,000 charged to the Fund is recognised directly in equity as an establishment cost.

Fees paid to the Manager

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Management fees		
Base management fee	141	283
Capitalised fees		
Leasing fees	104	29
Development management fees	3	9
Development management fees (funded by vendor seismic works retention)	46	-
Performance fee	-	-
Total fees charged	**294**	**321**

The fees set out above are based on the Fund's Trust Deed.

Management fees - 0.5% of the average month-end value of all assets of the Fund per annum. This fee is payable quarterly in arrears.

Leasing fees - one-off fee of between 5% and 15% of annual gross rental for each new lease arranged or right of renewal exercised depending on the term of the lease and whether a third party or real estate agent is involved in the negotiation.

Development management fee - 3.5% of the total costs of any development, project or other work of a capital nature where the cost of those works exceeds $50,000.

Performance fee - 20% of outperformance above the 4% benchmark, calculated and paid six monthly in arrears. The performance of the Fund is calculated by taking the Unit Price on the last business day of the six month period, subtracting the Unit Price on the last business day of the preceding six month period (the Opening Unit Price) and adding the amount of distributions paid per unit during the period (on an accrual basis). The result is then divided by the Opening Unit Price to determine the performance in percentage terms (positive or negative).

The performance fee is calculated by subtracting the 4% benchmark from the performance of the Fund, multiplying the result by the average monthly Adjusted Net Asset Value of the Fund during the period, and deducting any carried forward underperformance from previous periods. If the result is a negative amount, it represents carried forward underperformance and no performance fee is payable in respect of that period. If the result is a positive amount, that amount is multiplied by 20% and represents the performance fee payable in respect of that period.

The Adjusted Net Asset Value of the Fund represents the Fund's reported net asset value adjusted for items set out in the Trust Deed. These adjustments take into account the Fund's policy of spreading establishment costs, capital raising costs and the costs of acquiring assets over time.

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

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Net profit	310	1,789
Adjustments for:		
Unrealised movement in the fair value of investment property	536	(13)
Amortisation of capitalised borrowing costs	43	86
Lease incentives paid	(731)	(38)
Receipt of vendor underwrite financial asset	444	-
Amortisation of capitalised lease incentives	24	104
Leasing fees paid	(113)	(79)
Amortisation of capitalised leasing fees	6	26
	519	**1,875**
Changes to assets and liabilities relating to operating activities:		
Increase/(decrease) in trade and other payables	150	23
Net cash flow from operating activities	**669**	**1,898**

1.2.5 Trade and other receivables

It is assumed that there is no tenant default, and that there are no delays in receipt of debtors, therefore, no trade receivables balances are assumed during the PFI period.

1.2.6 Trade and other payables

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Accrued expenses	77	78
Accrued interest	56	58
GST payable	17	37
Distributions payable	178	178
Total	**328**	**351**

Trade and other payables includes current liabilities due within 30 days of balance date.

1.2.7 Borrowings

The Fund intends to enter into a syndicated debt facility provided by ASB Bank Limited and/or Industrial and Commercial Bank of China (New Zealand) Limited, based on credit approved offers received, to facilitate settlement of the investment property and offer costs alongside the equity raise. The facility limit and maturity date are shown below.

The facility is interest only.

Borrowing costs are estimated at $257,287. These costs are based on credit approved offers, bank agreements and legal fee quotes. These will be amortised over the period of the borrowings.

Borrowing summary	31 March 2021 $000s	31 March 2022 $000s
Net borrowings		
Syndicated bank facility drawn down	24,048	24,620
Unamortised borrowing establishment costs	(214)	(128)
Net borrowings	**23,834**	**24,492**
Composition of borrowings		
Maturity date	30 September 2023	30 September 2023
Loan to value ratio (LVR) not to be greater than	55%	55%
Interest coverage ratio (ICR) not to be less than	2.00 times	2.00 times
Loan balance	23,834,074	24,491,812
Total facility limit	26,125,000	26,125,000
Interest rate for drawn debt (inclusive of BKBM base rate, margins and line fees)	2.75%	2.75%

Loan security

The loan will be secured by a registered first mortgage over Anglesea Medical Centre and a first ranking general security interest over the assets of the Fund.

Finance expenses

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Bank loan interest	325	670
Amortisation of capitalised borrowing costs	43	86
Line fee on undrawn debt	10	15
Total finance expense	**378**	**771**

Bank loan interest assumes an interest rate for drawn debt of 2.75% per annum during the PFI period. The line fee on undrawn limit is assumed to be 0.84% per annum. These are based on credit approved loan offers.

Total finance expense represents 25% of net revenue in the period ending 31 March 2021 and 25% in the year ending 31 March 2022.

It is intended that the variability in the base rate will be managed with interest rate swap agreements, however these will be entered into post establishment. Such interest rate derivatives have the economic effect of converting the base rate from floating to fixed interest rates. The PFI assumes that any interest rate swap agreements entered into are equal to the BKBM base rate assumed in the PFI. It is assumed that the BKBM rate will not change over the PFI period.

1.2.8 Equity

It is assumed that 35,500,000 units are issued (at $1 per unit) under the PDS for the purposes of funding the acquisition of the investment property and associated establishment costs.

	Notes	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Opening balance of units issued		-	32,975
Units issued		35,500	-
Issue costs	**1.2.12**	(2,525)	-
Closing balance of units issued		**32,975**	**32,975**

The Manager's objective is to ensure the Fund continues as a going concern as well as to maintain optimal returns to investors. As the market is constantly changing, the Manager will consider capital management initiatives, such as changing the level of distributions paid, sourcing additional debt or raising additional equity if required.

1.2.9 Distributions

Distributions will be declared on a monthly basis at the Manager's discretion and based on the Fund's financial performance and solvency requirements. The dividend policy is to distribute up to 100% of the Adjusted Operating Profit (non-GAAP) over the medium term which is outlined in section 4 of this PFI. The policy may change over time.

Distributions are forecast to be paid out of the Fund’s Adjusted Operating Profit and may also include any surplus capital of the Fund. Distributions are forecast to be paid at a rate of 6.00 cents per unit per annum from 1 October 2020 for the periods ending 31 March 2021 and 31 March 2022.

	8 months & 19 days ending 31 March 2021		12 months ending 31 March 2022	
	$000s	Cents per unit	$000s	Cents per unit
Gross distributions paid	1,065	3.00	2,130	6.00

1.2.10 Related party transactions

The Fund will be managed by Augusta Funds Management Limited ("AFML"), a wholly owned subsidiary of Augusta Capital Limited.

Augusta Capital Limited intends to acquire a 10% unit holding as part of the Offer. The forecast distribution payable to Augusta Capital Limited reflects a 10% unit holding.

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Amounts paid to Augusta Capital Limited and AFML		
Management fees	141	283
Offeror fee	1,995	-
Interest on Anglesea Medical Centre deposit	77	-
Leasing fees	104	29
Development management fees	49	9
Total fees paid to Augusta Capital Limited and AFML	**2,366**	**321**
Distributions	107	213
Total amounts paid to Augusta Capital Limited and AFML	**2,473**	**534**

The interest on Anglesea Medical Centre deposit relates to interest incurred by AFML on debt drawn to fund the deposit paid on 20 January 2020 for the acquisition of the property. This is based on an assumed interest rate of 4.00% per annum for the period ending on the date of settlement, being 30 September 2020.

Some costs have been, and may in the future be, paid by either Augusta Capital Limited or AFML, and will be recharged to the Fund. Such costs have not been included in the above.

1.2.11 Taxation

The Fund will register as a multi-rate Portfolio Investment Entity (PIE). The Fund will attribute income, losses and tax credits to investors based on their unit holding and pay tax based on their prescribed investor rates (PIRs).

It is assumed that the Fund will continue to qualify as a PIE for the PFI period.

1.2.12 Establishment costs

Total establishment costs are assumed to be $3,547,435 (excluding the purchase price of the property). The table below sets out how the costs are assumed to be treated.

Summary of establishment costs	Capitalised to investment property	Capitalised to equity	Capitalised to borrowings	Total
	$000s	$000s	$000s	$000s
Purchase price - Anglesea Medical Centre	55,000	-	-	55,000
Offeror fee	387	1,511	97	1,995
Interest on Anglesea deposit	77	-	-	77
Brokerage fee	-	559	-	559
Legal fees	205	75	45	325
Supervisor	-	10	-	10
Investigating accountant	-	90	-	90
Marketing	-	260	-	260
Valuation fees	26	-	-	26
Chattels valuations	18	-	-	18
Building inspection and due diligence	53	-	-	53
Bank fees	-	-	91	91
Bank legal costs	-	-	25	25
PDS and fund registration fee and FMA levy	-	5	-	5
Registry establishment	-	15	-	15
Total	**55,765**	**2,525**	**257**	**58,547**

The costs above that are capitalised to borrowings are amortised over the term of the associated loan facility.

The purchase price above is based on the signed sale and purchase agreement.

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

1.2.13 Capital Commitments

The Fund does not anticipate having any capital commitments as at 31 March 2021 and 2022.

1.2.14 Contingent liabilities

The Fund does not anticipate having any contingent liabilities as at 31 March 2021 and 2022.

1.2.15 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 Fund, the Directors and the Manager give no guarantee or assurance that the prospective financial information presented will be achieved.

2 STATEMENT OF ACCOUNTING POLICIES

The prospective financial statements presented are for the reporting entity Augusta Property Fund (the "Fund").

The Fund 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 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 Fund 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.

Comparatives

These prospective financial statements represent the first period of trading to 31 March 2021, and also the year ending 31 March 2022. As the period ending 31 March 2021 will be the first financial period of the Fund, there are no comparatives available.

Investment property

Investment property is initially measured at cost, including transaction costs and is subsequently measured at fair value which reflects market conditions. Fair value is determined annually by independent valuers and adjusted for any amounts already allocated to other assets or liabilities. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Subsequent expenditure is capitalised to the asset's carrying amount only where it is probable a future economic benefit will flow to the Fund and cost can be reliably measured. All other repairs and maintenance costs are expensed as incurred. Where part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

The building and the leases are considered as a single asset, because they are recognised and measured as a single identifiable asset. If substantially all of the fair value of gross assets is concentrated in a single asset (or a group of similar assets) the transaction is accounted for as an asset purchase.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the disposal of an investment property are recognised in profit or loss in the period of derecognition.

Financial assets

Financial assets, including certain rental underwrites, guarantees and retentions are fair valued at period end with the impact of changes in estimates recognised in profit or loss as a movement in fair value.

Revenue and expenses

Revenue recognition

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 term 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.

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 certain receivables and payables that are stated inclusive of GST.

Cash and cash equivalents
For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on 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.

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 Fund 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.

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 Fund prior to year-end which are unpaid and arise when the Fund 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.

Borrowings
All borrowings are initially measured at fair value, plus directly attributable transaction costs, and subsequently measured at amortised cost using the effective interest rate method. Under this method, directly attributable fees, costs, discounts and premiums are capitalised and spread over the expected life of the facility. All other interest costs and bank fees are expensed in the period they are incurred. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Derivative financial instruments will be carried at fair value. Any resulting gain or loss on revaluation is recognised in the profit and loss.

Establishment costs
Establishment costs are treated in a number of ways depending on the nature of the costs; (1) costs directly attributable to raising equity are deducted from the equity proceeds, (2) costs associated with obtaining finance are capitalised and amortised over the expected term of the borrowings, and (3) costs 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 activities 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 Prospective Statement of Comprehensive Income and Prospective Statement of Financial Position are detailed below. 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 31 March 2021 and the year ending 31 March 2022.

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 tables below illustrate the impact on the operating profit before fair value movements, Adjusted Operating Profit and Net Tangible Assets (NTA) due to movements in the key assumptions used in the PFI periods. The below sensitivities do not take account of any risk management initiatives that the Fund may take should a change in these assumptions arise. The cents per unit is represented as Adjusted Operating Profit earnings impact divided by the number of units issued.

FY21 Impact	$'000	Cents per unit
Operating profit before fair value movements	**$846**	**2.38**
Adjusted Operating Profit	**$1,136**	**3.20**
Increase in interest rates (+50 bps)	($59)	(0.17)
Decrease in interest rates (-50 bps)	$59	0.17
Loss of gross rent	($206)	(0.58)
Increase in capital expenditure (+$1 million per annum)	($3)	(0.01)
Increase in capital expenditure (+$2 million per annum)	($6)	(0.02)
Increase in non-recoverable R&M expenditure (50% increase)	($18)	(0.05)
Offer oversubscription (+$3 million)	$28	(0.18)
NTA	**$32,220**	**0.91**
Increase in property valuations (+5%)	$2,804	7.90
Decrease in property valuations (-5%)	($2,804)	(7.90)
Increase in capital expenditure (+$1 million per annum)	($1,003)	(2.82)
Increase in capital expenditure (+$2 million per annum)	($2,006)	(5.65)
Offer oversubscription (+$3 million)	$2,885	0.42

FY22 Impact	$'000	Cents per unit
Operating profit before fair value movements	**$1,776**	**5.00**
Adjusted Operating Profit	**$2,263**	**6.38**
Increase in interest rates (+50 bps)	($122)	(0.34)
Decrease in interest rates (-50 bps)	$122	0.34
Loss of gross rent	($292)	(0.82)
Increase in capital expenditure (+$1 million per annum)	($10)	(0.03)
Increase in capital expenditure (+$2 million per annum)	($21)	(0.06)
Increase in non-recoverable R&M expenditure (50% increase)	($182)	(0.51)
Offer oversubscription (+$3 million)	$57	(0.35)
NTA	**$31,879**	**0.90**
Increase in property valuations (+5%)	$2,814	7.93
Decrease in property valuations (-5%)	($2,814)	(7.93)
Increase in capital expenditure (+$2 million)	($1,010)	(2.85)
Increase in capital expenditure (+$4 million)	($2,021)	(5.69)
Offer oversubscription (+$3 million)	$2,762	0.18

Notes

Interest rate sensitivity

Exposure to interest rate risk is in the normal course of operations. The Fund intends to manage interest rate risk by entering into interest rate swap agreements. At the time the PFI was prepared, no interest rate swaps have been entered into. Therefore, the above sensitivity analysis is on the total forecasted debt. It also assumes that the bank margin remains fixed throughout the forecast period.

Loss of gross rent sensitivity

The PFI assumes that there will be no tenant defaults during the periods ending 31 March 2021 and 31 March 2022, however such a default is a risk with property investment. The sensitivity reflects on a potential loss of a tenant in each period. The sensitivity is based on the average annual gross rent of the top 10 tenants. The sensitivity also includes the higher interest expense that would result from drawing down debt to cover the lost income.

Capital expenditure sensitivity

The PFI assumes that capital expenditure is incurred and that it is debt funded. Should further capital expenditure be incurred then additional funding costs will be incurred. These sensitivities reflect on potential higher capital expenditure works being incurred in each period and the impacts on funding costs.

The NTA sensitivities assume that any additional capex incurred is not accretive to property value.

Non-recoverable R&M expenditure sensitivity

An allowance for non recoverable repairs and maintenance has been included in the PFI. Should further non recoverable repairs and maintenance be incurred then those costs, together with additional funding costs, will impact the return. The sensitivity reflects on a 50% increase in forecasted non recoverable repairs and maintenance, together with the associated additional funding costs.

Offer oversubscription

The PFI assumes that $35.5 million of equity is raised in the Offer. Oversubscriptions of up to $3 million may be accepted. The sensitivity reflects the impact of $3 million of oversubscriptions assuming these are applied to repay debt and lower gearing.

The cents per share variance shown above is the difference between the assumed Adjusted Operating Profit per share on $35.5 million worth of units and the sensitised Adjusted Operating Profit per unit on $38.5 million worth of units (i.e. including a $3 million oversubscription). In summary, if $3 million of oversubscriptions were issued, the total Adjusted Operating Profit would increase, however the Adjusted Operating Profit per unit would decrease.

4 RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION

The Fund's distribution policy is to pay out up to 100% of Adjusted Operating Profit to investors over the medium term.

Adjusted Operating Profit is a non-GAAP financial measure adopted to assist the Fund in assessing the operating profit available for distribution. Adjusted Operating Profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

Adjusted Operating Profit is calculated by adjusting net profit after tax (determined in accordance with NZ IFRS) for certain non-cash, one-off, irregular and/or equity raising items. Further details are available in the Statement of Investment Policy and Objectives.

The following table is a reconciliation between the net profit after tax as per the Prospective Statement of Comprehensive Income, and the Adjusted Operating Profit as per the Fund's dividend policy. The reconciliation has not been subject to audit or review.

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
Reconciliation of net profit after tax to Adjusted Operating Profit		
Prospective net profit after tax	310	1,789
Adjustments:		
Unrealised movement in the fair value of investment property	536	(13)
Rental income from Vendor Rental Underwrite financial asset	203	-
Amortisation of capitalised borrowing costs	43	86
Amortisation of vendor funded lease incentives	5	34
Debt funded non-recoverable repairs and maintenance	39	367
Adjusted Operating Profit	**1,136**	**2,263**
Payout ratio	**94%**	**94%**

The Manager believes this non-GAAP disclosure is important as it shows the operating surplus available for distribution and this will be used when determining future distribution levels.

Adjustments included are:

- Unrealised movement in the fair value of investment property as this does not impact the cash flows generated which are available for distribution.
- Rental income from the Vendor Rental Underwrite financial asset as this is not included in net profit for accounting purposes.
- The initial finance costs are fully paid on establishment of the Fund but for accounting purposes are capitalised and amortised over the period of the loan facility.
- The amortisation of vendor funded lease incentives as these are funded by the vendor underwrite.
- The cash impact of non-recoverable repairs and maintenance, as these will be debt funded.

Refer to page 40 of the PDS for a detailed description of Adjusted Operating Profit.

5 FINANCIAL MEASURES FOR FUND BORROWINGS (NON-GAAP)

The loan to value and interest cover ratios are non-GAAP information. They are included as debt is a material component in respect to the Fund. The loan to value and interest cover ratios do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

Refer below for relevant calculations. The calculations have not been subject to audit or review.

Loan to value ratio

	As at 31 March 2021 $000s	As at 31 March 2022 $000s
Drawn debt	24,048	24,620
Investment property valuation	56,073	56,284
Loan to value ratio	**42.9%**	**43.7%**

The banking covenant requires that the loan to value ratio is to be no more than 55%.

The loan to value ratio tells you how much the Fund owes (borrowings) as a portion of the investment property valuation. The higher the ratio, the higher the risk to the Fund as it indicates that a higher portion of the Fund's investment property assets will need to be applied to repay the loan.

The loan to value ratio is different to the gearing ratio which represents total interest-bearing liabilities divided by total assets.

Interest cover ratio

	8 months & 19 days ending 31 March 2021 $000s	12 months ending 31 March 2022 $000s
EBITDA adjusted for unrealised gains and losses	1,224	2,547
Interest expense	(378)	(771)
Interest cover ratio	**3.24**	**3.30**

The banking covenant requires that the interest cover ratio is not to be less than two times.

The interest cover ratio tells you how much the Fund's net income exceeds interest on its borrowings (as a multiple). The higher the ratio, the more comfortably the Fund's income can cover any interest expense (and the lower risk to the Fund).