Augusta Industrial Fund Limited

Prospective financial information, reconciliation of non-GAAP financial information to GAAP financial information and supplementary financial information

Prospective financial Information

The prospective financial information ("PFI") of Augusta Industrial Fund Limited (the "Company") and its subsidiaries (the "Group") comprises the following prospective financial statements, notes and assumptions and other PFI related information for the year ending 31 March 2022:

- Prospective consolidated statement of comprehensive income;
- Prospective consolidated statement of changes in equity;
- Prospective consolidated statement of financial position;
- Prospective consolidated statement of cash flows;
- Notes and assumptions for the prospective financial statements;
- Sensitivity analysis for the prospective financial information; and
- Other PFI related information:
  - Reconciliation of non-GAAP financial information.

This document should be read in conjunction with the Product Disclosure Statement ("PDS") dated 11 May 2021 and other information provided on the Offer Register (offer number OFR13088). 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 53(1)(c) of Schedule 3 to the Financial Markets Conduct Regulations 2014.

The PFI has been prepared in accordance with New Zealand generally accepted accounting practices ("GAAP").

The PFI, and underlying assumptions, have been prepared by management and approved by the Board specifically for the purpose of a Public Offer of shares in the Company (the "Offer").

The Board has given due care and attention to the preparation of the PFI (including the assumptions underlying it) and authorised the issue of the PFI as at 11 May 2021 for the purpose stated above. The PFI may not be suitable for any other purpose. The PFI is based on the Board's assessment of events and conditions existing at the date of the PDS, the accounting policies and best estimate assumptions set out below.

The pending purchase of the property at 78 Tidal Road, Mangere, Auckland is treated as an asset acquisition and not a business combination in accordance with the Company's accounting policy and therefore no historical trading information has been presented for this property.

There is no present intention to update the PFI or to publish PFI in the future, other than as required by regulations. The Company will present a comparison of the PFI with actual financial results in its financial statements for the year ending 31 March 2022, as required by Regulation 64 of the Financial Markets Conduct Regulations 2014 and Financial Reporting Standard 44 New Zealand Additional Disclosures.

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 Group. 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 Group's business - with specific reference to Section 8 "Risks to Augusta Industrial's Business and Plans" in the PDS. Accordingly, actual results may vary from the PFI, and those variations may be significantly more or less favourable. The Board cannot and do not guarantee the achievement of the PFI.

Financial periods

The PFI covers the prospective consolidated financial information for the reporting year ending 31 March 2022. This is based on balances brought forward from the 31 March 2021 financial statements with forecasts commencing on 1 April 2021.

Explanation of certain non-GAAP financial measures

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

Prospective consolidated statement of comprehensive income

	Note	12 months ending 31 March 2022 $000
Gross rental income	1.2.4	29,388
Other income		43
Recoverable property operating expenses	1.2.4	(4,638)
Non-recoverable property operating expenses	1.2.4	(1,199)
Property investigation expenses		(50)
Net property income		23,544
Administration expenses	1.2.4	(473)
Management fees	1.2.4	(2,224)
Operating profit before finance expenses and fair value movements		20,847
Finance expenses	1.2.6	(6,117)
Lease finance expenses (ground lease)		(80)
Operating profit before fair value movements		14,650
Change in fair value of investment property	1.2.2	4,641
Change in fair value of interest rate swaps	1.2.6	1,486
Operating profit before tax		20,777
Income tax	1.2.10	-
Net profit after tax		20,777
Other comprehensive income		-
Total comprehensive income attributable to shareholders		20,777

These prospective consolidated financial statements should be read in conjunction with the notes on pages 7 to 21.

Prospective consolidated statement of changes in equity

	Note	Capital $000	Retained earnings $000	Total $000
Equity as at 1 April 2021		179,788	72,446	252,234
Shares issued		80,000	-	80,000
Issue costs	1.2.9	(2,843)	-	(2,843)
Total comprehensive income for the year		-	20,777	20,777
Dividends paid to shareholders		-	(15,576)	(15,576)
Equity as at 31 March 2022	1.2.7	256,945	77,647	334,592

These prospective consolidated financial statements should be read in conjunction with the notes on pages 7 to 21.

Prospective consolidated statement of financial position

	Note	As at 31 March 2022 $000
Current assets		
Cash and cash equivalents		500
Total current assets		500
Non-current assets		
Investment property	1.2.2	468,132
Software intangible asset		4
Right-of-use assets (ground lease)		1,164
Total non-current assets		469,300
Total assets		469,800
Current liabilities		
Trade and other payables	1.2.5	1,238
Dividends payable		1,386
Lease liabilities (ground lease)		21
Total current liabilities		2,645
Non-current liabilities		
Borrowings	1.2.6	129,495
Capitalised borrowing costs		(66)
Fair value of interest rate swaps	1.2.6	1,832
Lease liabilities (ground lease)		1,302
Total non-current liabilities		132,563
Equity		334,592
Total liabilities and equity		469,800

These prospective consolidated financial statements should be read in conjunction with the notes on pages 7 to 21.

Prospective consolidated statement of cash flows

	Note	12 months ending 31 March 2022 $000
Cash flows from operating activities		
Cash was provided from :		
Rental receipts		24,133
Property operating expense recoveries		4,639
Other income		43
		28,815
Cash was applied to :		
Payments to suppliers		(8,960)
Goods and services tax paid		(58)
Interest paid		(4,847)
		(13,865)
Net cash flow from operating activities		**14,950**
Cash flows from investing activities		
Cash was applied to :		
Acquisition of investment property		(48,835)
Transaction costs in relation to purchase of property		(504)
Building improvements		(4,983)
		(54,322)
Net cash flow used in investing activities		**(54,322)**
Cash flows from financing activities		
Cash was provided from :		
Investor capital		80,000
		80,000
Cash was applied to :		
Borrowings		(21,425)
Dividends and PIE tax		(15,428)
Issue costs		(2,843)
Borrowing costs		(1,544)
		(41,240)
Net cash flow from financing activities		**38,760**
Net decrease in cash and cash equivalents		(612)
Cash and cash equivalents at start of year		1,112
Cash and cash equivalents at end of year		**500**

These prospective consolidated financial statements should be read in conjunction with the notes on pages 7 to 21.

Notes and assumptions for the prospective financial statements

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 Group is domiciled in New Zealand. The Group is an industrial property investor that owns land and buildings located in New Zealand. The registered office of the Company is situated at Level 2, Bayleys House, 30 Gaunt Street, Wynyard Quarter, Auckland 1010.

The prospective financial statements were authorised for issue on 11 May 2021. The Board 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 for the PFI to be updated subsequent to issue.

1 Assumptions

The following general and specific assumptions have been adopted in preparing the PFI. The assumptions contained in this section should be read in conjunction with Section 8 "Risks to Augusta Industrial's business and plans" 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, including any impacts of COVID-19, for the markets in which the Group operates.
- **Political, legislative and regulatory environment** - there will be no material change to the political, legal or regulatory environments in which the Group operates.
- **Markets operating in** - the Group will operate in New Zealand.
- **Competitive environment** - there will be no material change to the competitive dynamics of the market in which the Group operates, including any material change in competitor activity. It is assumed that no new entrants or exiting current participants will materially change the competitive environment in which the Group operates.
- **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.
- **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 Group'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 Group 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 financial reporting standards or accounting interpretations which would have a material effect on the Group.

- **Management of the Group** - the Group will be managed by Centuria Funds Management (NZ) Limited (previously named Augusta Funds Management Limited) (the **Manager** or **Centuria NZ**), who will be sufficiently resourced to manage the Group with no significant changes to key personnel involved in management of the Group.

- **Taxation** - there will be no material change to the tax rates or laws (including in relation to corporate income tax and GST). It is assumed that there will be no change to the existing legislation regarding taxation of capital gains on commercial properties and that the Group will depreciate the acquired assets for income tax purposes. It is assumed the Group will maintain its portfolio investment entity status throughout the PFI period.

- **Inflation** - CPI is assumed to be 1.50% per annum during the PFI period.

1.2 Specific assumptions

1.2.1 Equity raise, offer costs and settlement

It is assumed that $80,000,000 of equity is raised in the Offer to fund the acquisition of 78 Tidal Road, Mangere, Auckland (**Tidal Road),** to repay borrowings and to pay the associated offer and acquisition costs. It is assumed that the $80,000,000 of equity will be issued at a price of $1.33 per share and will be allotted on 29 June 2021. It is therefore assumed the Follow-On Offer is not required and the Subordinated Loan facility is not drawn.

	12 months ending 31 March 2022 $000
Use of proceeds	
Purchase price for Tidal Road	48,835
Capitalised acquisition costs	504
Offer costs	2,842
Borrowing costs	1,451
Repayment of debt	26,368
Total	**80,000**

It is assumed that the acquisition of Tidal Road will settle on 30 September 2021 for a purchase price of $48,834,674 based on a signed sale and purchase agreement. Associated acquisition costs are assumed to be paid on settlement. A deposit of $2,441,734 is assumed to be paid in May 2021.

Offer costs are assumed to be paid on 29 June 2021.

1.2.2 Investment property and capital expenditure

Investment property

	12 months ending 31 March 2022 $000
Carrying amount at beginning of year	408,301
Acquisition of Tidal Road	48,835
Capitalised acquisition costs	504
Capital expenditure	4,882
Movement in lease incentives, leasing fees, and fixed rental income	969
Change in fair value of investment property	4,641
Carrying amount at end of year	**468,132**

Investment property represents the Group's 11 existing properties plus the acquisition of Tidal Road. On settlement of Tidal Road it is assumed the property is revalued to $55,000,000 based on the "as if complete" independent valuation dated 31 March 2021 provided by Jones Lang LaSalle.

On 31 March 2022 it is assumed that investment property is revalued, with the carrying value assumed to represent the 31 March 2021 independent valuations plus additional capital expenditure assumed during the PFI period.

When calculating the unrealised movement in the fair value of the investment property, adjustments have been made for the movement in the value of the accrual for fixed rental growth, capitalised lease incentives and capitalised leasing fees. For accounting purposes, rental income is adjusted to straight-line the total contracted rent over the lease period with a fixed rental growth accrual recognised as a component of the fair value of the investment property.

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 the lease terms, market yields and other contributing factors as at the future valuation dates. The Board notes a degree of caution should be applied when referencing valuations in the current economic climate.

The independent valuations have regard for the impact of COVID-19 in the inputs and market evidence adopted. Some valuations state that there may be a greater range around their opinion of “market value” than would normally be the case and/or that values and incomes may change more rapidly and significantly than during standard market conditions.

Other than Tidal Road, no investment property acquisitions or divestments are assumed during the PFI period.

Capital expenditure - investment property

	12 months ending 31 March 2022 $000
Development capital expenditure at 862-864 Great South Road	2,948
General capital expenditure across all properties	1,934
Total capital expenditure	**4,882**

It is assumed that a new warehouse and office is developed on the surplus land at the front of the 862-864 Great South Road property. It is assumed that the above cost is incurred during the year ending 31 March 2022. These costs and the timing of when expenditure is likely to be incurred is based on a concept design cost plan estimate report prepared by an external project manager.

Other general capital expenditure has been assumed in the PFI, based on property condition reports and the Manager's estimates. 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.

1.2.3 Reconciliation of the net profit after tax to the net cash flow from operating activities

	12 months ending 31 March 2022 $000
Net profit after tax	20,777
Adjustments for:	
Change in fair value of investment property	(4,641)
Change in fair value of interest rate swaps	(1,486)
Subordinated Loan fee	1,451
Amortisation of capitalised borrowing costs	127
Adjustment due to capitalised fixed rental growth and rent free	(271)
Capitalisation of lease incentives	(567)
Amortisation of capitalised lease incentives	162
Capitalisation of leasing fees	(340)
Amortisation of capitalised leasing fees	81
Amortisation of software intangible assets	15
Depreciation of right-of-use assets (ground lease)	57
	15,365
Changes to assets and liabilities relating to operating activities:	
(Increase)/decrease in trade and other receivables	61
Increase/(decrease) in trade and other payables	(476)
Net cash flow from operating activities	**14,950**

1.2.4 Revenue and expenses

Rental income

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

Rental income at Tidal Road is assumed to commence on 1 October 2021, being the day following the assumed settlement.

The PFI reflects all market and CPI rent reviews occurring during the PFI period.

The PFI assumes that there will be no further rental abatements or relief provided to tenants due to COVID-19 lockdowns.

Tenancies subject to renewal during PFI period
Five tenancies in the portfolio are due for renewal during the PFI period. It is assumed that all tenancies will be renewed. Incentives have been forecast for all of these tenancies. These assumptions are based on the Manager's experience with the properties and tenants and understanding of market standards.

Tenancies expiring with no rights of renewal during the PFI period
In addition to the tenancies due for renewal, three tenancies are due to expire during the PFI period without any rights of renewal. Two of these expire on 31 March 2022 and no incentive has been assumed during the PFI period. The other tenancy is assumed to renew during the PFI period without any incentive being paid. These assumptions are based on the Manager's experience with the properties and tenants and understanding of market standards.

Vacancies as at 1 April 2021
Three tenancies are vacant at the time of preparing the PFI. It is assumed that these tenancies remain vacant for six to nine months and are then let during the PFI period. Incentives have been assumed to be paid to let these tenancies. These assumptions are based on the Manager's experience with the properties and tenants and understanding of market standards.

Straight lining of rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. Lease incentives provided to tenants are amortised on a straight-line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income. The table below sets out the assumed invoiced rent and adjustments for the straight lining of rental income and lease incentives for the PFI period.

	12 months ending 31 March 2022 $000
Rental income	24,641
Adjustment due to straight lining of rental income	380
Straight lining of capitalised rental incentive	(271)
Recoverable property operating expenses	4,638
Gross rental income	**29,388**

Operating expenses

	12 months ending 31 March 2022 $000
Recoverable property operating expenses	
Repairs and maintenance	495
Property management fees	192
Utilities and rates	2,667
Insurance	1,228
Other expenses	56
Total recoverable property operating expenses	**4,638**
Non-recoverable operating expenses	
Repairs and maintenance	491
Property management fees	201
Utilities and rates	129
Insurance	219
Depreciation of right-of-use asset (ground lease)	57
Other expenses	102
Total non-recoverable property operating expenses	**1,199**

Recoverable and non-recoverable property operating expenses have been forecast based on a combination of assumptions, including budgets prepared by third party property managers. Recoverable operating expenses for Tidal Road have been assumed based on the 31 March 2021 valuation report.

The landlord is responsible for all operating costs under gross leases. The majority of leases are on a net basis where tenants are responsible for most operating costs including rates, insurance premiums, utilities and certain maintenance obligations. There are elements of unrecovered operating costs including on vacant tenancies.

It is assumed that all operating costs recovered from tenants will be paid on time and that there will be no creditors associated with these at 31 March 2022.

Administration expenses

	12 months ending 31 March 2022 $000
Valuation fees	74
Audit fees	87
Director fees	65
Registry fees	65
Legal and professional fees	86
Insurance	36
Amortisation of software intangible asset	15
Other administration expenses	45
Total administration expenses	**473**

Valuation fees, audit fees and insurance have been forecast based on quotes received.

Directors fees are based on the agreed fees currently being paid to two existing Directors.

Registry fees are based on the level of monthly fees currently being paid with a contingency added for new investors as a result of the Offer.

Bank agency fees are based on existing agreements with ASB Bank Limited.

Other administration expenses predominantly relate to the amortisation of a software intangible asset that was capitalised when incurred and is being amortised over 30 months.

Auditor's remuneration

	12 months ending 31 March 2022 $000
Financial statements audit	82
Performance fee review	5
Total remuneration for audit services	**87**
Investigating accountant services (independent limited assurance services)	70
Total remuneration for non-audit services	**70**

Financial statements audit and performance fee review costs are assumed based on estimates received from Ernst & Young.

Investigating accountant services relate to the Offer and are based on estimates received from Ernst & Young Strategy and Transactions Limited.

Fees paid to the Manager

The table below summarises the management fees that are assumed in the PFI period.

	12 months ending 31 March 2022 $000
Management fees	
Base management fees	2,224
Other fees	
Property management fee	414
Leasing fees	155
Development/capital expenditure fees	150
Acquisition fee	488
Performance fee	-
Total fees charged	**3,431**

The fees set out above constitute the following components, as set out in the Management Agreement:

Management fees - 0.50% p.a. of total average value of all tangible assets up to $0.5 billion, and 0.40% p.a. of total average value of all tangible assets above $0.5 billion.

Property management fees - a fee equal to 1.5% p.a. of the gross rental income from any properties owned by the Group. However, in respect of 862-864 Great South Road, Brick Street and The Hub, the Manager has agreed that it will only charge a property management fee of $50,000 per annum until 14 June 2021.

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/capital expenditure fees - 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 - 10% of any shareholder returns above 10% per annum and capped at 15% per annum. This is calculated based on the change in net tangible assets and dividends declared. No performance fee is forecast to be triggered in the PFI period. Accrued performance fees are considered a contingent liability as they are only payable (in cash or shares as agreed by the Group and the Manager) once the Group is listed.

Acquisition fee - 1% of acquisition price in respect to future acquisitions. $488,347 has been assumed in relation to the acquisition of Tidal Road.

Underwriting fees in respect of the Offer are reflected in the related party note.

1.2.5 Trade and other payables

	As at 31 March 2022 $000
Trade and other payables	
Management fee payable	587
Other payables	465
GST payable	186
	1,238

1.2.6 Financing

The Group has a revolving syndicated loan facility provided by ASB Bank Limited and Westpac New Zealand Limited. The facility has total limits of $160,000,000 and expires on 29 April 2022. It is assumed the facility is extended on 1 June 2021 and split into two $80,000,000 tranches expiring 29 April 2023 and 29 April 2024 based on credit approved offers received from the existing lenders.

Drawings and repayments are assumed to be made monthly based on working capital and capital expenditure requirements. The drawn balance at 1 April 2021 was $150,900,000. It is assumed the net equity raising proceeds from the Offer are used to repay debt on 30 June 2021 and the total facility limits are reduced to $145,000,000 on this date. The deposit and settlement amount for the Tidal Road acquisition are assumed to be funded by loan drawdowns.

Borrowing summary

	As at 31 March 2022 $000
Loan balance	
Opening balance	150,900
Net drawdown/(repayment)	(21,405)
Closing balance	**129,495**
Closing facility limit	**145,000**
Undrawn limit	**15,505**
Composition of loan facility	
Facility A	
Maturity date	29-Apr-23
Loan balance	72,500
Facility limit	72,500
Margin payable on drawn amounts (p.a.)	1.20%
Line fee payable on facility limit (p.a.)	0.80%
Facility B	
Maturity date	29-Apr-24
Loan balance	56,995
Facility limit	72,500
Margin payable on drawn amounts (p.a.)	1.26%
Line fee payable on facility limit (p.a.)	0.84%
Covenants	
Loan to value ratio (LVR) not to be greater than	50%
Interest coverage ratio (ICR) not to be less than	2.00 times

Loan security

The loan is secured by a registered first mortgage over the properties in the portfolio and a first ranking general security interest over the assets of the Group.

Finance expenses

	12 months ending 31 March 2022 $000
Interest on bank loan (including interest rate swaps)	3,354
Line fees on bank loan facility limit	1,185
Amortisation of borrowing costs on bank loan	127
Subordinated Loan fee	1,451
Net finance expense	**6,117**
Interest, line fees and borrowing costs on bank loan as a percentage of net property income	19.8%

The interest rate on the loan is a combination of the margin for the relevant facility plus an assumed base rate equal to the 1 month BKBM rate. The 1 month BKBM rate is assumed to be 0.31% p.a. until 30 June 2021 and 0.35% p.a. thereafter based on current rates and market forecasts. Prior to the assumed facility extension on 1 June 2021, a margin of 1.02% p.a. applies to the first $132,000,000 of borrowings and 1.11% p.a. for additional borrowings. The weighted average line fee prior to 1 June 2021 is 0.69% p.a.

The Group manages its interest rate risk by using floating to fixed interest rate derivatives. Such interest rate derivatives have the economic effect of converting borrowings from floating to fixed interest rates. The Group held the following interest rate swaps at 1 April 2021.

	Notional amount $000	Expiry date	Fixed base rate (p.a.)
Swap 1	12,000	31/03/2022	2.78%
Swap 2	8,000	30/06/2023	2.92%
Swap 3	52,000	5/04/2024	2.34%
Weighted average swap rate			2.48%

The fair value of interest rate swaps held at 1 April 2021 is assumed to reduce over time as these swaps approach maturity and the unrealised liability is realised and paid. It is assumed that there is no material divergence between the forward interest rate curve on which the existing swaps are valued on at 1 April 2021 and market rates over the PFI period. Therefore, other than the realisation of the historical unrealised liability, there is no further fair value adjustment in relation to existing swaps during the PFI period.

1.2.7 Equity and dividends

190,000,000 shares (issued at $1 per share) are currently issued. It is assumed 60,150,375 shares (issued at $1.33 per share) are issued in the Offer with a 29 June 2021 allotment date.

Dividends are forecast to be paid at an annualised rate of 6.50 cents per share from 1 April 2021 to 29 June 2021, and at an annualised rate of 6.65 cents per share from 30 June 2021 to 31 March 2022. Dividends are assumed to be paid monthly in arrears.

Dividends will be declared at the Board's discretion and based on the Group's financial performance and solvency requirements. The dividend policy is to pay out between 90% to 110% of adjusted funds from operations over a full financial year which is outlined in section 4 of this PFI. The policy may change from time to time.

	As at 31 March 2022 $000
Opening balance	179,788
Share capital issued	80,000
Issue costs	(2,843)
Share capital	**256,945**

The opening balance in the table above is equal to $190,000,000 equity previously raised by the Company, offset by historical issue costs of $10,212,000.

The Group's objective is to continue as a going concern and maintain optimal returns to shareholders. As the market is constantly changing, the Group will consider capital management initiatives, such as changing the level of dividends paid, sourcing additional borrowings or raising additional equity if required.

1.2.8 Related party transactions

The Group will be managed by Centuria Funds Management (NZ) Limited, a wholly owned subsidiary of Centuria Capital Limited (**Centuria**).

Centuria Capital (NZ) No.1 Limited currently owns 10% of the shares on issue and intends subscribe for shares in the Offer to maintain a minimum of 10% of the shares on issue. The forecast dividends payable to Centuria Capital (NZ) No1. Limited reflect the assumed 10% shareholding.

Transactions with Centuria and related entities

	12 months ending 31 March 2022 $000
Base management fees	2,224
Property management fees	414
Leasing fees	154
Development/capital expenditure fees	150
Acquisition fee	488
Underwrite fee	2,160
Dividends declared	1,558
Total related party transactions	**7,148**

Transactions with Directors

	12 months ending 31 March 2022 $000
R.M. Petersen (Directors fees)	40
M.J.G Steur (Directors fees)	25
Total fees paid to Directors	**65**

1.2.9 Offer and acquisition costs

Total Offer and acquistion costs are forecast to be $4,798,317. The table below sets out how the costs are assumed to be treated.

	Capitalised to investment property $000	Capitalised to equity $000	Expensed $000	Total $000
Acquisition fee	488	-	-	488
Underwrite fee	-	709	1,451	2,160
Brokerage on equity raised	-	1,260	-	1,260
Offer marketing, PDS design and printing	-	381	-	381
Legal fees	6	185	-	191
Insurance fees	-	165	-	165
Investigating accountant fees	-	70	-	70
Other costs	10	73	-	83
Total	**504**	**2,843**	**1,451**	**4,798**

The acquisition fee is based on 1% of the purchase price for Tidal Road, as per the Management Agreement.

The underwrite fee is based on a signed agreement with Centuria Platform Investments Pty Limited (**CPIPL**), a subsidiary of Centuria. The underwrite fee is calculated as 3% of the amount underwritten.

CPIPL is providing an underwrite for $72,000,000 of the $80,000,000 being sought under the Offer. Centuria Capital (NZ) No.1 Limited, a subsidiary of CPIPL, intends to maintain its 10% shareholding and will therefore subscribe for the remaining $8,000,000 of the new equity being sought under the Offer. No underwrite fee is payable on the $8,000,000.

The remainder of the Offer costs are based on contractual obligations, quotes received and/or estimates made by the Manager using experience from managing similar investments.

1.2.10 Taxation

The Group is a multi-rate portfolio investment entity (**PIE**). The Group will attribute taxable income to shareholders based on their proportionate holding and pay tax based on their prescribed investor rates (**PIRs**).

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

1.2.11 Capital commitments

As at 31 March 2022, it is assumed that the Group will have capital commitments of:

- $4,277,500 relating to the development of a new warehouse and office on the surplus land at the 862-864 Great South Road property: and

- $1,105,000 relating to air conditioning and office fitout works at the 510 Mt Wellington Highway property.

1.2.12 Contingent liabilities

A contingent liability of $1,065,000 is assumed to exist at 31 March 2022 representing the full value of prior year performance fees that are payable on listing of the Company. The Company may look to list on the NZX Main Board in the future, however it has not made, and does not intend to make, an application to NZX for permission to list Augusta Industrial as part of this Offer.

1.2.13 Actual results

Actual results may differ from the PFI. The resulting variance may be material.

The Company, the Board and the Manager give no guarantee or assurance that the PFI presented will be achieved.

The PFI should be read in conjunction with Section 8 "Risks to Augusta Industrial's Business and Plans" in the PDS. An analysis of the sensitivity of the PFI to changes in specific key assumptions is included in Section 3 of this PFI.

2 Statement of accounting policies

The prospective consolidated financial statements are for the reporting entity Augusta Industrial Fund Limited and its subsidiaries.

The Group is an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and reports as a Tier 1 For Profit entity. The prospective consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand and comply with FRS-42 Prospective Financial Statements. The accounting policies and disclosures adopted in these prospective consolidated 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 Group will be prepared in accordance and comply with NZ IFRS and International Financial Reporting Standards. The accounting policies adopted in the prospective consolidated financial statements reflect the policies expected to be adopted in the actual annual financial statements in future periods.

Measurement base

The prospective consolidated 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.

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 Group and cost can be reliably measured. All other repairs and maintenance costs are expensed as incurred.

Initial recognition of buildings acquired with established leases considers whether the transaction is an asset acquisition or a business combination. 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.

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 non-cancellable portion of the lease to which they relate, as a reduction of rental income.

Income generated from property operating expenses recovered from tenants is included in gross rental income with the associated property operating expenses shown in operating expenses. Rates and insurance recoveries are recognised as components of lease revenue. Other property operating expense recoveries are recognised as service charge income 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.

Operating leases

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

Leases as lessee
Lease liabilities are recognised at inception of the lease contract and are measured at the present value of the lease payments to be made over the lease term. The lease payments include fixed payments, less any lease incentives receivable. The incremental borrowing rate at the lease commencement date is used to calculate the net present value of the lease payment. After initial recognition, lease liabilities are reduced for the lease payments made, discounted using the incremental borrowing rate at lease commencement. The carrying value of lease liabilities are remeasured if there is a modification.

Right-of-use assets are measured on initial recognition of the initial lease liability, plus any initial indirect costs incurred, less any lease incentives received. Right-of-use assets that meet the definition of investment property are presented within investment property. Right-of-use assets are depreciated using the straight-line method over the lease period.

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 and fees 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.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any allowance for expected credit losses. Trade receivables are non-interest bearing and on 30-day terms. The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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 Group prior to year-end which are unpaid and arise when the Group 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

Interest rate swaps
The Group uses interest rate swaps to hedge its exposure to interest rate risks arising from borrowings. Interest rate swaps are recognised at fair value and any resulting gain or loss on re-measurement is recognised in profit and loss. The Group does not apply hedge accounting.

The Group applies Level 2 criteria of the fair value hierarchy in determining the fair value of its interest rate swaps. The fair value of interest rate swaps is obtained externally and is the estimated amount the Group would receive or pay to terminate the swaps at balance date. The valuation technique calculates the gain or loss by comparing the present value of cash flows using current market interest rates and comparing these to the present value of future cashflows under the swap agreement. The fair value estimate is not subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty.

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 term of the borrowings, and (3) costs associated with purchasing property are capitalised as part of the investment property asset. All other costs are expensed as incurred.

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.

Statement of Cash Flows
The Statement of Cash Flows is presented on a direct basis. The following terms are used in the Statement of Cash Flows:

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

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

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

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

3 Sensitivity analysis for the prospective financial information

Prospective financial information is 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 key metrics is 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 PFI period.

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 net profit after tax, adjusted funds from operations ("AFFO") and net tangible assets due to movements in the key assumptions adopted in the PFI. The below sensitivities do not take account of any risk management initiatives that the Group may take should a change in these assumptions arise.

		12 months ending 31 March 2022
	Cents per share	**$'000**
Net profit after tax	**8.82**	**$20,777**
AFFO	**6.12**	**$14,404**
Interest rates		
Increase in base rates +100 bps	(0.21)	($496)
Decrease in base rates -100 bps	(0.13)	($313)
Loss of rental income		
Loss of gross rent	(0.59)	($1,388)
Tidal Road late settlement		
Settlement of Tidal Road delayed to 31 March 2022	(0.28)	($661)
Investment property valuation (net profit after tax impact)		
Increase in property valuations (+5%)	9.94	$23,407
Decrease in property valuations (-5%)	(9.94)	($23,407)
Investment property valuation (AFFO impact)		
Increase in property valuations (+5%)	-	-
Decrease in property valuations (-5%)	-	-

		As at 31 March 2022
	Cents per share	**$'000**
Net tangible assets	**133.76**	**$334,592**
Investment property valuation		
Increase in property valuations (+5%)	9.36	$23,407
Decrease in property valuations (-5%)	(9.36)	($23,407)

Notes

Interest rate sensitivity

The Group is exposed to interest rate risk on bank borrowings in the normal course of operations. To manage interest rate risk the Group holds interest rate swaps to fix the floating base rate for a period of time as detailed in the PFI. However, as the loan facility includes a base rate floor of 0%, if the floating base rate is negative the fixed rate under an interest rate swap effectively increases by the negative amount.

The sensitivity reflects the impact of an increase or decrease in the base rate by 100 basis points ("bps"). The assumed base rate in the PFI ranges from 0.31 to 0.35% and a decrease in the base rate of 100bps would trigger the loan facility base rate floor of 0%. Therefore equal increases and decreases in base rates may not result in equal and opposite impacts.

Margins on the loan facility are assumed to be fixed throughout the forecast period.

Loss of rental income sensitivity

The PFI assumes that there will be no tenant default, however such a default is a risk with property investment. The sensitivity reflects on a potential loss of a tenant during the year. The sensitivity is based on the average annual passing rental 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.

Tidal Road late settlement

The PFI assumes that the acquisition of Tidal Road settles on 30 September 2021. The sensitivity reflects the impact of lost rental income, lower finance expenses and lower management fees if the settlement of Tidal Road was delayed to 31 March 2022.

Investment property valuation sensitivity

The PFI assumes that the investment property will be revalued, with the carrying value assumed to represent the 31 March 2021 independent valuations plus additional capital expenditure forecast during the PFI period. The sensitivity reflects the impact of an increase or decrease in property valuations as at 31 March 2022. The associated impact on management fees is not reflected as this would impact future years.

4 Reconciliation of non-GAAP financial information

Funds from operations (FFO) and Adjusted funds from operations (AFFO)
The Group's dividend policy is to distribute between 90% and 110% of AFFO over a full financial year.

AFFO is a non-GAAP financial measure adopted to assist the Group in assessing the underlying operating performance and funds available for distribution. It is important because it is the measure used when determining future distributions under the dividend policy. AFFO does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities.

The calculation of FFO and AFFO reflects guidelines from the Property Council of Australia issued in May 2019.

Funds from Operations
The Group considers that FFO is important to identify the funds generated from operations. It calculates FFO by making the following adjustments to net profit after tax (determined in accordance with NZ IFRS):

- Removing changes in fair value of investment property;
- Removing changes in fair value of interest rate swaps;
- Removing any gains or losses on disposals of investment property;
- Adding back the amortisation of finance costs incurred in respect of equity raising;
- Removing accruals for fixed rental growth;
- Adding back amortisation of lease incentives and leasing costs;
- Removing depreciation on right-to-use assets and subtracting the repayment of lease liabilities to mirror cash flows; and
- Adjusting for other one-off items which are not viewed by management as part of the underlying and recurring earnings (for example, establishment costs associate with the Subordinated Loan, the holding cost of land sold but which has a deferred settlement and costs associated with the payment of deposits and other property acquisition costs).

Adjusted Funds from Operations
After calculating FFO, the Group considers that further adjustments should then be made to remove certain items from FFO that are considered to be capital items under GAAP but which the Group considers should be funded from FFO. AFFO is calculated by making the following adjustments to FFO:

- Subtracting the costs of closing out interest rate swaps other than due to a change in capital structure;
- Subtracting capital expenditure spent as part of maintaining a building's grade and/or quality;
- Subtracting lease incentives (such as cash, fitout contributions and rent-free periods) and other leasing costs incurred in entering into a lease; and
- Removing other one-off items which did not occur in the prior period and are highly unlikely to reoccur in the following accounting period.

The following table reconciles the net profit after tax as per the Prospective Consolidated Statement of Comprehensive Income and AFFO. The reconciliation has not been subject to an independent limited assurance review.

	12 months ending 31 March 2022 $000s
Reconciliation of net profit after tax to AFFO	
Prospective net profit after tax	20,777
Adjustments:	
Change in fair value of investment property	(4,641)
Change in fair value of interest rate swaps	(1,486)
Initial finance costs amortised	99
Accrual for fixed rental growth	(380)
Amortisation of capitalised incentives and leasing fees[1]	352
Depreciation on right-of-use assets (IFRS 16)	57
Repayment of lease liability (IFRS 16)	(19)
Other[2]	1,451
Funds from operations (FFO)	**16,210**
FFO payout ratio	**96%**
Lease incentives granted	(567)
Leasing fees paid	(340)
Maintenance capex	(899)
AFFO	**14,404**
AFFO payout ratio	**108%**

[1] Includes amortisation of COVID-19 rental relief.

[2] Subordinated Loan component of underwrite fee.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

EBITDA is a non-GAAP measure widely used to evaluate a company's operating performance.

The following table reconciles the net profit after tax as per the prospective consolidated statement of comprehensive income to EBITDA and EBITDA adjusted for unrealised gains and losses. The reconciliation has not been subject to an independent limited assurance review.

	12 months ending 31 March 2022 $000s
Net profit after tax	20,777
Add back: Finance expenses	6,117
Add back: Lease finance expense (ground lease)	80
Add back: Amortisation of software intangible asset	15
Add back: Depreciation on right-to-use asset (IFRS 16)	57
Add back: Income tax	-
EBITDA	**27,046**
Reverse: Change in fair value of investment property	(4,641)
Reverse: Change in fair value of interest rate swaps	(1,486)
EBITDA adjusted for unrealised gains and losses	**20,919**