

**Salt Listed Funds
Financial Statements
For the year ended 31 March 2020**

Manager's Report

The financial statements have been prepared in accordance with the provisions of the Companies Act 2006 and the Financial Reporting Act 2004, and the Financial Reporting Manual (FRM) issued by the Financial Reporting Council (FRC) in 2018.

The financial statements are prepared on a going concern basis.



Director



Director

Additional Information

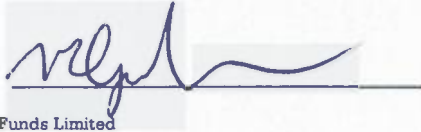
The financial statements are prepared in accordance with the provisions of the Companies Act 2006 and the Financial Reporting Act 2004, and the Financial Reporting Manual (FRM) issued by the Financial Reporting Council (FRC) in 2018.

Manager's Statement

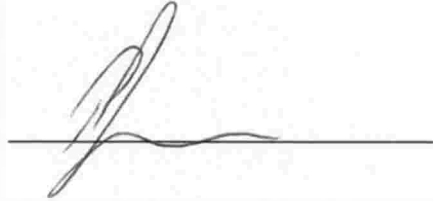
In the opinion of the Manager, the accompanying Financial Statements are drawn up so as to present fairly the financial position of the Salt Listed Funds as at 31 March 2020 and the results for the year ended on that date in accordance with the requirements of the Master Trust Deed dated 12 October 2018.

The directors are of the opinion that the Salt Listed Funds will be able to pay its debts as and when they fall due.

Director

A handwritten signature in blue ink, appearing to be 'V. J. P.', written over a horizontal line.

Salt Investment Funds Limited

A handwritten signature in blue ink, appearing to be 'D. J. P.', written over a horizontal line.

30 June 2020

Additional Unitholder Information

Notice of Trust Deed Amendment

Under clause 31.2 of the Trust Deed governing the Salt Listed Funds, the Manager, Salt Investment Funds Limited, is required to advise unitholders in summary form of any amendments to the Trust Deed.

There has been no amendment to the Trust Deed during the year covered by the Financial Statements.

Statement of Comprehensive Income

| \$ For the year ended 31 March | Note | Carbon Fund Year ended 2020 | Period ended 2019 |
|---|------|--------------------------------|-------------------|
| Income | | | |
| Interest income on financial assets at amortised cost | | 1,036 | 576 |
| Net (loss)/gain on financial assets at fair value through profit or loss | | <u>(480,996)</u> | <u>32,231</u> |
| Total (loss)/income | | <u>(479,960)</u> | <u>32,807</u> |
| Expenses | | | |
| Management fees | 10.2 | 22,746 | 5,076 |
| Other expenses | | <u>77</u> | <u>15</u> |
| Total operating expenses | | <u>22,823</u> | <u>5,091</u> |
| Operating (loss)/profit before tax | | <u>(502,783)</u> | <u>27,716</u> |
| Tax credit/(expense) | 6 | <u>140,779</u> | <u>(7,760)</u> |
| Total comprehensive (loss)/income for the year attributable to Unitholders | | <u>(362,004)</u> | <u>19,956</u> |
| Earnings per unit | | | |
| Basic and diluted earnings per unit (cents per unit) | 7 | (15.40) | 1.47 |

These statements are to be read in conjunction with the accompanying notes.

Statement of Change in Net Assets Attributable to Unitholders

| S For the year ended 31 March | Note | Carbon Fund | |
|--|------------|------------------|-------------------|
| | | Year ended 2020 | Period ended 2019 |
| Net assets attributable to Unitholders at the beginning of the year | | 1,546,456 | - |
| Proceeds from units issued | | 3,578,660 | 1,526,500 |
| Redemption of units | | - | - |
| Net increase from transaction in units | | 3,578,660 | 1,526,500 |
| Total comprehensive (loss)/income for the year attributable to Unitholders | | (362,004) | 19,956 |
| Net assets attributable to Unitholders at the end of the year | 5.2 | 4,763,112 | 1,546,456 |

| Units For the year ended 31 March | Carbon Fund | |
|--|------------------|-------------------|
| | Year ended 2020 | Period ended 2019 |
| Units on issue at the beginning of the year | 1,527,333 | - |
| Units issued | 3,463,358 | 1,527,333 |
| Units redeemed | - | - |
| Units on issue at the end of the year | 4,990,691 | 1,527,333 |

These statements are to be read in conjunction with the accompanying notes.

Statement of Financial Position

| \$ As at 31 March | Note | Carbon Fund 2020 | 2019 |
|--|------|---------------------|------------------|
| Current assets | | | |
| Cash and cash equivalents | | 13,424 | 9,782 |
| Financial assets held at fair value through profit or loss | 8 | 4,620,241 | 1,545,591 |
| Other receivables | | 430 | - |
| Deferred tax asset | | 133,019 | - |
| Total assets | | 4,767,114 | 1,555,373 |
| Current liabilities | | | |
| Related party payables | 10.2 | 4,002 | 1,157 |
| Deferred income tax liability | | - | 7,760 |
| Total liabilities | | 4,002 | 8,917 |
| Unitholders' Funds | | 4,763,112 | 1,546,456 |

These statements are to be read in conjunction with the accompanying notes

The Directors of Salt Investment Funds Limited authorised these Financial Statements for issue on 30 June 2020.

Director

Director

Statement of Cash Flows

| \$ For the year ended 31 March | Note | Carbon Fund | |
|--|-----------|--------------------|--------------------|
| | | Year ended 2020 | Period ended 2019 |
| Cash flows from operating activities | | | |
| Proceeds from sale of financial assets | | - | - |
| Purchase of financial assets | | (3,555,645) | (1,513,360) |
| Interest income received | | 918 | 575 |
| Operating expenses paid | | (20,291) | (3,933) |
| Net cash (outflow) from operating activities | 11 | (3,575,018) | (1,516,718) |
| Cash flows from financing activities | | | |
| Proceeds from units issued | | 3,578,660 | 1,525,500 |
| Net cash inflow from financing activities | | 3,578,660 | 1,526,500 |
| Net increase in cash and cash equivalents | | 3,642 | 9,782 |
| Cash and cash equivalents at the beginning of the period | | 9,782 | - |
| Cash and cash equivalents at the end of the year | | 13,424 | 9,782 |

These statements are to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. General information

Reporting Entities

The reporting entity included in these Financial Statements is Salt Listed Funds, consisting of the Carbon Fund, that is referred to throughout these Financial Statements as "The Fund". The Fund is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ("The Act").

The Fund was created under a Master Trust Deed and an Establishment Deed, both dated 12 October 2018. Salt Investment Funds Limited (the "Manager") and The New Zealand Guardian Trust Company Limited are party to the Deeds. The Fund commenced operations on 8 November 2018. The Financial Statements are for the year ended 31 March 2020, with the comparative period being from the date of establishment, 12 October 2018, to 31 March 2019.

The Fund's units are quoted on the NZX Main Board operated by NZX Limited (under code "CO2"). The Fund is a managed investment scheme with the aim to provide investors with a total return exposure to movements in the price of carbon credits. The Fund has the ability to buy carbon credits in emissions trading schemes in New Zealand and offshore. As a result, the Fund may also provide exposure to the price of carbon offshore.

The Fund's investment activities are managed by Salt Investment Funds Limited. The registered office for Salt Investment Funds Limited is Level 3, The Imperial Buildings, 44 Queen Street, Auckland. The Fund is domiciled in New Zealand.

These Financial Statements were authorised for issue by the Board of Directors of the Manager on 30 June 2020.

Statutory Base

The Financial Statements have been prepared in accordance with the Act and the Master Trust Deed.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied throughout the year presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Statements have been prepared in accordance with the requirements of the FMC Act, the Financial Reporting Act 2013, the Master Trust Deed and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). These Financial Statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for for-profit entities. The Financial Statements also comply with International Financial Reporting Standards (IFRS). The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

Standards and amendments to existing standards effective 1 April 2019 impacting the Fund

There are no standards, amendments to standards or interpretations that are effective for the year beginning on 1 April 2019 that have a material effect on the Financial Statements of the Fund.

2.2 Financial instruments

(a) Classification

Assets

Financial assets are recognised initially at fair value. After initial recognition, financial assets are measured at fair value or amortised cost, determined on the basis of both (a) the Fund's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss can be either designated as such upon initial recognition or mandatorily measured at fair value in accordance with NZ IFRS 9 *Financial Instruments*. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. As there are no financial instruments designated at fair value upon initial recognition in the Fund, all financial assets measured at fair value are those mandatorily measured at fair value. Financial assets at fair value through profit or loss comprise of carbon credits.

(ii) Financial assets at amortised cost

(a) **Cash and cash equivalents** include cash at bank.

(b) **Receivables** are amounts representing assets owing to the Fund and may include amounts due for interest and amounts due for securities sold that have been contracted for, but not yet delivered by the end of the accounting year.

Liabilities

(i) Financial liabilities at amortised cost

(a) **Payables** are amounts representing liabilities and accrued expenses owing by the Fund at year end and may include related party fees and amounts due to brokers for purchase of unsettled securities at year end.

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.2 Financial instruments (continued)

(b) Recognition, measurement and derecognition

(i) Financial assets at fair value through profit or loss

The Fund recognises financial assets at fair value through profit or loss on the date they become parties to the contractual agreement. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value are recognised in the Statement of Comprehensive Income when they arise.

Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership. Any gain or loss arising on derecognition of the financial asset at fair value through profit or loss is included in the Statement of Comprehensive Income in the year the item is derecognised.

(ii) Financial assets and liabilities at amortised cost

The Fund recognises financial assets and liabilities at amortised cost on the date they become parties to the contractual agreement. Financial assets and liabilities at amortised cost are initially recognised at fair value plus transaction costs (if any).

Subsequent to initial recognition, all financial assets and liabilities at amortised cost are measured at amortised cost less any impairment. Any impairment charge is recognised in the Statement of Comprehensive Income. At each reporting date, the Fund measures the loss allowance of all financial assets at amortised cost at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12 month expected credit losses. If the credit risk increases to the point that it is considered to be credit impaired, interest income is calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due or a counterparty credit rating which has fallen below BBB/Baa. Any contractual payment which is more than 90 days past due is considered credit impaired.

Financial assets at amortised cost are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership. Financial liabilities at amortised cost are derecognised when the obligation under the liability is discharged, cancelled or expires.

(c) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the Balance Date. The quoted market price used by the Fund is the last traded market price for financial assets where the last traded prices fall within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is derived and determined from quoted prices in markets not considered to be active or, from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, or from inputs that are not based on observable market data. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Valuation techniques used include the use of recent arm's length market transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.3 Net assets attributable to unitholders

The Fund issues units, which provide the Unitholder with a beneficial equity interest in the Fund. The units are issued based on the Fund's net asset value per unit at the time of issue. As stipulated in the Trust Deed, each unit represents an individual share in the Fund and does not extend to a right in the underlying assets of the Fund. There are no separate classes of units within the Fund and each unit has the same rights attaching to it as all other units in the Fund.

Applications received for units in the Fund are recorded prior to the issue of units in the Fund. Units are issued at the Unitholder's option at prices based on the Fund's net asset value per unit at the time of issue. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the Unitholders of the Fund with the total number of outstanding units of the Fund. In accordance with the provisions of the offering documents, investment positions are valued based at the appropriate market price for the purpose of determining the net asset value per unit for subscriptions. The units in the Fund are quoted on the NZX Main Board and investments can be sold through NZX Participants (brokers or financial advisers). Units in the Fund are generally not redeemable for cash.

In accordance with the Trust Deed, the Manager has full discretion as to whether to distribute any net income of the Fund. Although the Manager does not currently intend to make distributions, they may do so in the future, from the income or capital of the Fund.

Notes to the Financial Statements

2. Summary of significant accounting policies (continued)

2.4 Investment income

Interest income

Interest income on assets held at amortised cost is included as interest in profit or loss in the Statement of Comprehensive Income on an accruals basis using the effective interest rate method.

Net gains and losses on financial assets at fair value through profit or loss

Realised and unrealised gains and losses are reflected in the Statement of Comprehensive Income as net gain/(loss) on financial assets at fair value through profit or loss. Unrealised gains or losses include the change in net market value of investments held at the end of the reporting period and the reversal of prior periods' unrealised gains or losses on investments that have been realised in the current period. Realised gains or losses are calculated based on the gross sale proceeds and the weighted average cost of the investments sold.

2.5 Expenses

All expenses, including the management fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the Fund's Financial Statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The functional currency for the Fund is the New Zealand dollar, which reflects the currency in which the Fund competes for funds and is regulated. The Fund's investors are from New Zealand, with the subscriptions and redemptions of the units denominated in New Zealand dollars. The performance of the Fund is measured in New Zealand dollars. The Manager considers the New Zealand dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Financial Statements are presented in New Zealand dollars, which is also the Fund's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance date.

Foreign exchange gains and losses resulting from translation are included in the Statement of Comprehensive Income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Statement of Comprehensive Income within 'net foreign currency gain/(loss) on cash and cash equivalents'.

Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'Net gain/(loss) on financial assets at fair value through profit and loss'.

2.7 Income tax

The Fund is domiciled in New Zealand and is registered as a listed Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate (28%) on taxable interest and dividends and gains and losses from its investments after the deduction of management fees and other deductible expenses. The Fund pays tax to cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that the underlying tax loss will be utilised against future taxable income.

The current and deferred income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.8 Goods and services tax ("GST")

The Fund is not registered for GST. The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated inclusive of GST. All items in the Statement of Financial Position are stated inclusive of GST.

3. Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates of the carrying value of financial assets and financial liabilities are regularly evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Refer to notes 2.2(c) and 5.3 for further information on fair value estimation. For the Fund's financial instruments, quoted market prices are readily available.

The World Health Organisation declared the coronavirus (COVID-19) to be a global pandemic on 11 March 2020 and the outbreak has spread across many countries, causing significant disruption to business and economic activity. As a result, the financial markets were and continue to be affected by the ongoing COVID-19 pandemic and so were unusually volatile. Actual economic events and conditions in the future may be materially different from those recorded at the reporting date. In the event the impacts from the COVID-19 pandemic are more severe or prolonged than anticipated, this may have further adverse impacts to the fair values of the Fund's investments.

The financial statements have been prepared based upon conditions existing as at 31 March 2020. For investments classified as either level 1 in accordance with NZ IFRS 13 fair value hierarchy, the measurement of these investments was based on quoted market prices or using valuation techniques for which all significant inputs are based on observable market data.

4. Commitments and contingent liabilities

There are no material commitments or material contingencies as at 31 March 2020 (31 March 2019: nil).

Notes to the Financial Statements

5. Financial risk management

5.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, arising from the financial instruments it holds. The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

All security investments present a risk loss of capital. The Fund holds only long NZ Carbon Credits where the maximum loss of capital is limited to the fair value of those positions.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

5.1.1 Market risk

(a) Price risk

The Fund is exposed to security price risk. This arises from investments held by the Fund for which prices in the future are uncertain.

The table below summarises the sensitivity of the Fund's net assets attributable to Unitholders to NZ Carbon Credit price movements, including the effect of movements in foreign currency exchange rates on security prices, as at 31 March. If the prices of NZ Carbon Credits in which the Fund invest in at the year end had increased or decreased by 5% with all other variables held constant, this would have had the following impact on the Statement of Comprehensive Income and Net Assets attributable to Unitholders:

| \$ | Carbon Fund | |
|--|-------------|----------|
| As at 31 March | 2020 | 2019 |
| 5% increase in NZ Carbon Credit prices | 231,012 | 77,280 |
| 5% decrease in NZ Carbon Credit prices | (231,012) | (77,280) |

(b) Foreign exchange risk

The Fund may hold both monetary and non-monetary assets denominated in currencies other than New Zealand dollars, the functional currency. Foreign currency risk, as defined in NZ IFRS 7 *Financial Instruments: Disclosures*, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in currencies other than the functional currency fluctuate due to changes in foreign exchange rates. NZ IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk. However, management monitors the exposure on all foreign currency denominated assets and liabilities.

At 31 March 2020, the Fund has no foreign currency exposures (31 March 2019: nil).

(c) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. The Fund may hold cash and cash equivalents that expose the Fund to cash flow interest rate risk. The interest rate risk arising from these investments is managed by the Manager.

The table below summarises the sensitivity of the Fund's net assets attributable to Unitholders to interest rate movements. The analysis is based on an interest rate movement of 0.1% (2019: 1%), which represents managements best estimate of a reasonable shift in interest rates having regard to historical volatility. If the interest rates at 31 March had increased or decreased by these amounts with all other variables held constant, this would have increased/decreased Comprehensive Income and Net Assets attributable to Unitholders by approximately:

| \$ | Carbon Fund | |
|--|-------------|------|
| As at 31 March | 2020 | 2019 |
| 0.1% (2019: 1%) increase in interest rates | 13 | 98 |
| 0.1% (2019: 1%) decrease in interest rates | (13) | (98) |

5.1.2 Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of counterparties to honour fully the terms and conditions of a contract with the Fund. The Fund is primarily exposed to credit risk through its investment activities. All transactions in NZ Carbon Credits are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of NZ Carbon Credits sold is only made once the broker has received payment. Payment is made on purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations. The maximum credit risk of financial instruments is considered to be the carrying value. The investment strategy incorporates an appropriate diversification of investments and ensures that the Fund has no significant concentration of credit risk.

The Fund's cash holdings are invested with Westpac which is rated as AA- by Standard & Poor's.

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any credit loss. Management consider the probability of default to be close to zero as the instruments have a low risk of default. As a result, no loss allowance has been recognised, as any such impairment would be wholly insignificant to the Fund.

Notes to the Financial Statements

5. Financial risk management (continued)

5.1 Financial risk factors (continued)

5.1.3 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity management is designed to ensure that the Fund has the ability to generate sufficient cash in a timely manner to meet their financial commitments and normal level of redemptions. The Fund has a benchmark liquidity level which is monitored and maintained given normal investment conditions. Liquidity risk is managed by investing their assets in NZ Carbon Credits that are traded in an active market and can be readily disposed to enable them to meet liabilities as they fall due.

Other payables and outstanding settlements are due for settlement within one month of the end of the reporting period. The table below shows the net undiscounted contractual cash outflows for the Fund's financial liabilities:

| \$ As at 31 March | Carbon Fund | |
|------------------------------------|--------------|--------------|
| | 2020 | 2019 |
| Related party payables | | |
| 7 days to 1 month | 4,002 | 1,157 |
| Total financial liabilities | 4,002 | 1,157 |

5.2 Capital risk management

The Fund's capital is represented by Net Assets attributable to Unitholders. The Fund's objectives when managing capital are to provide returns for Unitholders through both capital growth and income. Investment decisions are guided by the mandate included in the product disclosure statement and statement of investment policies and objectives. The Fund strives to invest the subscriptions of Unitholder funds in investments that meet the Fund's objectives.

The Fund has a minimum initial investment of \$5,000. Thereafter the investor may invest in \$1,000 increments. The Fund will quote the units on the NZX Main Board, thus units can be sold through NZX Participants (such as a broker) or financial adviser. Investments in the Fund are generally not redeemable for cash. The Manager may vary minimum amounts from time to time at its discretion.

Notes to the Financial Statements

5. Financial risk management (continued)

5.3 Fair value estimation

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the Balance Date. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker or pricing service, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

For instruments for which there is no active market, the Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted securities, debt securities and other debt instruments for which markets were or have been inactive during the year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

NZ IFRS 13 *Fair Value Measurement* requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- * Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- * Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- * Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

The determination of what constitutes 'observable' requires significant judgement by the Manager. The Manager considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's financial assets and financial liabilities (by class) measured at fair value at year end:

| \$ | Carbon Fund | |
|--|-------------|-----------|
| As at 31 March | 2020 | 2019 |
| Level 1 Assets | | |
| <i>Financial assets at fair value through profit or loss</i> | | |
| NZ Carbon Credits | 4,620,241 | 1,545,591 |
| Total Level 1 Assets | 4,620,241 | 1,545,591 |
| Total financial assets at fair value through profit or loss | 4,620,241 | 1,545,591 |

The valuation of all of the Fund's holdings of NZ Carbon Credits are based on quoted market prices in active markets, and therefore classified within level 1. The Fund does not adjust the quoted price for these instruments.

There were no transfers between levels during the year (31 March 2019: nil).

Notes to the Financial Statements

6. Taxation

| \$ As at 31 March | Carbon Fund | |
|--------------------------------|------------------|--------------|
| | 2020 | 2019 |
| Tax expense comprises: | | |
| Deferred tax (benefit)/expense | (140,779) | 7,760 |
| Total tax expense | (140,779) | 7,760 |

The prima facie income tax expense on profit/(loss) before tax reconciles to the income tax (benefit)/expense in the Financial Statements as follows:

| \$ As at 31 March | Carbon Fund | |
|---|------------------|--------------|
| | 2020 | 2019 |
| (Loss)/profit before tax | (502,783) | 27,716 |
| Income tax using the statutory income tax rate 28% | (140,779) | 7,760 |
| Income tax (credit)/expense as per Statement of Comprehensive Income | (140,779) | 7,760 |

| \$ As at 31 March | Carbon Fund | |
|---------------------------------------|----------------|----------------|
| | 2020 | 2019 |
| Deferred tax asset/(liability) | | |
| Opening balance | (7,760) | - |
| Credited/(charged) to profit or loss | 140,779 | (7,760) |
| Closing balance | 133,019 | (7,760) |

The balance comprises temporary differences attributable to NZ Carbon Credits.

7. Earnings per unit

The basic earnings per units (EPU) is calculated by dividing net profit/(loss) after tax attributed to the unitholders by the weighted average number of units on issue during the year.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

| As at 31 March | Carbon Fund | |
|---|----------------|-------------|
| | 2020 | 2019 |
| (Loss)/profit after tax | (362,004) | 19,956 |
| Weighted average number of units | 2,350,953 | 1,361,964 |
| Basic and diluted earnings per unit (cents per unit) | (15.40) | 1.47 |

Notes to the Financial Statements

8. Financial assets at fair value through profit or loss

| \$ As at 31 March | Carbon Fund | |
|--|------------------|------------------|
| | 2020 | 2019 |
| Measured at fair value through profit or loss | | |
| NZ Carbon Credits | 4,620,241 | 1,545,591 |
| Total measured at fair value through profit or loss | 4,620,241 | 1,545,591 |
| Total financial assets at fair value through profit or loss | 4,620,241 | 1,545,591 |

9. Financial instruments by category

| \$ As at 31 March | Carbon Fund | |
|--|------------------|------------------|
| | 2020 | 2019 |
| Financial assets at fair value through profit or loss | | |
| Financial assets at fair value through profit or loss | 4,620,241 | 1,545,591 |
| Total financial assets at fair value through profit or loss | 4,620,241 | 1,545,591 |
| Financial assets at amortised cost | | |
| Cash and cash equivalents | 13,424 | 9,782 |
| Other receivables | 430 | - |
| Total financial assets at amortised cost | 13,854 | 9,782 |
| Total financial assets | 4,634,095 | 1,555,373 |
| Financial liabilities at amortised cost | | |
| Related party payables | 4,002 | 1,157 |
| Total financial liabilities at amortised cost | 4,002 | 1,157 |
| Total financial liabilities | 4,002 | 1,157 |

Notes to the Financial Statements

10. Related parties

10.1 General

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Salt Investment Funds Limited is the Manager of the Fund. The Supervisor of the Fund is The New Zealand Guardian Trust Company Limited, who is also the Custodian of the Fund. Salt Funds Management Limited is the parent entity of the Manager.

10.2 Related party fees

The Fund has transacted with related parties during the year as follows:

| \$ | | Carbon Fund | |
|------------------------------------|-------------------------------|-----------------|-------------------|
| | | Year ended 2020 | Period ended 2019 |
| For the year ended 31 March | | | |
| | Salt Investment Funds Limited | Management fees | |
| | | 22,746 | 5,076 |
| | | <u>22,746</u> | <u>5,076</u> |

The Fund owed the following amounts to related parties at balance date:

| \$ | | Carbon Fund | |
|-----------------------|-------------------------------|-----------------|--------------|
| | | 2020 | 2020 |
| As at 31 March | | | |
| | Salt Investment Funds Limited | Management fees | |
| | | 4,002 | 1,157 |
| | | <u>4,002</u> | <u>1,157</u> |

Under the Trust Deed the management fees payable to Salt Investment Funds Limited are payable monthly in arrears. All balances are unsecured, settled in cash and do not attract interest.

The management fee is deducted from, and reflected in, the value of the Fund. It is calculated and accrued daily as a percentage (31 March 2020 and 31 March 2019: 0.95%) of the daily gross asset value of the Fund (which essentially means its net assets but excluding any accruals for fees and expenses).

The Manager of the Fund has agreed to pay all other fees from the management fees. This includes supervisor fees, custodian fees, audit fees, NZ listing fees and other shareholder costs. This decision will be reviewed on an annual basis. The supervisor fees paid for the current year were \$1,356 (31 March 2019: \$306). The audit fees paid for the current year were \$10,000 (31 March 2019: \$10,000). These amounts are not reflected in the Statements of Comprehensive Income.

10.3 Investments by related parties

Salt Funds Management Limited has an investment in the Fund. As at 31 March 2020, this was 121,267 units, which is equal to 2.43% of the Fund (31 March 2019: 17,019 units, 1.11% of the Fund).

11. Reconciliation of operating profit/(loss) to net cash outflow from operating activities

| \$ | | Carbon Fund | |
|------------------------------------|--|--------------------|--------------------|
| | | Year ended 2020 | Period ended 2019 |
| For the year ended 31 March | | | |
| | Total comprehensive (loss)/income attributable to Unitholders | (362,004) | 19,956 |
| | <i>Adjustments for non-cash items</i> | | |
| | Unrealised losses/(gains) on financial assets at fair value through profit or loss | 480,996 | (32,231) |
| | Deferred tax movements | (140,779) | 7,760 |
| | <i>Movements in working capital items</i> | | |
| | Net change in cost of investments | (3,555,645) | (1,513,360) |
| | (Increase)/decrease in trade and other receivables | (430) | - |
| | Increase in trade and other payables | 2,844 | 1,157 |
| | | <u>(3,553,231)</u> | <u>(1,512,203)</u> |
| | Net cash (outflow) from operating activities | <u>(3,575,018)</u> | <u>(1,516,718)</u> |

12. Net tangible assets per unit

The Fund's net tangible assets per unit is calculated by dividing the net assets attributable to unitholders by the units on issue at the end of the year.

| \$ | | Carbon Fund | |
|------------------------------------|------------------------------|-----------------|-------------------|
| | | Year ended 2020 | Period ended 2019 |
| For the year ended 31 March | | | |
| | Net tangible assets per unit | 0.9544 | 1.0125 |

13. Events occurring after the balance sheet date

There have been no events subsequent to balance date that require adjustment to, or disclosure of, in these Financial Statements.



Independent auditor's report

To the unitholders of Salt Carbon Fund (referred to as the Salt Listed Funds or the Fund):

We have audited the Fund's financial statements which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of change in net assets attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Fund's financial statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have provided the following services to the Fund's Manager (Salt Investment Funds Limited): controls assurance reporting and agreed upon procedures on the net tangible assets calculation. These services have not impaired our independence as auditor of the Fund.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Fund's financial statements of the current period. We have one key audit matter, which is valuation and existence of financial assets at fair value through profit or loss. This matter was addressed in the context of our audit of the Fund's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Key audit matter

Valuation and existence of financial assets at fair value through profit or loss (financial assets)

As disclosed in note 8 of the financial statements, the Fund's financial assets at fair value through profit or loss at \$4,620,241

How our audit addressed the key audit matter

We assessed the processes employed by the Manager, for recording and valuing the financial assets at fair value through profit or loss including the relevant controls operated by third party service organisations. The third party service organisations include MMC Limited (the Administrator), the Custodian and

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>represent the majority of the assets held by the Fund as at 31 March 2020.</p> <p>The fair value of the financial assets traded in active markets are based on quoted market prices at 31 March 2020 and categorised as level 1 in the fair value hierarchy.</p> <p>The Fund has no level 2 and level 3 investments.</p> <p>The Manager assessed the impact of COVID-19 on the financial statements of the Fund and included additional disclosure in note 3 of the financial statements.</p> <p>All financial assets are held by the New Zealand Guardian Trust Company Limited (acting through its nominee company Salt Investment Nominees Limited) (the Custodian).</p> | <p>National Australia Bank Limited (the Sub-Custodian).</p> <p>Our assessment of the business processes included obtaining the internal control reports over custody and investment accounting provided by the third party service organisations. We evaluated the evidence provided by the internal controls reports over the design and operating effectiveness of the key controls operated by the third party service providers for the period to 31 March 2020.</p> <p>Where the report did not cover the full period to 31 March 2020, we obtained a bridging letter confirming there were no material changes in the third party service provider’s control environment and no significant deficiencies in the design or operation of relevant internal controls in the intervening period.</p> <p><i>Valuation</i></p> <p>For the financial assets at quoted market prices in an active market, we have agreed the market price at 31 March 2020 to independent third party pricing sources.</p> <p><i>Existence</i></p> <p>We obtained confirmation from the Custodian of the holdings of financial assets held at fair value through profit or loss held by the Fund as at balance date.</p> <p>From the procedures performed, we have no matters to report.</p> |

Our audit approach
Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. We determine materiality for each Fund separately.

Our materiality for the Fund is calculated based on 1% of the net assets for the Fund.

We chose net assets as the benchmark because, in our view, the objective of the Fund is to provide unitholders with a positive return on assets, taking account of both capital and income returns.

Because of the significance of the investments to the financial statements, we have determined there is one key audit matter: valuation and existence of financial assets at fair value through profit or loss.



Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the Fund's financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the Fund's financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Fund's financial statements as a whole, taking into account the structure of the Fund, the types of investments held by the Fund, the accounting processes and controls, the use of third party service providers and the industry in which the Fund operates.

The Manager is responsible for the governance and control activities of the Fund. The Manager has appointed the Custodian to act as the custodian of the Fund's investments. The Custodian uses a Sub-Custodian. The Manager has outsourced investment accounting services to the Administrator and registry services to Link Market Services Limited (the Registrar).

In establishing our overall audit approach, we assessed the risk of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. As part of our risk assessment, we considered the control environment in place at the Manager, the Administrator, the Custodian and the Sub-Custodian.

Information other than the financial statements and auditor's report

The Manager is responsible for the annual report.

Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Manager for the financial statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Fund's unitholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's unitholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Samuel Shuttleworth.

For and on behalf of:

A handwritten signature in black ink that reads 'Samuel Shuttleworth'. The signature is written in a cursive style and is positioned over a light grey rectangular background.

Chartered Accountants
30 June 2020

Auckland