2019

AUGUSTA
INDUSTRIAL

ANNUAL REPORT 2019

Asaleo - Castle Rock Business Park, Mary Muller Drive, Hillsborough, Christchurch.

Key Highlights

WALT*

5.8 YEARS

As at 31 March 2019

OCCUPANCY

99%

PORTFOLIO VALUATION

$299.8 MILLION**

As if complete

CURRENT PRE-TAX DISTRIBUTION

6.5%

TOTAL ASSETS/TENANTS

9/47

ANNUAL PASSING RENT

$19.65 MILLION

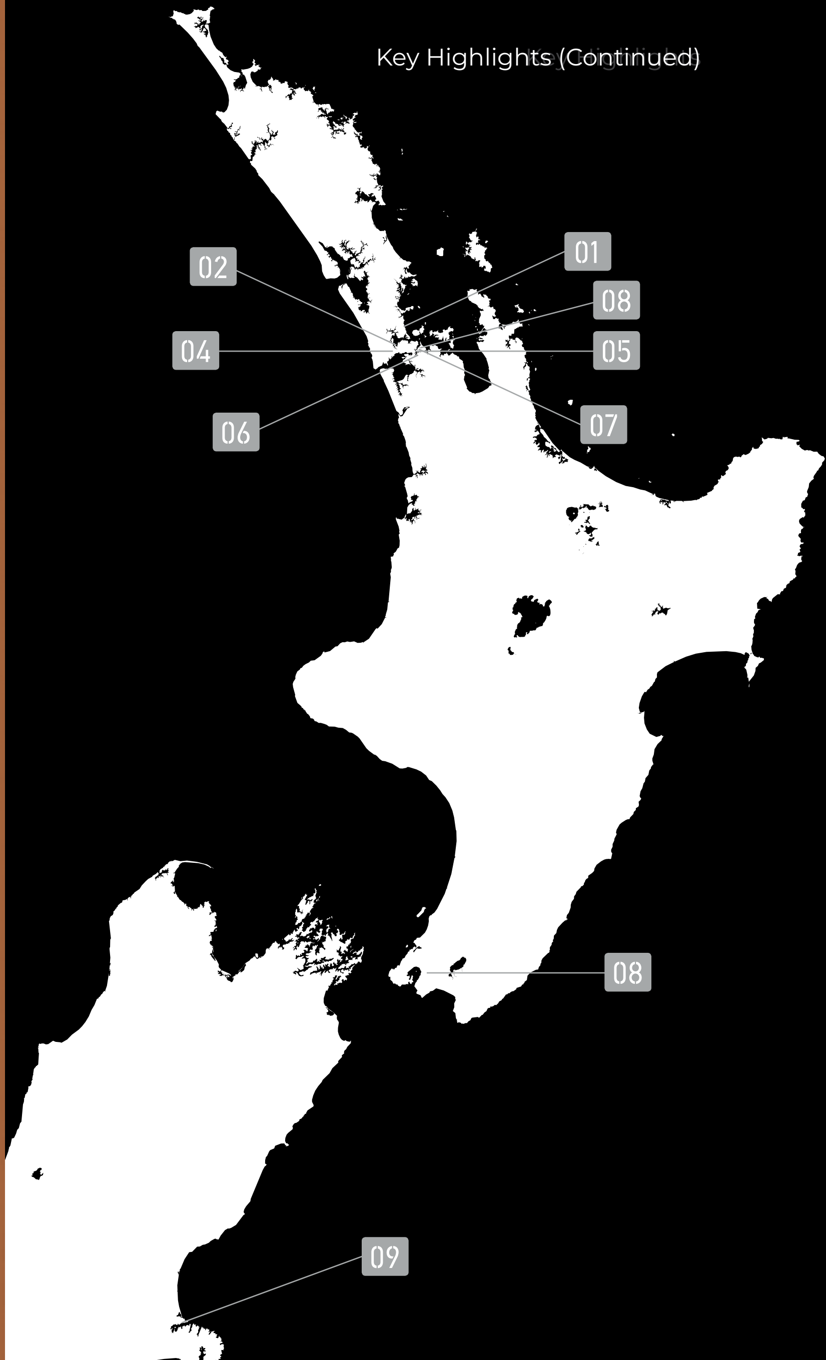
*WALT means the weighted average lease term which measures the average lease term across each of the leases in the Industrial Portfolio weighted by the relative income of each lease.
**This is higher than the investment property and property held for sale assets in the financial statements as the revaluation gain on property held for sale is not recognised for accounting purposes.

GEARING

38%

WEIGHTING
TO AUCKLAND

66%



01 265 ALBANY HIGHWAY, ALBANY, AUCKLAND

02 116-152 SWANSON ROAD, HENDERSON, AUCKLAND

03 20 PAISLEY PLACE, MT WELLINGTON, AUCKLAND

04 12 BRICK STREET, HENDERSON, AUCKLAND

05 862-880 GREAT SOUTH ROAD, PENROSE, AUCKLAND

06 5 & 21 BEACH ROAD, OTAHUHU, AUCKLAND

07 510 MT WELLINGTON HIGHWAY, MOUNT WELLINGTON, AUCKLAND

08 THE HUB, SEAVIEW, WELLINGTON

09 CASTLE ROCK BUSINESS PARK, MARY MULLER DRIVE, HILLSBOROUGH, CHRISTCHURCH

Contents

Letter from the Chair and Manager

Dear Shareholder,

We are delighted to present this first Annual Report for the Augusta Industrial Fund and to report that, at the end of the Industrial Fund's first financial year, the Fund has achieved each of the Fund's core objectives and is an investment product we are very proud of.

The Augusta Industrial Fund was established in April 2018 with an initial capital raise of $75 million, acquisition of four assets and portfolio value of $121.1m. The aim of the Fund was to invest in strategically selected industrial properties that provide both tenant and property diversification within a strongly performing sector of the New Zealand property market.

It has been an extremely busy year for the Fund. A second capital raise completed in March 2019 grew the Fund to a portfolio value of $299.8 million (portfolio valuation ("as if complete") as at 31 March 2019). The capital raise was well supported by both new and existing shareholders. There are now over 1,400 shareholders of the Augusta Industrial Fund. In addition, Augusta Capital continued to invest in the Fund, retaining a 10% stake, to demonstrate its commitment and alignment of interests with investors.

The Fund's portfolio has grown from four industrial properties with 15 tenants located in Auckland and Wellington, to nine industrial properties with 47 tenants located in Auckland, Wellington and Christchurch. We believe that this greater diversification provides a stronger foundation from which the Fund can weather ordinary investment property risks in the future.

On establishing the Fund in April 2018, we set clear objectives as to what we wanted to achieve for shareholders. We are pleased to report that we have achieved each of the core goals...

Achievement of the Industrial Fund's Core Objectives

On establishing the Fund in April 2018, we set clear objectives as to what we wanted to achieve for shareholders. We are pleased to report that we have achieved each of the core goals below:

- Deliver stable income (forecasted 6.5% p.a. pre-tax dividends maintained).
- Provide investors with exposure to the strongly performing Auckland industrial property market (currently 66% of the Fund's asset by value are located in Auckland).
- Provide a diversified and resilient income stream (through a portfolio of 9 properties with 47 tenants).
- Provide a commercial property investment opportunity to a wider range of investors (minimum investment entry point of $10,000).
- Deliver a strong weighted average lease term (WALT) (5.8 years as at 31 March 2019).
- Provide the potential for future capital growth (through achieving the Fund's investment strategy and identifying development and acquisition opportunities).
- Maintain conservative debt levels (currently 38% Gearing).

We are pleased with what have achieved to date and continue to work hard to enhance the underlying value, income and risk profile of the Fund.

Growth of the Industrial Fund

The growth of the Fund illustrates our key strategy to provide strong and sustainable returns. Increasing the underlying tenant base and mix to 47 tenants has greatly reduced the risk associated with any one tenant or property. By way of example, prior to the second capital raise our largest tenant by income, Americold (who will be replaced by Icepak Limited (Hall's Group) from 1 December 2019) at 20 Paisley Place, contributed approximately 20% of the Fund's total passing rent. Following completion of the capital raise, Icepak now represents 8.4% of the Fund's total passing rental income.

As the Fund grows, the impact of vacancies and/or capital expenditure on the Fund's cashflows is decreased. Accordingly, this should lead to greater stability of dividends over time. A larger fund also provides benefits in respect to treasury management, tenant negotiation and the servicing of capital commitment obligations in a changing market.

The portfolio now includes a diverse range of tenants across the following sectors including logistics, healthcare consumables, manufacturing, furniture and homewares, electronics, consumer products and printing. These tenants include prominent international and national names such as Toll, Downer, Linfix, MacPac, Fujitsu, Fletcher Steel and Pacific Steel. The current portfolio occupancy is 99%.

Key Asset Management Activities

Detailed below are some of the key asset management initiatives from the past year;

- At the heavy industrial property located at 5 & 21 Beach Road, Otahuhu the 7-year lease renewal with Pacific Steel was concluded. The balance of the property is leased to Fletcher Steel for a further 12.3 years, resulting in a strong weighted average lease term at the property of 9.2 years.
- Castle Rock in Christchurch is a large multi-tenanted property that requires very active management. The focus for management is working with existing tenants to extend leases and improve the weighted average lease term. The low site coverage of 41% lends itself to future development opportunities. In the shorter-term Augusta are looking to add value by subdividing the property down into eight individual titles.
- At The Hub in Seaview, we have been working hard to understand the future requirements of all 12 tenants on site to ensure occupancy is maintained and long leases achieved. Vacancy rates in the Seaview market are currently below 1.0%. The scarcity of available space is providing good opportunities to improve rental rates and secure tenants on longer term leases.
- At Brick Street in Henderson the 2018 market rent review with the single tenant D&H Steel has recently been agreed at an uplift of $63,000 pa, or 4.4%. The tenant has another 9 years to run on their lease and are performing well.

Great South Road Development Update

The Augusta team continue to focus on the final stages of the development at 862-880 Great South Road, Penrose for the tenant Graphic Packaging. The construction of the office, canopy and yard components is complete, with Graphic Packaging in occupation. Despite unexpected earthworks causing delays to the programme, we are very pleased with the finished product.

The sale of half of the front portion of the site fronting Great South Rd is unconditional and will settle on receipt of title, which is underway. We are continuing to review development and sale options for the remaining vacant land parcel fronting Great South Road of c 4,500sqm and will update shareholders in due course.

Board Update

We were pleased to welcome Guy Weaver as an independent director to the Board in October 2018. Mr Weaver joins Chairman Mark Peterson, Augusta Capital's Managing Director Mark Francis, and Guy French-Wright. Mr Weaver brings extensive commercial experience and adds to the skills, knowledge, and perspective that an effective board requires.

Dividend Guidance

We are pleased to confirm a full-year pre-tax cash dividend of 6.50% p.a. We are forecasting that shareholder dividends will remain at 6.50% p.a. until 31 March 2020 consistent with the Product Disclosure Statement.

The Industrial Property Market

The Industrial Fund has benefited from a strong New Zealand industrial property market over the past year. During that time Auckland industrial vacancy rates hit a record low of 1.8%. We believe the Augusta Industrial Fund, with its 66% weighting in the Auckland area, will continue to benefit from the strong demand and constricted supply of new industrial property. However, because of this there is also heavy competition for the acquisition of good quality industrial investments.

The positive market conditions are reflected in the Fund's most recent independent property valuations completed on 31 March 2019. The value of the Fund's properties has increased from $296.7 million as at 31 October 2018 to $299.8 million as at 31 March 2019. This represents an increase of 1.1% over a five-month period. Further information on the revised valuations for each asset can be found in the asset summaries contained later in this report.

Looking forward

Where to next for the Fund? We are not complacent with what has been achieved to date and are constantly on the lookout for new acquisition opportunities which satisfy our strategic investment objectives and strengthen the overall risk profile of the Fund. The Board's decision to accept $10 million of oversubscriptions during the second equity raise places the Fund in a position to acquire a property outside of an equity raise if the right opportunity presented. In the interim, the additional equity of $10 million has allowed the Fund to maintain a conservative gearing ratio of approximately 38% (Loan to Value Ratio) which can increase to 45% on a short-term basis to facilitate future acquisitions.

With our goal of stable dividends, plus the potential for capital growth, we take a risk averse approach when reviewing potential acquisitions. This includes (but is not limited to) considering the potential acquisitions;

- Fit within the current portfolio;
- Age, condition and capital expenditure profile;
- Location – with a preference for those properties located within the "golden triangle" of Auckland, Hamilton and Tauranga;
- Proximity to key infrastructure such as motorways, ports, airports, rail and central business districts;
- Lease terms, covenant strength and tenure; and
- Value-add opportunities.

As signalled from the beginning, the Board's long-term objective remains listing Augusta Industrial on the NZX Main Board[1]. However, such a decision will not be made until the Board considers the market conditions are right and the Fund is of an appropriate investment scale. Augusta Industrial cannot be listed on the NZX without the prior approval of the Shareholders.

In the meantime, our focus remains diligently managing the existing portfolio through building strong relationships with existing tenants, careful management of treasury and interest rate risk, strategic asset management and investing capital wisely to refurbish or develop additional space on existing sites where possible.

The clear objectives set by the Board upon establishment of the Industrial Fund have laid the foundations for a very successful first year. The goal now is to ensure we continue to achieve strong results for shareholders and deliver on the Fund's long-term strategy for future growth.

We would like to express our appreciation to all our shareholders for the confidence and support they have given us over the past year. We look forward to meeting many of you at the First Annual Shareholders Meeting in September.

Yours sincerely,

Mark Petersen
Chair, Augusta Industrial Fund Limited

Ben Harding
Head of Asset Management and AIF Manager

1 No guarantee is given that Augusta Industrial will apply to have the Shares quoted or that Augusta Industrial will be listed. Augusta Industrial has not made, and does not intend to make any application to NZX for permission to list Augusta Industrial as part of this Offer. NZX Main Board is a licensed market operated by NZX, which is a licensed exchange regulated under the Financial Markets Conduct Act 2013.

Longbeach - Castle Rock Business Park, Mary Muller Drive, Hillsborough, Christchurch.

Industrial Fund Assets

265 Albany Highway, Rosedale, Auckland

Land area	16,917m²
Net lettable area	5,504m²
Major Tenants	Good Health, Junior Junction, Caffe E Cucina Limited & Albany OPE Limited
Purchase Price	$20.10m plus GST (if any)
Valuation	$20.55m (31 March 2019)
Occupancy	100%
WALT	4.7 years (as at 31 March 2019)

5 and 21 Beach Road, Otahuhu, Auckland

Land area	41,074m²
Net lettable area	22,757m²
Tenants	Pacific Steel (NZ) Limited & Fletcher Building Steel Group
Purchase Price	$25.65m plus GST (if any)
Valuation	$25.70m (31 March 2019)
Occupancy	100%
WALT	9.2 years (as at 31 March 2019)

12 Brick Street, Henderson, Auckland

Land area	19,876m²
Net lettable area	12,012m²
Tenant	D&H Steel Construction Ltd
Purchase Price	$22.36m plus GST (if any)
Valuation	$23.90m (31 March 2019)
Occupancy	100%
WALT	9.0 years (as at 31 March 2019)

Boundary lines indicative only.

Castle Rock Business Park, Christchurch

Land area	79,456m²
Net lettable area	33,527m²
Major Tenants	Tyco, Xtend-Life National Products, Macpac & Kiwi Labels
Purchase Price	$53.75m plus GST (if any)
Valuation	$55.00m (31 March 2019)
Occupancy	97% (however, occupancy including the vendor rental underwrite for one tenancy is 100%).
WALT	3.9 years (as at 31 March 2019)

862 - 880 Great South Road, Penrose, Auckland

Land area	23,736m²
Net lettable area	9,396m²
Tenant	Graphic Packaging International New Zealand Limited
Purchase Price	$19.05m plus GST (if any)
Valuation*	$24.00m (31 March 2019)
Occupancy	100%
WALT	7.8 years (as at 31 March 2019)

*The above valuation is calculated on an "as-if complete" basis, following the development works and new lease to Graphic Packaging.

The Hub, Seaview, Wellington

Land area	52,756m²
Net lettable area	39,781m² (excluding yard)
Major Tenants	PBT, Fujitsu, Linfox, Toll & Jets Transport
Purchase Price	$44.90m plus GST (if any)
Valuation	$47.89m (31 March 2019)
Occupancy	100%
WALT	4.4 years (as at 31 March 2019)

Boundary lines indicative only.

510 Mt Wellington Highway, Mt Wellington, Auckland

Land area	30,845m²
Net lettable area	18,828m²
Major Tenants	GPC Asia Pacific trading as Repco, Dicker Data & McConnell Dowell
Purchase Price	$37.95m plus GST (if any)
Valuation	$39.75m (31 March 2019)
Occupancy	100%
WALT	3.1 years (as at 31 March 2019)

20 Paisley Place, Mt Wellington, Auckland

Land area	13,630m²
Net lettable area	7,877m²
Tenant	Americold NZ Ltd, followed by Icepak Ltd from December 2019
Purchase Price	$25.38m plus GST (if any)
Valuation	$26.00m (31 March 2019)
Occupancy	100%
WALT	12.7 years (as at 31 March 2019)

114-152 Swanson Road, Henderson, Auckland

Land area	56,033m²
Net lettable area	26,755m²
Major Tenants	Blue Star Group, United Corporation, Caprice & Bestware Limited (t/a Treasure Box)
Purchase Price	$36.36m plus GST (if any)
Valuation	$37.01m (31 March 2019)
Occupancy	100%
WALT	4.0 years (as at 31 March 2019)

Boundary lines indicative only.

Adjusted Funds from Operations (AFFO)

The dividend policy is to distribute between 90% and 110% of Adjusted Funds from Operations (AFFO) over a full financial year. The table below is a reconciliation between the net profit as per the consolidated statement of comprehensive income and AFFO.

Reconciliation of Net Profit to AFFO

for the 11 months and 15 days ended 31 march 2019

	2019 $'000	PFI $'000	Variance $'000
Net profit before tax	8,592	7,115	1,477
Revaluation of investment property	(7,343)	(4,160)	(3,183)
Change in fair value of interest rate swaps	2,286	482	1,804
Gain on disposal of investment property	-	-	-
Initial finance costs amortised	95	93	2
Accrual for fixed rental growth	(89)	(104)	15
Amortisation of incentives and leasing costs	3	-	3
Depreciation on right-to-use asset (IFRS 16)	43	43	-
Repayment of lease liability (IFRS 16)	(8)	(8)	-
Other[1]	185	281	(96)
FFO[2]	**3,764**	**3,742**	**22**
FFO payout ratio	**104%**	**105%**	**(1%)**
Incentives granted	(60)	(80)	20
Leasing fees paid	(9)	(9)	-
Maintenance capex	(46)	(50)	4
AFFO	**3,649**	**3,603**	**46**
AFFO payout ratio	**107%**	**109%**	**(2%)**

1 Includes interest on borrowings for deposits paid for the acquisition of Castle Rock, and higher management, audit and valuation fees incurred as a result of the five acquisitions on 28 March 2019.

2 Funds from Operations (FFO).

AFFO is a non-GAAP financial measure adopted to assist Augusta Industrial in assessing the adjusted operating profit available for distribution, calculated in accordance with the guidelines issued by the Property Council of Australia. AFFO represents net profit before tax, excluding investment property revaluations, fair value movements on interest rate swaps, fixed rental accruals and other one off, non-cash or non-recurring transactions. AFFO also reflects the impact of capital expenditure incurred as part of maintaining the portfolio, the total amount of cash and cash equivalent incentives and relevant leasing costs incurred.

The above reconciliation has not been audited by EY.

Comparison to Prospective Financial Information (PFI)

The following is a comparison of actual financial information to prospective financial information that was included in the Replacement Product Disclosure Statement issued by Augusta Industrial Fund Limited dated 7 February 2019.

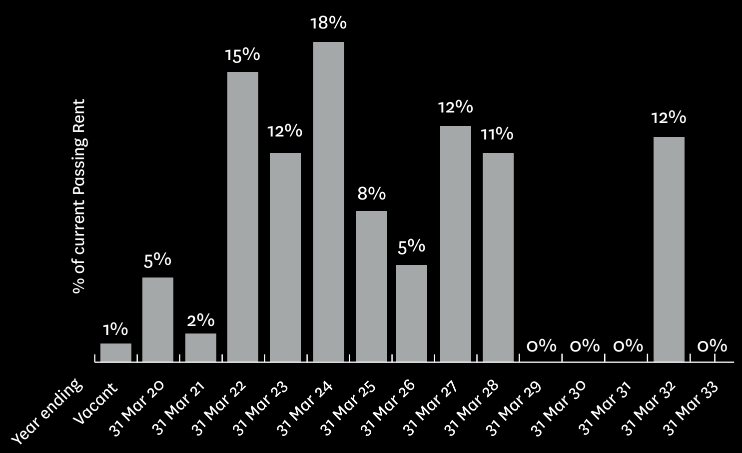
Selected Financial Information

	Actual	Forecast
	11 Months and 15 days ended 31 March 2019 ($'000)	**11 Months and 15 days ended 31 March 2019 ($'000)**
Revenue	7,375	7,313
Operating costs	(1,371)	(1,279)
Net revenue	**6,004**	**6,034**
EBITDA	**10,292**	**8,941**
Net profit before tax	8,592	7,115
Net profit after tax	8,592	7,115
Funds from Operations (FFO)	3,764	3,742
Adjusted Funds from Operations (AFFO)	3,649	3,603
Dividends on all equity securities of the issuer	(4,949)*	(3,923)
Net cash flows from operating activities	2,715	2,848
Total assets	304,439	299,212
Cash and cash equivalents	3,181	500
Total liabilities	121,009	126,078
Total debt	114,171	124,889
Net Tangible Assets	183,430	173,134
Gearing	38%	42%
Interest Cover	3.16	2.95

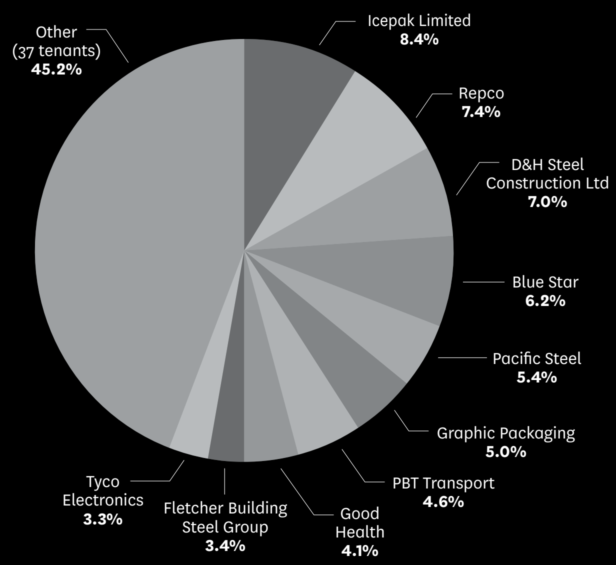
*$3,920 relates to dividends paid or payable for the period ended 31 March 2019. $1,029 relates to the April 2019 dividend payable in May 2019 that was declared during the period.

Property Portfolio Metrics

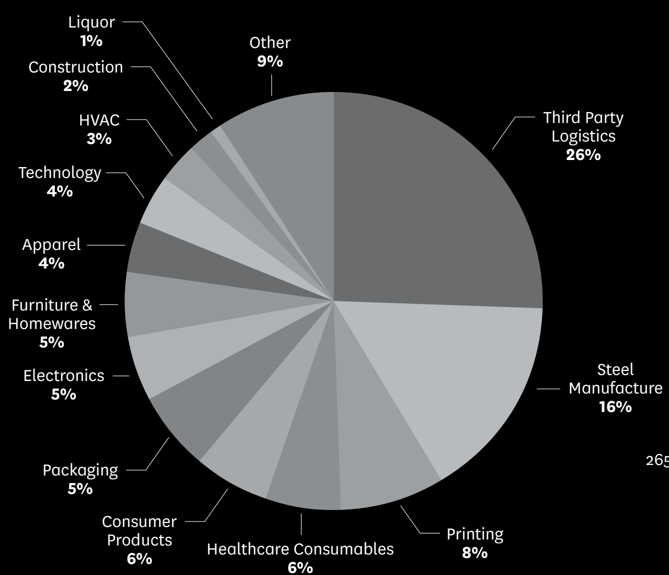
15 Year Lease Expiry Profile



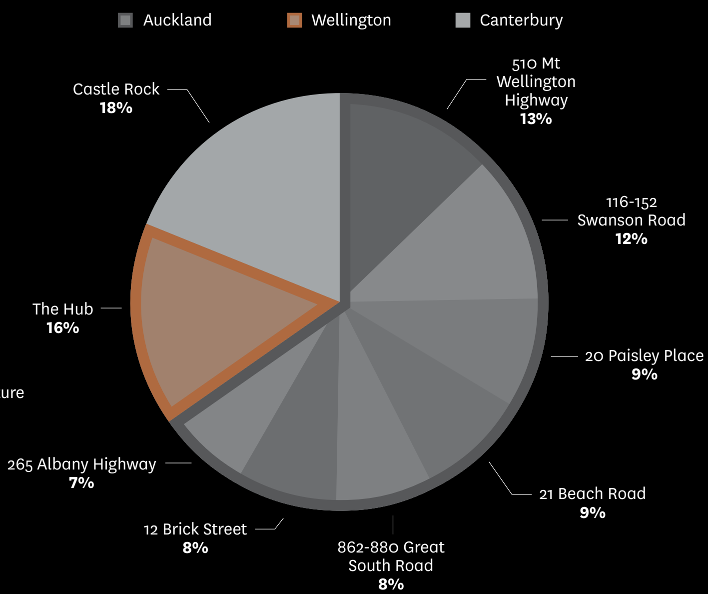
Largest 10 Tenants (Passing Rental Income)



Tenant Industry Mix (Passing Rental Income)



Portfolio Weighting (Valuation)



Icepak Limited lease for 20 Paisley Place does not commence until 1 December 2019 following expiry of the current lease to Americold NZ Limited. For the purposes of these charts only the Icepak lease has been reflected.

D&H Steel - 12 Brick Street, Henderson, Auckland.

Financial Statements

For the 11 months and 15 days ended 31 march 2019

Consolidated Statement of Comprehensive Income

For the 11 months and 15 days ended 31 March 2019

	Note	2019 $
Rental income	3	6,390,914
Property operating expense recoveries	3	984,552
Gross property income		**7,375,466**
Recoverable property operating expenses	3	(984,552)
Non recoverable property operating expenses	3	(361,391)
Property investigation expenses		(25,489)
Net property income		**6,004,034**
Administration expenses	3	(266,336)
Management expenses	3	(547,548)
Operating profit before finance expenses		**5,190,150**
Interest income		2,607
Finance expenses	3	(1,596,100)
Lease finance cost (ground lease)	16	(61,544)
Operating profit		**3,535,113**
Change in fair value of investment property	5	7,342,778
Change in fair value of interest rate swaps	8	(2,286,271)
Net profit		**8,591,620**
Other comprehensive income		-
Total comprehensive income attributable to investors		**8,591,620**

These financial statements should be read in conjunction with the notes on pages 24 to 38.

Consolidated Statement of Changes in Equity

For the 11 months and 15 days ended 31 March 2019

		Capital	Retained earnings	Total
		$	$	$
Equity as at 16 April 2018		**-**	**-**	**-**
Property operating expense recoveries	13	190,000,000	-	190,000,000
Establishment and issue costs	13	(10,212,495)	-	(10,212,495)
Profit and other comprehensive income		-	8,591,620	8,591,620
Dividends paid to shareholders		-	(4,948,824)	(4,948,824)
Gross property income		**179,787,505**	**3,642,796**	**183,430,301**

These financial statements should be read in conjunction with the notes on pages 24 to 38.

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	2019 $
Current assets		
Cash and cash equivalents		3,181,392
Trade and other receivables	9	1,483,560
Restricted cash (deposit held in trust account)		200,000
Total current assets		4,864,952
Property held for sale	6	2,753,048
Non-current assets		
Investment property	5	295,485,072
Right-of-use assets (ground lease)	16	1,335,980
Total non-current assets		296,821,052
Total assets		**304,439,052**
Current liabilities		
Trade and other payables	10	3,274,035
Dividends payable	11	1,495,699
Deposit received on sale of property held for sale		200,000
Total current liabilities		4,969,734
Non-current liabilities		
Borrowings	7	112,800,000
Capitalised borrowing costs		(418,001)
Fair value of interest rate swaps	8	2,286,271
Lease liabilities (ground lease)	16	1,370,747
Total non-current liabilities		116,039,017
Share capital		179,787,505
Retained earnings		3,642,796
Total equity		183,430,301
Total liabilities and equity		**304,439,052**

These financial statements have been issued for and on behalf of Augusta Industrial Fund Limited by:

Mark Petersen
Director of Augusta Industrial Fund Limited

Mark Francis
Director of Augusta Industrial Fund Limited

Date: 28 June 2019

These financial statements should be read in conjunction with the notes on pages 24 to 38.

Consolidated Statement of Cash Flows

For the 11 months and 15 days ended 31 March 2019

	Note	2019 $
Cash flows from operating activities		
Cash was provided from:		
Rental receipts		6,281,197
Interest income		2,607
Property operating expense recoveries		755,086
		7,038,890
Cash was applied to:		
Payments to suppliers		(1,866,669)
Goods and services tax paid		(663,305)
Interest paid (ground lease)		(61,543)
Interest paid		(1,731,973)
		(4,323,490)
Net cash flow from operating activities	**4**	**2,715,400**
Cash flows from investing activities		
Cash was applied to:		
Building improvements		(1,825,642)
Capitalised interest on development		(84,323)
Lease incentive		(60,000)
Purchase of property		(288,363,537)
		(290,333,502)
Net cash flow from investing activities		**(290,333,502)**
Cash flows from financing activities		
Cash was provided from:		
Shareholder capital		190,000,000
Borrowings		112,800,000
		302,800,000
Cash was applied to:		
Dividends and PIE tax		(3,384,925)
Issue costs		(8,097,495)
Borrowing costs		(509,756)
Repayment of lease liabilities (ground lease)		(8,330)
		(12,000,506)
Net cash flow from financing activities		**290,799,494**
Net increase/(decrease) in cash and cash equivalents		3,181,392
Cash and cash equivalents at start of period		-
Cash and cash equivalents at end of period		**3,181,392**

These financial statements should be read in conjunction with the notes on pages 24 to 38.

Notes to the Consolidated Financial Statements

For the 11 months and 15 days ended 31 March 2019

Note 1: General Information

a) Reporting entity

The consolidated financial statements are for Augusta Industrial Fund Limited (the "Company") and its subsidiaries Augusta Industrial Fund No.1 Limited, and Augusta Industrial Fund No.2 Limited (collectively, the "Group").

The Company is a limited liability company incorporated in New Zealand and is registered under the New Zealand Companies Act 1993.

The Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The registered office is located at Level 2, Bayleys House, 30 Gaunt Street, Wynyard Quarter, Auckland, 1010.

The nature of the operations and principal activities of the Group are that of investment in industrial property. The entity's Manager, Augusta Funds Management Limited, is responsible for the day to day management of the Group.

b) Basis of preparation

The consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). For the purpose of complying with NZ GAAP, the Company and its subsidiaries are for-profit entities. The financial statements have also been prepared on a historical cost basis, except for investment properties and derivative financial instruments which have been measured at fair value.

The consolidated financial statements are presented in New Zealand dollars, which is the Group's functional currency, and are rounded to the nearest whole dollar.

The Group has elected to early adopt NZ IFRS 16 'Leases' from its incorporation on 16 April 2018 (Refer to Note 16).

c) Statement of compliance

The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable standards. The consolidated financial statements also comply with International Financial Reporting Standards ("IFRS").

d) Comparatives

The Company was incorporated on 16 April 2018 and commenced operations on 15 June 2018. The consolidated financial statements cover the period from 16 April 2018 to 31 March 2019 and there are no comparative figures.

e) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as at and for the period ended 31 March 2019.

Subsidiaries are all those entities over which the Company is exposed, or has rights, to variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered, if those rights are substantive, when assessing whether a Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends have been eliminated in full.

Note 2: Critical Accounting Estimates, Assumptions and Judgements

The preparation of the consolidated financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Although the Group has internal control systems in place to ensure that estimates can be reliably measured, actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving a high degree of judgement or areas where assumptions are significant to the Group include the following:

Valuations of investment properties - Investment property (Note 5).

Fair value measurements

A number of the Group's accounting policies and disclosures require measurement at fair value. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique adopted as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Note 3: Revenue and Expenses

	Note	2019 $
Rental income		
Lease income		6,301,526
Adjustment due to fixed rental growth		89,388
Total rental income		**6,390,914**
Recoverable property operating expenses		
Repairs and maintenance		108,848
Property management fees		43,139
Utilities and rates		404,333
Insurance		428,232
Total recoverable property operating expenses		**984,552**
Non recoverable property operating expenses		
Repairs and maintenance		126,352
Property management fees		64,438
Utilities and rates		59,421
Insurance		65,249
Right-of-use assets (ground lease) - depreciation		43,096
Other expenses		2,835
Total non recoverable property operating expenses		**361,391**
Administration expenses		
Valuation fees		48,246
Registry fees		32,605
Audit and assurance fees		70,000
Legal and professional fees		22,674
Insurance		16,205
Directors fees		63,534
Other administration expenses		13,072
Total administration expenses		**266,336**
Management expenses		
Management fee	14	547,548
Total management expenses		**547,548**
Finance expenses		
Bank loan interest		1,501,470
Amortisation of borrowing costs		94,630
Total finance expenses		**1,596,100**

	2019 $
Auditor's remuneration	
Statutory audit	70,000
Review of interim financial statements[1]	12,500
Total remuneration for audit and other assurance services	**82,500**
Investigating accountant services[2]	145,000
Taxation services	13,703
Total remuneration for non-audit services	**158,703**

1 Recognised as an issue cost in equity.

2 Recognised as an issue cost in equity. The above shows the total cost of investigating accountant services provided during the period ended 31 March 2019. $18,348 of this was borne by Augusta Capital Limited and not recharged to the Group.

Accounting Policy - Revenue and Expenses

Revenue recognition

The Group recognises revenue from the following principal activities.

Lease income

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

Non lease income

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

Finance income

Finance income consists of interest income and is recognised as revenue on an accrual basis using the effective interest method.

Expense recognition

The Group recognises expenses from the following principal activities.

Property operating expenses

Property operating expenses are categorised into recoverable and non recoverable property operating expenses in accordance with Deed of Lease agreements.

Finance expenses

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

Goods and services tax (GST)

All amounts are shown exclusive of GST except for trade receivables and trade payables that are stated inclusive of GST.

Note 4: Reconciliation of the Net Profit to the Net Cash Flow from Operating Activities

	2019 $
Net profit	8,591,620
Adjustments for:	
Change in fair value of investment property	(7,342,778)
Change in fair value of interest rate swaps	2,286,271
Amortisation of borrowing costs	94,630
Adjustment for fixed rental growth	(89,388)
Right-of-use assets (ground lease) - depreciation	43,096
Changes to assets and liabilities relating to operating activities	
Decrease/(increase) in trade and other receivables	(1,227,464)
Increase/(decrease) in trade and other payables	359,413
Net cash flow from operating activities	**2,715,400**

Accounting Policy - Cash and Cash Equivalents

Cash and cash equivalents

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

Statement of cash flow

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

- Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities;
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents; and
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Group.

Note 5: Investment Property

a) Reconciliation of carrying amount

The following table shows a reconciliation from the opening balances to the closing balances for fair values:

	Additions[1]	Capital expenditure[2]	Movement in lease incentives, fees, and fixed rental income	Unrealised fair value adjustment	31 March 2019 $
862-880 Great South Road	16,601,395	2,124,587	60,000	894,090	19,680,072
12 Brick Street	22,461,090	-	-	1,438,910	23,900,000
20 Paisley Place	25,498,892	-	-	501,108	26,000,000
The Hub[3]	45,206,139	45,833	95,831	2,547,197	47,895,000
265 Albany Highway	20,373,761	-	-	176,239	20,550,000
510 Mt Wellington Highway	38,394,603	-	-	1,355,397	39,750,000
116-152 Swanson Road	36,895,637	-	-	114,363	37,010,000
5 & 21 Beach Road	25,960,179	-	-	(260,179)	25,700,000
Castle Rock Business Park	54,424,347	-	-	575,653	55,000,000
Carrying amount at end of period	**285,816,043**	**2,170,420**	**155,831**	**7,342,778**	**295,485,072**

1 Includes acquisition costs.
2 Includes capitalised interest on development. The effective interest rate applied to capitalised interest in for the period ended 31 March 2019 was 3.70%.
3 The Hub comprises 17-23 Toop Street, 25 Toop Street, 109-117 Port Road and 101-103 Port Road.

Investment property is measured at fair value and was valued as at 31 March 2019 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

b) Fair value hierarchy

The fair value measurement for investment property has been categorised as a Level 3 fair value (refer to note 2) based on the inputs to the valuation technique used being based on unobservable inputs. There were no transfers between levels during the year.

c) Valuation techniques and unobservable inputs

The fair value of investment property was determined using the following approaches.

Valuation methodology	
Purpose:	Financial reporting.
Basis of valuation:	The determination of the values stated were based on market value subject to existing tenancies and occupational arrangements.
Assessment approach:	Capitalisation approach and discounted cash flow.
Valuers	Bayleys, CBRE, Colliers International, and Jones Lang LaSalle.

Capitalisation approach

This approach is considered a “point in time” view of the investment property’s value, based on the current contract and market income and an appropriate market yield or return for the property. Capital adjustments are then made to the value to reflect under or over renting, pending capital expenditure and upcoming expiries, including allowances for lessee incentives and leasing costs.

Discounted cash flow approach

The discounted cash flow method adopts a 10 year investment horizon and makes appropriate allowances for rental growth and leasing costs on lease expiries, with an estimated terminal value at the end of the investment period. The present value is a reflection of contract/market based income (inflows) and expenditure (outflows) projections over the 10 year period discounted at a market analysed return.

Among other factors, both valuation approaches consider the quality of the building and its location, tenant quality, lease terms and any lease incentive costs such as rent-free periods and other costs not paid by the tenant.

The table below outlines the key observable inputs assumed in the valuations as at 31 March 2019.

Valuation summary	Range of significant unobservable inputs	Measurement sensitivity	
		Increase in input	Decrease in input
Market capitalisation rate (%)[1]	6.25% - 7.30%	Decrease	Increase
Market rental ($ per sqm)[2]	$90 - $237	Increase	Decrease
Discount rate (%)[3]	7.50% - 9.00%	Decrease	Increase
Rental growth rate (%)[4]	0.98% - 2.82%	Increase	Decrease
Terminal capitalisation rate (%)[5]	6.25% - 8.00%	Decrease	Increase

1 The capitalisation rate applied to the market rental to asses a property's value, determined through analysis of similar transactions taking into account location, weighted average lease term, tenant covenant, size and quality of the property.

2 The valuers assessment of the net market income which a property is expected to achieve under a new arm's length leasing transaction. Includes both leased and vacant areas.

3 The rate applied to future cash flows reflecting transactional evidence from similar properties.

4 The rate applied to the market rental over the future cash flow projection.

5 The rate used to assess the terminal value of the property.

Among other factors, both valuation approaches consider the quality of the building and its location, tenant quality, lease terms and any lease incentive costs such as rent-free periods and other costs not paid by the tenant.

Accounting Policy - 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. Where part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

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.

Note 6: Property Held for Sale

When acquired, a contract to sell approximately 4,000m^2 of land at 880 Great South Road was in place. The sale has subsequently increased to approximately 4,480m^2 of land as part of the subdivision process.

Investment property held for sale	Additions[1]	Capital expenditure[2]	31 March 2019 $
862-880 Great South Road land	2,549,050	203,998	2,753,048
Total			**2,753,048**

1 Includes acquisition costs.

2 Includes capitalised interest on development. The effective interest rate applied to capitalised interest in for the period ended 31 March 2019 was 3.70%.

Accounting Policy - Property Held for Sale

The Group classifies investment property as held for sale when the carrying amount will be recovered through a sale transaction. The assets and liabilities must be held for immediate sale and the Group must be committed to selling the asset either through entering into a contractual sale and purchase agreement or by entering into a campaign to market the property sale with the clear intention of disposal. The sale must be highly probable, an active programme to locate a buyer must be in place and the disposal plan must have been initiated. A completed sale is expected to take place within one year from the date of classification.

Investment property held for sale is measured at the lower of its carrying amount immediately before classification as held for sale and fair value less costs to sell.

Note 7: Borrowings

The Group has loans with ASB Bank Limited (ASB) and Westpac New Zealand Limited (Westpac) through a syndicated facility. Principal repayment is due on maturity with interest payable monthly at a floating rate until 29 April 2022. The borrowings are secured by way of deed of assignment of lease, a registered first mortgage over Group properties, and a general security deed over all other assets of the Group.

Borrowing summary	31 March 2019
Loan maturity date	29/04/2022
Loan to value ratio (LVR) % - not to be greater than	50%
Interest cover - not to be less than	2.00:1
Syndicated facility drawn down	112,800,000
Undrawn balance	19,200,000
Weighted average interest rate for drawn debt[1]	4.16%

1 Includes interest rate swaps, margins and line fees.

74.47% of drawn debt has the variable base rate portion of interest cost hedged with interest rate swaps. Refer to Note 8.

The Group has complied with all borrowings covenants during the period.

Each bank's participation under the syndicated facility is set out below.

	31 March 2019 $
ASB	62,040,000
Westpac	50,760,000
Total drawn debt	**112,800,000**
ASB	10,560,000
Westpac	8,640,000
Total undrawn balance	**19,200,000**

The table below reconciles movements in liabilities arising from financing activities (as classified in the statement of cash flow) that have occurred during the period.

31 March 2019	Borrowings due < 1 year $	Borrowings due > 1 year $	Associated borrowing costs $	Total $
Borrowings as at 16 April 2018	-	-	-	-
Cash drawn down on loan	-	112,800,000	-	112,800,000
Changes arising from cash flows	-	-	(512,631)	(512,631)
Non-cash changes	-	-	94,630	94,630
Borrowings as at 31 March 2019	**-**	**112,800,000**	**(418,001)**	**112,381,999**

Accounting Policy - 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.

Note 8: Interest Rate Swaps

The Group entered into the following interest rate swap agreements with ASB Bank Limited. The Group swapped the variable base rate with a fixed rate on notional amounts of the loan as detailed in the table below.

	Notional amount	Expiry date	Fixed base rate
Swap 1	$12,000,000	31/03/2022	2.78%
Swap 2	$12,000,000	31/03/2021	2.57%
Swap 3	$8,000,000	30/06/2023	2.92%
Swap 4	$52,000,000	5/04/2024	2.34%

The total effective weighted average interest rate payable on the borrowings, including the lending margin, the hedged and the unhedged portion of borrowings at balance date is 4.16% (excluding amortised costs).

	2019 **$**
Fair value of interest rate swaps at beginning of period	-
Change in fair value of interest rate swaps	(2,286,271)
Fair value of interest rate swaps at end of period	**(2,286,271)**

Accounting Policy - 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 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, taking into account current interest rates.

Note 9: Trade and Other Receivables

	2019 **$**
Trade receivables	509,020
Prepayments	299,365
GST receivable	675,175
	1,483,560

Accounting Policy - 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 term. The company has applied 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.

Note 10: Trade And Other Payables

	2019 **$**
Trade payables	200,046
Accrued expenses	239,951
Accrued issue costs	2,115,000
Accrued WIP	609,702
Accrued interest	40,823
PIE tax payable	68,200
Other Payables	313
	3,274,035

Accounting Policy - Trade and Other Payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. These amounts represent 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.

Note 11: Dividends Payable

31 March 2019	**Date declared**	**Date paid**	**2019** **$**
Dividend for the period 1 March 2019 to 28 March 2019	19/03/19	23/04/19	366,935
Dividend for the period 29 March 2019 to 31 March 2019	19/03/19	23/04/19	99,597
Dividend for the period 1 April 2019 to 30 April 2019	19/03/19	20/05/19	1,029,167
			1,495,699

Note 12: Financial Risk Management

The main risks arising from the normal course of the Group's business are interest rate risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the values and future cash flows of the Group's assets and liabilities will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk primarily through its borrowings. Management actively reviews exposure through sensitivity analysis in strategic reviews. The level of borrowings is disclosed in note 7.

To manage the risk the Group enters into interest rate swaps or fixed rate agreements. For swaps, the Group agrees to exchange at specified intervals, the difference between fixed and variable base rate interest amounts calculated by reference to an agreed notional principal amount.

As at balance date, the Group had the following assets and liabilities exposed to interest rate risk:

	2019 $
Assets	
Cash and cash equivalents	3,181,392
	3,181,392
Liabilities	
Borrowings (unhedged)	28,800,000
Fair value of interest rate swaps	2,286,271
	31,086,271

The following demonstrates the sensitivity to the Group profit and equity, resulting from a reasonably possible change in interest rates, with all other variables held constant.

	2019 $
Net impact on profit and equity (+1%)	2,860,552
Net impact on profit and equity (-1%)	(2,860,552)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities as and when they fall due.

The Group's policy for management of liquidity risk is to maintain a minimum level of funds to meet working capital requirements. The Group manages its risk by monitoring cash flow on an ongoing basis.

The following table details the remaining contractual maturity for the Group's financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay and all interest rate variables being held constant.

Interest payable on borrowings is calculated up to loan expiry. Refer to Note 7 for further details on borrowings.

2019	< 1 Year $	1 - 5 Years $	> 5 Years $	Total $
Financial liabilities				
Payables	3,274,035	-	-	3,274,035
Borrowings	-	112,800,000	-	112,800,000
Interest payable on borrowings	3,305,040	6,881,727	-	10,186,767
Interest payable on swaps	488,000	1,445,669	4,288	1,937,957
Lease finance cost (ground lease)	81,425	315,389	873,335	1,270,149
Total financial liabilities	**7,148,500**	**121,442,785**	**877,623**	**129,468,908**

Credit risk

Credit risk is the risk that the counterparty to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. Financial instruments which potentially subject the Group to credit risk consist of cash and cash equivalents and trade and other receivables. The Group's policy is to assess the creditworthiness of prospective tenants. The Group manages its exposure to credit risk on an ongoing basis, through regular communication with tenants and by receiving rental income monthly in advance. Maximum exposures to credit risk at balance date are the carrying amounts of financial assets in the statement of financial position. There were no impaired assets at balance date.

Note 13: Equity

The Company comprises 190,000,000 shares of $1.00 each issued during the period. 75,000,000 shares were issued by the Company on 15 June 2018, with issue costs of $4,834,768. 115,000,000 shares were issued by the Company on 28 March 2019, with issue costs of $5,377,727.

Establishment and issue costs of $10,212,495, which have been offset against equity, include underwrite fees, brokerage fees, marketing, and legal and professional fees incurred in relation to raising equity during the period.

Dividends were paid at a rate of 6.50% per annum per share from 16 June 2018 to 31 March 2019.

Capital Management

When managing capital, the Directors objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders.

As the market is constantly changing, management and the Board of Directors consider capital management initiatives. The Directors have the discretion to change the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell investment property to reduce borrowings.

The Group's capital structure includes borrowings and shareholder's equity. The Group monitors capital on the basis of borrowing covenant compliance, including the loan to value ratio and interest cover ratio.

Note 14: Related Parties

Augusta Funds Management Limited were engaged as the Manager of the Company for the year ended 31 March 2019. The directors of Augusta Funds Management Limited for the period were Bryce Barnett, Mark Francis, Mark Petersen, Paul Duffy, Kevin Murphy, Martin Goldfinch (resigned 27 June 2018) and John Loughlin (resigned 30 June 2018).

Mark Francis, Mark Petersen, Bryce Barnett, Paul Duffy, Kevin Murphy, Martin Goldfinch (resigned 27 June 2018) and John Loughlin (resigned 30 June 2018) were also directors of Augusta Capital Limited. Augusta Capital Limited owns 100% of the shareholding in Augusta Funds Management Limited.

Augusta Capital Limited owned 23,770,000 shares in the Company as at 31 March 2019. 4,770,000 were acquired on 28 March 2019 as a short term hold on behalf of investors who have committed to purchase the shares. It is expected that Augusta Capital Limited will have transferred the 4,770,000 shares by the end of November 2019.

Macdonald Family Trust, of which Bryce Barnett is a Trustee, owns 50,000 shares in the Company as at 31 March 2019. These shares were acquired on 28 March 2019.

Kevin Murphy owns 100,000 shares in the Company as at 31 March 2019. These shares were acquired on 28 March 2019.

Transactions with related parties

	2019 $
Augusta Funds Management Limited	
Management fees	547,549
Property management fees	107,577
Offeror fee	1,475,000
Acquisition fees	1,738,181
	3,868,307
Augusta Capital Limited	
Underwriters fees	1,364,400
Dividends paid	494,882
	1,859,282

During the period, the Group acquired:

- The property at 12 Brick Street, Henderson, Auckland from Brick Street Nominees Limited for and on behalf of the Brick Street Nominees Joint Venture, which is managed by Augusta Funds Management Limited.
- The property at 265 Albany Highway, Rosedale, Auckland from Albany Highway Nominees Limited for and on behalf of the Albany Highway Nominees Joint Venture, which is managed by Augusta Funds Management Limited.
- The property at 510 Mt Wellington Highway, Mount Wellington, Auckland from Mt Wellington Nominees Limited for and on behalf of the Mt Wellington Nominees Joint Venture, which is managed by Augusta Funds Management Limited.
- The property at 116-152 Swanson Road, Henderson, Auckland from Westend Industrial Park Nominees Limited for and on behalf of the Westend Industrial Park Proportionate Ownership Scheme, which is managed by Augusta Funds Management Limited.
- The property at 5 & 21 Beach Road, Otahuhu, Auckland from 21 Beach Road Otahuhu Limited for and on behalf of the 21 Beach Road Otahuhu Proportionate Ownership Scheme, which is managed by Augusta Funds Management Limited.
- The property at 17 Toop Street, 25 Toop Street, 101-103 Port Road and 109-117 Port Road, Seaview, Wellington from Augusta Property Holdco Limited. Augusta Property Holdco Limited is a wholly owned subsidiary of Augusta Capital Limited.

Some costs have been paid by Augusta Capital Limited and Augusta Funds Management Limited on behalf of the Group, and then recharged to the Group. Such costs have not been included in the above.

Transactions with Directors

	2019 $
Directors fees	
Mark Petersen	31,778
Guy French-Wright	19,861
Guy Weaver	11,895
	63,534
Other fees	
Guy Weaver (Due Diligence Committee Fees)	10,000
Guy Weaver (Consulting Fees)	2,083
	12,083

There have been no other transactions with key management personnel during the year. Related party balances are unsecured and there are no guarantees given or received.

Note 15: Operating Leases

The Group's investment property had the following minimum lease payments receivable under non-cancellable operating leases:

	2019 $
Not later than one year	20,220,510
Later than one year and not later than five years	65,247,815
Later than five years	39,080,841
	124,549,166

The minimum lease payments receivable reflect the fixed lease term and do not include any options for renewal due to the uncertainty as to whether the option will be exercised.

Accounting Policy - 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.

Note 16: Leases (Group as Lessee)

The Group leases approximately 15,223m² of land from KiwiRail at The Hub in Wellington. The lease commenced on 1 July 2017 and is for a term of 25 years, expiring on 30 June 2042. The lease was assigned to the Group on 15 June 2018.

The impact of NZ IFRS 16 'Leases' on the consolidated financial statements is set out below.

Consolidated statement of financial position

	Initial recognition of ground lease	Repayment of lease liabilities	Depreciation of right-of-use asset	2019 $
Right-of-use assets (ground lease)	1,379,076	-	(43,096)	1,335,980
Lease liabilities (ground lease)	(1,379,076)	8,330	-	(1,370,747)
	-	**8,330**	**(43,096)**	**(34,767)**

The lease liability reflects the obligation to make future lease payments. The right-of-use asset reflects the right to control the use the leased land during the term of the lease.

Consolidated statement of comprehensive income

	2019 $
Depreciation of right-of-use asset	(43,096)
Lease finance cost	(61,543)
	(104,639)

Depreciation of the right-of-use asset is included in non recoverable property operating expenses. Lease finance costs reflect interest on the lease liability.

Consolidated statement of cash flows

	2019 $
Interest paid	(61,543)
Repayment of lease liabilities	(8,330)
	(69,873)

Note 17: Capital Commitments

As at 31 March 2019, the Group had capital commitments totalling $1,334,934 relating to the subdivision and redevelopment of the rear site at 862 Great South Road.

Note 18: Contingent Liabilities

The Group has no material contingent liabilities at balance date.

Note 19: Subsequent Events

On 21 May 2019, the Directors of the Company declared the following two dividends:

- $1,029,167, equal to 0.5417 cents per share, paid on 20 June 2019; and
- $1,029,167, equal to 0.5417 cents per share, payable on 22 July 2019.

On 26 June 2019, the Directors of the Company declared the following two dividends:

- $1,029,167, equal to 0.5417 cents per share, payable on 20 August 2019; and
- $1,029,167, equal to 0.5417 cents per share, payable on 20 September 2019.

Note 20: Comparison to the Prospective Financial Information

The table and analysis below compares actuals to the prospective financial information ("PFI") issued on 7 February 2019.

	Actual 2019 $	Forecast 2019 $
Consolidated statement of comprehensive income		
Rental income	6,390,914	6,348,053
Non recoverable property operating expenses	(386,880)	(313,721)
Administration expenses	(266,336)	(275,477)
Management expenses	(547,548)	(538,584)
Net finance expenses	(1,593,493)	(1,721,103)
Lease finance cost (ground lease)	(61,544)	(61,544)
Change in fair value of investment property	7,342,778	4,159,776
Change in fair value of interest rate swaps	(2,286,271)	(481,714)
Total comprehensive income	**8,591,620**	**7,115,686**
Consolidated statement of financial position		
Current assets	4,864,952	4,609,515
Property held for sale	2,753,048	2,842,770
Non-current assets	296,821,052	294,602,495
Current liabilities	(4,969,734)	(1,173,166)
Non-current liabilities	(116,039,017)	(124,904,843)
Net assets (equity)	**183,430,301**	**175,976,771**
Consolidated statement of cash flows		
Net cash flow from operating activities	2,715,400	2,848,129
Net cash flow from investment activities	(290,333,502)	(291,845,088)
Net cash flow from financing activities	290,799,494	289,496,709
Net increase/(decrease) in cash held	**3,181,392**	**499,750**
Cash and cash equivalents at start of period	-	-
Cash and cash equivalents at end of period	**3,181,392**	**499,750**

Rental income is higher than forecast due to an incentive on an acquired property being treated as a purchase price reduction rather than a reduction in rental income. Non-recoverable opex is higher than forecast primarily due to additional repairs and maintenance costs and property investigation expenses for acquisitions that did not proceed. Net finance expenses are lower than forecast due to lower base rates, and $10m of oversubscriptions accepted as part of the 28 March 2019 equity raise, resulting in lower borrowings. Additionally, a portion of interest has been capitalised to investment property under development and property held for sale. The change in fair value of investment property and interest rate swaps are above and below forecasts respectively, as no movement in these values after 31 October 2018 was forecast in the PFI.

Current assets are higher than forecast due to higher cash being held at period end following the acceptance of oversubscriptions and payment of some issue costs post 31 March 2019. Non-current assets are higher than forecast due to revaluation gains on investment property. Current liabilities are higher than forecast due to higher trade and other payables, and April 2019 dividends being declared prior to 31 March 2019. Non-current liabilities are lower than forecast as equity oversubscriptions were used to reduce borrowings, partly offset by the unrealised revaluation loss on interest rates swaps at 31 March 2019.

Cash flows from operating activities are lower than forecast due to the timing of operating expense recoveries from tenants. Cash flows from investing activities are lower than forecast due to the timing of capital expenditure in relation to the development at 880 Great South Road. Cash flows from financing activities are lower than forecast due to the payment of some issue costs after period end.

Auditor's Report

Independent auditor's report to the Shareholders of Augusta Industrial Fund Limited

Opinion

We have audited the financial statements of Augusta Industrial Fund Limited ("the company") and its subsidiaries (together "the Group") on pages 19 to 38, which comprise the consolidated statement of financial position of the Group as at 31 March 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 19 to 38 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. Our audit has been undertaken so that we might state to the company's shareholders those matters 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 company and the company's shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). 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 are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides tax compliance and other assurance related services to the Group. Ernst & Young has also provided Investigating Accountant services in relation to the Product Disclosure Statements of the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* for the audit of the *financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Valuation of investment properties

Why significant	How our audit addressed the key audit matter
Information regarding the investment properties and their valuations is included in Note 5 to the financial statements. As at 31 March 2019, investment properties are carried at $295 million. The investment properties are important to our audit as they represent a significant percentage of the total assets of the Group. The Group has employed external valuers to assess each property's value and has adopted the values assessed by the valuers for each investment property. The valuations of the Group's investment properties are inherently subjective due to, among other factors, the individual nature of each property, their location and the expected future rental income for each property. The valuations are highly dependent on assumptions such as current and forecast rental revenues and estimated capitalisation or discount rates. These are used to determine a valuation range and from this a point estimate is derived.	In obtaining sufficient audit evidence we performed the following for each investment property: • evaluated the objectivity, independence and expertise of the valuer; • assessed the valuation conclusions. In doing so we considered the valuation inputs used, including the schedule of forecast rental revenue, and other key assumptions such as capitalisation rate, rental growth rate, and discount rate; • involved our in-house property valuation experts to assist us in assessing whether key assumptions such as capitalisation rate, rental growth rate, and discount rate fell within a reasonable range; and • assessed the adequacy of the disclosures made in respect of the investment property valuation.

Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group'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 directors either intend to liquidate the Group or cease operations, or have 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 consolidated 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 International Standards on Auditing (New Zealand) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report. The engagement partner on the audit resulting in this independent auditor's report is Susan Jones.

Ernst + Young

Chartered Accountants
Auckland
28 June 2019

Statutory Disclosures

Indemnification and Insurance of Directors and Officers

The Company has agreed to indemnify all the Directors for:

(a) Costs incurred in defending any liability for any act or omission made by the Director in their capacity as a director and for to which they are acquitted, judgment is given in their favour or the proceeding is discontinued;

(b) Any liability in their capacity as a director (other than liability to the Company or its subsidiaries) for any act or omission as a director except where due to the wilful default or fraud, any criminal liability, breach of the duty to act in good faith, breach of any fiduciary duty of loyalty or honesty and any other liability for which the giving of an indemnity is prohibited by law.

During the financial year, the company has paid premiums (as permitted by sections 162(3)-(5) of the Companies Act 1993) in respect of a Directors and Officers Liability Policy insuring all the Directors of Augusta Industrial Fund Limited (subject to the policy terms and conditions) against claims arising whilst they are acting in their individual or collective capacities as Directors and Officers.

The payment of insurance premiums was expressly approved by the Board, who consider the cost is fair to the Company.

Interests Register

During the 11 months and 15 days ended 31 March 2019 there were no dealings in Augusta Industrial Fund Limited's shares involving the Directors of the Company or its subsidiaries.

Set out below are relevant disclosures in relation to changes in the Interests Registers of the Company and its subsidiaries made during the accounting period:

Director	Company/Transaction	Interest
Mark Francis	Augusta Capital Limited	Director & Shareholder
	Augusta Funds Management Limited	Director
	Augusta Property Holdco Limited	Director
	Gryphon Capital Limited	Director
	King Street Nominees Limited	Director
	Bishops Hill JV Limited	Director
	Bayleys Augusta Management Limited	Director
	Conference SME Limited	Director
	Courtenay St Equities Limited	Director
	Kerwyn Ave Nominees Limited	Director
	Trafalgar Sq Equities Limited	Director
	Te Rapa Rd Nominees Limited	Director
	Manukau Rd Equities Limited	Director
	Ronwood Ave Equities Limited	Director
	124 Tauroa Street Limited	Director
	North Star Estate Limited	Director
	AFM GP (Shands Road) Limited	Director
	AFM LP Limited	Director
	AFM GP (Peachgrove Road) Limited	Director
	AFM GP (Hugo Johnston Drive) Limited	Director
	AFM GP (Ashburton Central) Limited	Director
	AFM GP (Building A Graham Street) Limited	Director
	AFM GP (Building B Graham Street) Limited	Director
	AFM GP (Sir William Pickering Drive) Limited	Director
	Augusta Kedron Partners Pty Limited	Director

Mark Petersen	Augusta Capital Limited	Director
	Augusta Funds Management Limited	Director
	Augusta Property Holdco Limited	Director
	Harbour Quays F1F2 Limited	Director
	Harbour Quays A1 Limited	Director
	Harbour Quays D4 Limited	Director
	Centreport Limited	Director
	Centreport Properties Limited	Director
	Centreport Property Management Limited	Director
	Harbour Quays Property Limited	Director
Guy Weaver	HEMI Company Limited	Director & Shareholder
	Kaiwhatu Limited	Director & Shareholder
	Meadar Limited	Director & Shareholder
	GDW Enterprises Limited	Director & Shareholder
Guy French-Wright	North Capital Limited	Director & Shareholder
	Align Property Partners Pty Limited (Aus)	Director & Shareholder

Donations

No donations were made during the period.

This annual report is dated 28 June 2019 and is signed on behalf of the Board by:

Mark Petersen
Director of Augusta Industrial Fund Limited

Mark Francis
Director of Augusta Industrial Fund Limited

Date: 28 June 2019

Corporate Directory

Manager

Augusta Funds Management Limited
Level 2, 30 Gaunt Street
Wynyard Quarter
Auckland 1010
New Zealand

Directors

Mark Petersen
Mark Francis
Guy French-Wright
Guy Weaver

Corporate Legal Advisor

Chapman Tripp
23 Albert Street
PO Box 2206
Auckland 1140
New Zealand

Auditor

EY
2 Takutai Square
Britomart
Auckland 1010
New Zealand

Share Registrar

Link Market Services
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010
New Zealand

Bankers

ASB Bank Limited
Level 6, 12 Jellicoe Street
Auckland 1010
New Zealand

Westpac New Zealand Limited
16 Takutai Square
Auckland 1010
New Zealand

Registered Office

Level 2, 30 Gaunt Street
Wynyard Quarter
Auckland 1010
New Zealand

AUGUSTA
INDUSTRIAL

Augusta Industrial Fund Limited

Level 2, 30 Gaunt Street, Auckland
PO Box 37953, Parnell
Telephone +64 (9) 300 6161