New Zealand Rural Land Company Limited and its subsidiaries

Consolidated Financial Statements
For the 6 months ended 31 December 2022

New Zealand Rural Land Company Limited and its subsidiaries
Directors' responsibility statement

The directors are pleased to present the financial statements of New Zealand Rural Land Company Limited and its subsidiaries for the financial period ended 31 December 2022.

The Board of Directors of New Zealand Rural Land Company Limited authorised the financial statements for issue on 28 February 2023.

For and on behalf of the Board

Director

Director

New Zealand Rural Land Company Limited and its subsidiaries
Consolidated statement of comprehensive income
For the 6 month period ended 31 December 2022

	Notes	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Gross rental income			
Rental income	7	5,681	8,215
Net rental income		**5,681**	**8,215**
Less overhead costs			
Directors fees		(114)	(217)
Insurance		(40)	(80)
Marketing expenses		(11)	(1)
Management fees	20	(467)	(632)
Professional and consulting fees		(295)	(456)
Performance fee	20	(495)	(4,115)
Other expenses		(53)	(85)
Total overhead costs		**(1,475)**	**(5,586)**
Profit before net finance (expense) / income, other income and income tax		**4,206**	**2,629**
Finance income		1,590	3,550
Finance expense		(2,615)	(2,408)
Net finance (expense) / income	8	**(1,025)**	**1,142**
Profit before other income and income tax		**3,181**	**3,771**
Other income			
Change in fair value of investment property	5	2,258	35,342
Profit before tax		**5,439**	**39,113**
Income tax (expense) / benefit	9.1	(174)	567
Profit and total comprehensive income for the period		**5,265**	**39,680**
		Cents	**Cents**
Basic and diluted earnings per share	25	**4.59**	**42.43**

New Zealand Rural Land Company Limited and its subsidiaries
Consolidated statement of financial position
At 31 December 2022

	Notes	31 December 2022 $'000	30 June 2022 $'000
Current assets			
Cash and cash equivalents	10	1,942	1,004
Trade and other receivables	11	269	1,411
Current tax receivable		13	10
Total current assets		**2,224**	**2,425**
Non-current assets			
Investment property	5	267,360	264,899
Deposit for forestry estate acquisition	6	6,294	-
Loan receivable	12	19,144	18,554
Deferred tax assets	9.2	915	1,089
Derivative assets	13	2,506	1,792
Other non-current assets		377	256
Total non-current assets		**296,596**	**286,590**
Total assets		**298,820**	**289,015**
Current liabilities			
Trade and other payables	14	594	923
Income in advance		-	579
Borrowings	15	1,968	-
Other current liabilities		319	150
Total current liabilities		**2,881**	**1,652**
Non-current liabilities			
Borrowings	15	105,000	100,768
Total non-current liabilities		**105,000**	**100,768**
Total liabilities		**107,881**	**102,420**
Net assets		**190,939**	**186,595**
Share capital	16	134,180	129,632
Share based payment reserve	18	495	4,115
Retained earnings		56,264	52,848
Total equity		**190,939**	**186,595**
		$	**$**
Net Assets Value (NAV) per share	22.2	**1.6517**	**1.6564**
Net Tangible Assets (NTA) per share	22.2	**1.6221**	**1.6309**

New Zealand Rural Land Company Limited and its subsidiaries
Consolidated statement of changes in equity
For the 6 months ended 31 December 2022

	Notes	Share capital $'000	Share based payment reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2021		**93,514**	**1,625**	**15,115**	**110,254**
Comprehensive Income					
Profit for the period		-	-	39,680	39,680
Total comprehensive income		**-**	**-**	**39,680**	**39,680**
Transactions with shareholders					
Contributed capital	16	34,852	-	-	34,852
Transaction costs	16	(551)	-	-	(551)
Performance fee issued in ordinary shares	16	1,625	(1,625)	-	-
Performance fee payable in ordinary shares	18	-	4,115	-	4,115
Dividends paid	17	-	-	(1,947)	(1,947)
Dividend reinvestment plan issues	17	192	-	-	192
Balance at 30 June 2022		**129,632**	**4,115**	**52,848**	**186,595**
Comprehensive Income					
Profit for the period		-	-	5,265	5,265
Total comprehensive income		**-**	**-**	**5,265**	**5,265**
Transactions with shareholders					
Contributed capital	16	476	-	-	476
Transaction costs	16	(43)	-	-	(43)
Performance fee issued in ordinary shares	16	4,115	(4,115)	-	-
Performance fee payable in ordinary shares	18	-	495	-	495
Dividends paid	17	-	-	(1,849)	(1,849)
Balance at 31 December 2022		**134,180**	**495**	**56,264**	**190,939**

New Zealand Rural Land Company Limited and its subsidiaries
Consolidated statement of cash flows
For the 6 months ended 31 December 2022

	Notes	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Cash flows from operating activities			
Lease income received		5,887	6,505
Payments to suppliers		(271)	(394)
Management fees paid		(377)	(663)
Income taxes (paid) / received		(3)	12
Interest paid		(3,041)	(1,890)
Interest received		329	599
Net cash generated by operating activities		**2,524**	**4,169**
Cash flows from investing activities			
Payments for investment properties		-	(90,492)
Payments for deposit for forestry acquisition	6	(6,294)	-
Payments for leasehold improvements		(121)	(181)
Payment for loan receivable		-	(12,018)
Net cash used in investing activities		**(6,415)**	**(102,691)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		521	34,822
Payment of transaction costs on issue of ordinary shares		(43)	(551)
Dividends paid		(1,849)	(1,755)
Proceeds from borrowings		6,200	60,768
Repayment of borrowings		-	(14,254)
Net cash generated by financing activities		**4,829**	**79,030**
Net increase / (decrease) in cash and cash equivalents		**938**	**(19,492)**
Cash and cash equivalents beginning of the period		1,004	20,496
Cash and cash equivalents at the end of the period	10	**1,942**	**1,004**

1 Reporting entity

The consolidated financial statements for New Zealand Rural Land Company Limited (the "Company" or "Parent") and its subsidiary (the "Group") are for the economic entity comprising the Company and its subsidiary. The Group's principal activity is investment in New Zealand rural farmland.

The Company is incorporated in New Zealand and registered under the Companies Act 1993. The Company is an FMC reporting entity for the purposes of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013. The Company was incorporated on 11 September 2020 and is domiciled in New Zealand. The Company is listed on the New Zealand Stock Exchange (NZX Limited) with ordinary shares listed on the NZX Main Board. The address of the Company's registered office is 50 Customhouse Quay, Wellington Central, Wellington, New Zealand.

These financial statements are for the 6 month period ending 31 December 2022. The comparative period is the 12 month period ended 30 June 2022. The Group changed its balance date from 30 June to 31 December in the period to best align with the dairy farming financial year.

2 Basis of preparation

2.1 Statement of compliance and reporting framework

The Group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the Financial Markets Conduct Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate. These financial statements comply with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board. For the purposes of complying with NZ GAAP, the Group is a for-profit entity. These financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and on a going concern basis (note 6).

2.2 Functional and presentation currency

These financial statements are presented in New Zealand dollars, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties which are measured at fair value.

Revenue, expenses, assets and liabilities are recognised net of the amount of goods and services tax (GST) except:

- where the amount of GST incurred is not recovered from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST (the net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables).

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiary. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of a subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.5 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments are classified into the following specified categories: ‘fair value through profit or loss' (FVTPL), and 'at amortised cost'. The classification depends on the business model and nature of the cash flows of the financial instrument and is determined at the time of initial recognition.

The Group’s financial assets consist of cash, trade receivables, derivatives and loan receivable.

Financial assets - Derecognition of financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial assets - Impairment of financial assets
Impairment of financial assets are recorded through a loss allowance account (bad debt provision). The amount of the loss allowance is based on the simplified Expected Credit Loss (ECL) approach which involves the Group estimating the lifetime ECL at each balance date. The lifetime ECL is calculated using a provision matrix based on historical credit loss experience and adjusted for forward looking factors specific to the debtors and the economic environment.

2.5 Financial instruments (continued)

Financial liabilities - Amortised cost

Financial liabilities at amortised cost (including borrowings, related party payables and trade and other payables) are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities - Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3 Critical accounting estimates and judgements

The preparation of these financial statements requires management to make estimates and assumptions. These affect the amounts of reported revenue and expense and the measurement of assets and liabilities. Actual results could differ from these estimates. The principal areas of judgement and estimation in these financial statements are:

- Fair valuation of investment property (note 5)
- Deferred tax on investment property (note 9.2)
- Recognition of loan receivable (note 12)

3.1 Fair value estimation

The Group’s assets and liabilities that are measured at fair value are investment property and derivative financial instruments. Investment property is measured using level 3 valuation techniques as further detailed in Note 5.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement. For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Derivative financial instruments are measured using level 2 valuation techniques, which is based on inputs other than quoted prices in an active market that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates. The derivatives are valued based on the mark to market valuations of the interest rate swaps on 31 December 2022.

The carrying value of all other financial assets and liabilities held at amortised cost reasonably approximates the fair value due to the short term nature of the financial instruments.

4 Segment information

The Group operates in one business segment being New Zealand rural land.

Included in the Group's total rental income, more than 10% was received from four significant customers, Performance Livestock Limited, Sustainable Grass Limited, Performance Dairy Limited, and WHL Capital Limited. The total rental income derived in the 6 month period ended 31 December 2022 from these customers was $0.679 million, $0.584 million, $1.547 million, and $1.824 million respectively (year ended 30 June 2022: $1.358 million, $1.167 million, $3.095 million, and $2.029 million respectively). No other single customer contributed 10% or more of the Group's total rental income (year ended 30 June 2022: nil).

Included in the Group's total gross finance income, excluding gains on the fair value of derivative instruments, more than 10% was received as interest income from two significant customers. The total gross interest income derived in the 6 month period ended 31 December 2022 from these customers was $0.297 million and $0.610 million respectively (year ended 30 June 2022: $0.549 million and $1.1 million respectively). No other single customer contributed 10% or more of the Group's total finance income (year ended 30 June 2022: nil).

5 Investment properties

Investment property is property held either to earn rental income, for capital appreciation or for both.

Investment property is initially measured at cost and subsequently measured at fair value with any change therein recognised in profit or loss. Any gain or loss arising from a change in fair value is recognised in profit or loss.

Initial direct costs incurred in negotiating and arranging operating leases and lease incentives granted are added to the carrying amount of the leased asset.

Property valuations will be carried out at least annually by independent registered valuers.

Investment properties are derecognised when they have been disposed of and any gains or losses incurred on disposal are recognised in profit or loss in the year of derecognition.

Fair value of rural land investment properties:

31 December 2022

Location	Land area Hectares	Opening balance $'000	Additions [1] $'000	Lease fee amortisation $'000	Capitalised lease incentive [2] $'000	Revaluation gain $'000	Carrying value $'000
Canterbury	5,765	139,808	-	(4)	(89)	1,172	140,887
Otago	3,500	80,138	-	(2)	-	650	80,786
Southland	1,386	44,953	-	(18)	316	436	45,687
Fair value of investment properties		**264,899**	-	**(24)**	**227**	**2,258**	**267,360**

[1] Includes directly attributable acquisition costs.
[2] Net of amortisation.

5 Investment properties (continued)

30 June 2022

Location	Land area Hectares	Opening balance $'000	Additions [1] $'000	Lease fee amortisation $'000	Capitalised lease incentive [2] $'000	Revaluation gain $'000	Carrying value $'000
Canterbury	5,765	126,581	-	(8)	1,273	11,962	139,808
Otago	3,500	-	61,544	(30)	-	18,624	80,138
Southland	1,386	11,097	29,096	(5)	9	4,756	44,953
Fair value of investment properties		**137,678**	**90,640**	**(43)**	**1,282**	**35,342**	**264,899**

[1] Includes directly attributable acquisition costs.

[2] Net of amortisation.

5.1 Fair value measurement, valuation techniques and inputs

External, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, value the Group's investment property portfolio at least every 12 months. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The Group's investment properties were valued by Colliers International, with values applicable as at 31 December 2022.

Investment properties are classified as level 3 (inputs are unobservable for the asset or liability) under the fair value hierarchy on the basis that adjustments must be made to observable data of similar properties to determine the fair value of an individual property.

During the year there were no transfers of investment properties between levels of the fair value hierarchy. The valuation techniques used in measuring the fair value of investment property, as well as the significant unobservable inputs used are as follows:

The investment properties have been assessed on a fair value basis utilising the income approach for the Group's interest as lessor and a market approach to assess the reversionary value of the assets at the expiry of the current lease terms. The valuation includes the consideration made by the valuer for the applicable climate risks.

The net present value of the income provided under the lease agreements have been assessed to be above prevailing market leases for similar assets. This results in the Group's interest assessment in the leases being greater than the current fair value for the asset on the basis of the fee simple valuation.

Key inputs used to measure fair value:	**31 December 2022**	**30 June 2022**
Land growth rate	3%	3%
CPI	2%	2%
Discount rate	7.15%	7%
Terminal rate	6.65%	6.5%

5.2 Valuation methodology

Key valuation input	Description	Measurement sensitivity: Increase in input	Measurement sensitivity: Decrease in input
Land growth rate	The rate applied to the expected land value growth. Used in the income approach.	Increase	Decrease
CPI	The expected inflation increase applied to the lease income every three years. Used in the income approach.	Increase	Decrease
Discount rate	The rate applied to discount future cashflows, it reflects transactional evidence from similar types of property assets. Used in the income approach.	Decrease	Increase
Terminal rate	The rate used to assess the terminal value of the property. Used in the income approach.	Decrease	Increase
Market rental assessment	The valuer's assessment of the annual net market income per hectare attributable to the property. Used in the income approach.	Increase	Decrease

6 Forestry estate acquisition

NZL has an unconditional contract to acquire forestry assets of approximately 2400ha, located in the Whanganui/Manawatu region for approximately $63m subject to final costs (“the Acquisition”). The Acquisition and its associated costs are to be primarily funded from the proceeds of a 1 for 3 pro-rata rights offer in March 2023 to be made to existing shareholders to raise up to $38.5 million (“Equity Raising”). The success of the Equity Raising is dependent upon shareholders taking up the offer. To any extent that shareholders do not participate in the Equity Raising, NZL may place their shares with new investors following the close of the Equity Raising.

In addition to the proceeds of the Equity Raising, the Acquisition will be funded with $25.2 million of new debt, with total debt facility limits increased from $107 million to $131 million. Bank funding is conditional on final credit approval and NZL securing funding for the balance of the Acquisition purchase price. The Group also has an option with New Zealand Forest Land Limited (“NZFL”), where at the Group’s discretion it can require NZFL to invest up to $18m of equity in the estate. If the Group exercises that option then NZFL can sell its investment back to the Group after 18 months (post settlement at a floored price).

The Directors have considered NZL’s ability to fund the Acquisition and the related costs and are comfortable with being able to meet this commitment based on the current plans in place and outlined above. The Directors believe there are no material uncertainties and NZL remains a going concern.

In the unlikely event the Equity Raising is unsuccessful there are other options available that support the Groups ability to continue as a going concern. This includes, but is not limited to, additional funding options available to settle the acquisition such as the placement of financial products to new investors on negotiated terms or bridging finance given that two dairy farm assets are subject to put and call arrangements and are expected to be disposed of within the next 12 months.

The settlement date for the acquisition is 15 April 2023. A deposit of $6.2 million, being 10% of the total purchase price, was paid in November 2022.

7 Rental income

Rental income from investment property leased to clients under operating leases is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease, taking into account rent free periods. Where lease incentives are provided to customers, the cost of incentives are recognised over the lease term on a straight-line basis as a reduction to rental income.

	6 month period ended 31 December 2022	12 month period ended 30 June 2022
Gross lease receipts	5,452	7,416
Straight line rental adjustments	317	975
Amortisation of capitalised lease incentives	(88)	(176)
Rental income	**5,681**	**8,215**

7.1 Operating lease income commitments

The Group has entered into investment property leases (as lessor) which have remaining non-cancellable lease terms of between 10 and 11 years.

Future minimum rental receivables under non-cancellable operating leases are as follows:	6 month period ended 31 December 2022	12 month period ended 30 June 2022
Within 1 year	11,338	11,338
After 1 year but not more than 5 years	45,353	45,353
More than 5 years	50,588	63,296
Total property operating lease income	**107,279**	**119,987**

The commitments above are calculated based on the contract rates using the term certain expiry dates of lease contracts. Actual rental amounts in future may differ due to CPI adjustments within the lease agreements.

8 Finance income and expense

Finance income includes interest income derived from financial assets and any gain on fair value of derivative instruments. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Finance expense includes interest expense incurred on borrowings and any loss on fair value of derivative instruments. Interest expense is recognised using the effective interest method. Gain on fair value of derivative instruments details are included in note 13.

	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Finance income		
Interest income	919	1,660
Gain on fair value of derivative instruments	671	1,890
Finance expense		
Interest expense	(2,615)	(2,408)
Net finance (expense) / income	**(1,025)**	**1,142**

9 Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from ‘profit before tax’ as reported in the consolidated Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

9.1 Income tax recognised in statement of comprehensive income

	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Current tax expense	-	-
Deferred tax expense / (benefit)	174	(567)
Income tax expense / (benefit)	**174**	**(567)**
Reconciliation of income tax expense to prima facie tax payable:		
Profit before tax	5,439	39,113
Income tax expense calculated at 28%	1,523	10,952
Effect of expenses that are not deductible in determining taxable profit	3	25
Effect of income that is not assessable in determining taxable profit	(632)	(9,896)
Tax depreciation	(720)	(1,540)
Prior period adjustment	-	(108)
Income tax expense / (benefit)	**174**	**(567)**

9.2 Deferred tax assets

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

31 December 2022	Opening balance $'000	Recognised in profit or loss $'000	Closing balance $'000
Lease fees	(62)	(1)	(63)
Lease incentives	(488)	(67)	(555)
Tax losses	1,637	(106)	1,531
Other	2	-	2
Total deferred tax asset / (liability)	**1,089**	**(174)**	**915**

9.2 Deferred tax assets (continued)

30 June 2022	Opening balance $'000	Recognised in profit or loss $'000	Closing balance $'000
Lease fees	(42)	(20)	(62)
Lease incentives	(131)	(357)	(488)
Tax losses	807	830	1,637
Depreciation on investment property	(112)	112	-
Other	-	2	2
Total deferred tax asset / (liability)	**522**	**567**	**1,089**

Key Judgement

The Group has chosen not to rebut the presumption in NZ IAS 12 *Income taxes* that the carrying value of investment properties will be recovered through sale.

10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	Dec 2022 $'000	Jun 2022 $'000
Cash at bank	1,942	1,004
Total cash and cash equivalents	**1,942**	**1,004**

11 Trade and other receivables

Trade receivables are non-derivative financial assets and measured at amortised cost less impairment.

	Dec 2022 $'000	Jun 2022 $'000
Trade receivables	41	1,054
Prepayments	228	312
Other receivables	-	45
Total trade and other receivables	**269**	**1,411**

12 Loan receivable

	Dec 2022	Jun 2022
	$'000	$'000
Non-current:		
McNaughtons home block	6,321	6,021
Makikihi Farm	12,823	12,533
Total loan receivable	**19,144**	**18,554**

On 1 June 2021, the Group acquired land at 30 Cooneys Road, Morven for $5.4 million and simultaneously entered into a lease and a put and call agreement with Performance Dairy Limited (PDL), a related entity to the vendor. Under the call agreement, PDL can acquire the land on 31 May in any year (providing a minimum 90 days notice has been provided) from the Group for $5.4 million plus 10% interest compounding annually. Under the put agreement, from 1 June 2023 the Group can require PDL to acquire the land on 31 May any year under the same pricing mechanism and notice requirements. The put and call option has a 99 year life.

On 2 August 2021, the Group acquired land at a North Canterbury Dairy Farm (Makikihi Farm) for $12 million and simultaneously entered into a lease and a put and call agreement with Makikihi Robotic Dairy Limited (MRDL), a related entity to the vendor. Under the call agreement, MRDL can acquire the land on 31 May in any year (providing a minimum 90 days notice has been provided) from the Group for 12 million plus 10% interest compounding annually. Under the put agreement, from 1 August 2023 the Group can require MRDL to acquire the land on 31 May any year under the same pricing mechanism and notice requirements. The put and call option has a 99 year life.

Key Judgement
The Group has determined that these arrangements have the substance of loans with 10% market interest rates per annum.

The loans are secured by a General Security Deed and cross guarantee from certain Van Leeuwen Group entities.

The loan receivable balances have been considered and determined no impairment is required at reporting date.

13 Derivatives

Derivative financial instruments, comprising interest rate swaps are classified as fair value through profit or loss ("FVTPL"). Subsequent to initial recognition, changes in fair value of such derivatives and gains or losses on their settlement are recognised in the consolidated statement of comprehensive income in finance income and expense.

	Dec 2022	Jun 2022
	$'000	$'000
Derivative assets	2,506	1,792
	2,506	**1,792**

14 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days from recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost.

	Dec 2022	Jun 2022
	$'000	$'000
Trade payables and accruals	436	908
GST payable	158	15
Total trade and other payables	**594**	**923**

15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. 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 the reporting date.

	Dec 2022 $'000	Jun 2022 $'000
Current borrowings:		
Rabobank facility	1,968	-
Non-current borrowings:		
Rabobank facility	105,000	100,768
Total borrowings	**106,968**	**100,768**

Dec 2022	Expiry date	Effective interest rate	Total $'000	Undrawn facility $'000	Drawn amount $'000	Fair value $'000
Bank facility A	1 June 2025	6.35%	46,000	-	46,000	46,000
Bank facility B	1 June 2024	6.20%	29,500	-	29,500	29,500
Bank facility B	31 January 2023	6.20%	2,000	32	1,968	1,968
Bank facility C	1 June 2026	6.50%	29,500	-	29,500	29,500
			107,000	**32**	**106,968**	**106,968**

Jun 2022	Expiry date	Effective interest rate	Total $'000	Undrawn facility $'000	Drawn amount $'000	Fair value $'000
Bank facility A	1 June 2025	4.01%	46,000	4,232	41,768	41,768
Bank facility B	1 June 2024	3.84%	29,500	-	29,500	29,500
Bank facility C	1 June 2026	4.14%	29,500	-	29,500	29,500
			105,000	**4,232**	**100,768**	**100,768**

The Group has entered into a revolving credit facility agreement with Rabobank on 21 May 2021 and renewed on 8 December 2022 and 28 December 2022. The facility agreement has a limit of $107,000,000 with floating interest rates ranging over the three tranches of the debt. Interest is payable quarterly in arrears.

There is a general security deed over all of the assets of the Group as security of the borrowings.

The terms of the borrowings includes the following covenants that the Group must ensure at all times:

- Interest coverage ratio is greater than 2.0;
- Loan to valuation ratio does not exceed 40%; and
- Capital expenditure in each financial year shall not exceed 120% of the budgeted forecast capital expenditure.

The Group has complied with the financial covenants of its borrowing facilities during the 6 month period to December 2022.

16 Issued capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

	Notes	$'000	No. of ordinary shares
Authorised and issued			
Balance at 1 July 2021		93,514	78,930,970
Rights issue to existing shareholders (September 2021)		18,486	16,805,868
Rights issue to existing shareholders (June 2022)		16,366	15,586,890
Performance fee issued in ordinary shares		1,625	1,163,162
Dividend reinvestment plan issues	17	192	162,004
Transaction costs arising on issue of shares		(551)	-
Balance at 30 June 2022		**129,632**	**112,648,894**
Rights issue to existing shareholders (August 2022)		476	452,929
Performance fee issued in ordinary shares		4,115	2,499,747
Transaction costs arising on issue of shares		(43)	-
Balance at 31 December 2022		**134,180**	**115,601,570**

The June 2022 performance fee was settled with 2.5 million shares being issued in September 2022 at an equivalent of $1.6462 per share.

In August 2022, a rights issue to existing shareholders closed with 0.5 million shares being issued at $1.05 per share.

All shares have equal voting rights, participate equally in any dividend distribution or any surplus on the winding up of the Company. The shares have no par value.

17 Dividends

During the period, total dividends of $1.849 million were declared. An ordinary dividend of $0.016 per share with no supplementary dividend was issued in September 2022. No imputation credits were attached to the dividend.

18 Share based payment reserve

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

	Dec 2022 $'000	Jun 2022 $'000
Arising on share-based payments (performance fee)	495	4,115
Balance at end of the period	**495**	**4,115**

The share based payment reserve relates to the Manager's performance fee that is settled through the issue of shares. More details on performance fees are provided in note 20.1.

19 Remuneration of auditors

During the year the following fees were paid or payable for services provided by PricewaterhouseCoopers New Zealand as the auditor of the Group:

	Dec 2022	Jun 2022
Assurance and other services	**$'000**	**$'000**
Statutory audit services	102	96
	102	**96**

20 Related parties

20.1 Remuneration of the Manager

The Group has appointed an external manager, New Zealand Rural Land Management Limited Partnership through a signed management agreement. The Manager is responsible for all management functions of the Group, including:

- Providing administrative and general services;
- Sourcing and securing potential investors and communicating with investors;
- Sourcing opportunities for the sale and purchase of Land, and operators for lease agreements in respect of Land;
- Overseeing due diligence for and executing transactions for the sale and purchase, and leasing, of Land;
- Managing the Group's Property, including Land owned by the Group;
- Arranging regular valuations and audits of the Group; and
- Administering the payment of dividends and distributions in respect of the Group.

The Manager is remunerated via management fees, transaction fees and performance fees.

Fees paid and owing to the Manager:

	6 month period ended 31 December 2022		12 month period ended 30 June 2022	
	Fees charged $'000	Owing at 31 Dec $'000	Fees charged $'000	Owing at 30 June $'000
Basic management services fee	467	90	632	55
Land transaction fees	-	-	1,116	-
Leasing fees	-	-	150	-
Performance fee	495	495	4,115	4,115
Total	**962**	**585**	**6,013**	**4,170**

Management fee

A monthly management fee is payable equal to 0.5% per annum of the Group's Net Asset Value, calculated on a monthly basis. The total management fees for the period ended 31 December 2022 were $0.467 million (year ended 30 June 2022: $0.632 million).

Transaction fee

A fee is payable for the following transactions:

- For each purchase or sale of land, a fee equal to 1.25% of the acquisition or divestment cost of the land and improvements; and
- For each lease agreement entered into, a fee of $30,000.

Transaction fees incurred for the period ended 31 December 2022 were nil (year ended 30 June 2022: $1.116 million and $0.150 million) in relation to the purchase and lease fee components (respectively). The purchase fee for the comparable period was included in the initial carrying amount of the acquired investment property. The leasing fee for the comparative period has been added to the carrying value of the leased asset (being investment properties) as part of the initial direct costs of arranging the lease.

Performance fee

A performance fee is payable to the Manager when the Group's net asset value ('NAV') per share exceeds the Group's NAV per share in the immediately preceding financial year. This annual performance fee is calculated as 10% of the increase in NAV per share and is settled through the issue of ordinary shares based on the NAV per share at that date. NAV per share is adjusted for the impact of capital reconstructions (such as a rights issue at a premium or discount), with the intention of the calculation being neither prejudicial nor advantageous to the Company or the Manager. Half of the ordinary shares issued are held in escrow and cannot be sold for 5 years. The value of the performance fee in the 6 month period ending 31 December 2022 was $0.495 million (year ended 30 June 2022: $4.115 million). The shares will be issued to the Manager subsequent to balance date.

20.2 Key management personnel compensation

In addition to remuneration of the Manager outlined above, the Group paid directors fees during the period of $0.114 million (year ended June 2022: $0.217 million) in cash. There was no other compensation of key management personnel during the period.

21 Subsidiary

The consolidated Financial Statements incorporate the assets, liabilities and results of the subsidiary in accordance with the accounting policy described in note 2.4.

The following subsidiaries have been consolidated in the Financial Statements of the Group:

Name of entity	Country incorporated	Dec 2022 Equity holding	Jun 2022 Equity holding
NZRLC Dairy Holdings Limited	New Zealand	100%	100%
SSP NI Limited	New Zealand	100%	0%

22 Non-GAAP measures

Non-GAAP measures do not have a standard meaning prescribed by GAAP and therefore may not be comparable to information presented by other entities. These measures should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS.

22.1 Reconciliation of net profit after tax to adjusted funds from operations (AFFO)

Funds from operations ('FFO') is a non-GAAP financial measure that shows the Group's underlying and recurring earnings from its operations and is considered industry best practice for a property fund to enable investors to see the cash generating ability of the business. This is determined by adjusting statutory net profit (under NZ IFRS) for certain non-cash and other items. FFO has been determined based on guidelines established by the Property Council of Australia and is intended as a supplementary measure of operating performance. The Manager uses and considers Adjusted Funds From Operations ('AFFO') as a measure of operating cash flow generated from the business, after providing for all operating capital requirements including maintenance capital expenditure, tenant improvement works, incentives and leasing costs.

	Notes	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Net profit after tax		5,265	39,680
Adjustments			
Unrealised net (gain) in value of investment properties	5	(2,258)	(35,342)
Performance fee payable in shares	18	495	4,115
Unrealised net (gain) / loss on derivatives	8	(671)	(1,890)
Deferred tax expense / (benefit)	9.2	174	(567)
Amortisation of rent free incentives	7	88	176
Amortisation of lease fee		25	46
Funds from operations ('FFO')		**3,118**	**6,218**
FFO per share (cents)		**2.70**	**5.52**
Adjustments			
Incentives and leasing costs		(315)	(1,608)
Future maintenance capital expenditure[1]		(329)	(319)
Adjusted funds from operations ('AFFO')		**2,474**	**4,291**
AFFO per share (cents)		**2.14**	**3.81**

[1] Represents amounts set aside each financial period for future expected maintenance capital expenditure as considered prudent by the Manager. These amounts do not qualify for recognition as liabilities on the balance sheet under NZ GAAP.

22.2 Net assets per share and net tangible assets per share

The Group presents net assets per share and net tangible assets per share in these financial statements. The Group believes that these non-GAAP measures provide useful additional information to readers. Net tangible assets per share is a required disclosure under the NZX Listing Rules and net assets per share is a measure monitored by management and required for calculating the Manager's performance fee. The calculation of the Group's net assets per share, net tangible assets per share, and its reconciliation to the consolidated statement of financial position is presented below:

	Notes	Dec 2022 $'000	Jun 2022 $'000
Total assets		298,820	289,015
(Less): Total liabilities		(107,881)	(102,420)
Net assets		**190,939**	**186,595**
(Less): Deferred tax asset	9.2	(915)	(1,089)
(Less): Derivative asset	13	(2,506)	(1,792)
Net tangible assets		**187,518**	**183,714**
Number of shares issued ('000)		**115,602**	**112,649**
Net assets per share ($)		**1.6517**	**1.6564**
Net tangible assets per share ($)		**1.6221**	**1.6309**

23 Financial instruments

Categories of financial instruments:

As at 31 December 2022	**Financial assets/ liabilities at FVTPL**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**	**Total**
Assets	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	-	1,942	-	1,942
Trade and other receivables	-	41	-	41
Loan receivable	-	19,144	-	19,144
Derivative assets	2,506	-	-	2,506
	2,506	**21,127**	**-**	**23,633**
Liabilities				
Trade and other payables	-	-	436	436
Borrowings	-	-	106,968	106,968
	-	**-**	**107,404**	**107,404**

As at 30 June 2022	**Financial assets/ liabilities at FVTPL**	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**	**Total**
Assets	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	-	1,004	-	1,004
Trade and other receivables	-	1,099	-	1,099
Loan receivable	-	18,554	-	18,554
Derivative assets	1,792	-	-	1,792
	1,792	**20,657**	**-**	**22,449**
Liabilities				
Trade and other payables	-	-	908	908
Borrowings	-	-	100,768	100,768
	-	**-**	**101,676**	**101,676**

24 Financial risk management

The use of financial instruments exposes the Group to interest rate, credit and liquidity risks.

24.1 Interest rate risk

Interest rate risk is the risk that fluctuations in interest rates impact the Group's financial performance, future cash flows or the fair value of its financial instruments.

The Group's policy is to manage its interest rates using a mix of fixed and variable rate debt. To manage this mix, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rates for interest calculated by reference to an agreed-upon notional principal amount. These swaps are designed to economically hedge underlying debt obligations.

The Group's exposure to variable interest rate risk and the weighted average interest rate for interest bearing financial assets and liabilities as at 31 December 2022 was as follows:

	Dec 2022 $'000	Jun 2022 $'000
Financial assets		
Cash at bank	1,942	1,004
Financial liabilities		
Bank borrowings (net of economic impact of interest rate swaps)	64,968	76,768
Interest rate applicable at balance date		
Cash at bank	<1%	<1%
Bank borrowings (net of economic impact of interest rate swaps)	6.34%	4.00%

The following sensitivity analysis represents the change in interest expense if the floating interest rates on bank borrowings (net of economic impact from interest rate swaps) had been 2% higher or lower, with other variables remaining constant:

	Dec 2022		Jun 2022	
	Interest rate decrease of 2% $'000	Interest rate increase of 2% $'000	Interest rate decrease of 2% $'000	Interest rate increase of 2% $'000
Increase / (decrease) in interest expense	(1,299)	1,299	(1,535)	1,535

24.2 Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. Financial instruments which are subject to credit risk principally consist of cash, debtors and loans receivable. The Group’s exposure to credit risk is equal to the carrying value of the financial instruments.

The Group conducts credit assessments of tenants to determine credit worthiness prior to entering into lease agreements. This includes requiring tenants to have equity at least six times their annual lease obligations or provide other suitable security arrangements. Where appropriate, the Group will include guarantees and/or security from tenants within lease agreements to support rental payments. In addition, debtor balances are monitored on an ongoing basis with the result that exposure to bad debts is not significant.

The risk from financial institutions is managed by placing cash and cash equivalents with high credit quality financial institutions only. The Group has placed its cash and cash equivalents with ASB Bank Limited and Westpac New Zealand Limited, both who are AA- rated (Standard & Poor's).

The Group intends to further mitigate this risk in the future by expanding into other primary sectors in New Zealand, such as horticulture, viticulture, sheep and beef.

24.3 Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk mainly arises from the Group's obligations in respect of long term borrowings, derivatives and trade and other payables.

The Group monitors and evaluates liquidity requirements on an ongoing basis and generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has bank facilities available to cover potential shortfalls. The Group's approach to managing liquidity risk is to ensure it will always have sufficient liquidity to meet its obligations when they fall due under both normal and stress conditions.

The following table outlines the Groups' liquidity profile, as at 31 December 2022, based on contractual non-discounted cash flows:

As at 31 December 2022	Total $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
Trade and other payables	594	594	-	-	-
Borrowings [1]	123,328	8,784	35,115	79,429	-
Total	**123,922**	**9,378**	**35,115**	**79,429**	**-**

As at 30 June 2022	Total $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
Trade and other payables	923	923	-	-	-
Borrowings [1]	112,623	4,029	33,439	75,155	-
Total	**113,546**	**4,952**	**33,439**	**75,155**	**-**

[1] Includes contractual interest payments based on drawn down amounts at reporting date and assuming no repayments of principal prior to expiry date.

24.4 Capital risk management

When managing capital risk, the Manager's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other creditors.

The Group meets its objectives for managing capital through its investment decisions on the acquisition and disposal of assets, dividend policy, and issuance of new shares. This includes restricting debt to 40% of total assets and debt will generally be sought on interest-only repayment terms, subject to maintaining the 40% debt limit. The Group will also seek debt with mortgage security over the rural land acquired to secure the borrowings.

25 Earnings per share

Basic and diluted earnings per share amounts are calculated by dividing profit after income tax attributable to shareholders by the weighted average number of shares on issue.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

	Dec 2022	Jun 2022
Profit after income tax ($'000)	5,265	39,680
Weighted average number of shares for the purpose of basic and diluted EPS ('000)	114,636	93,510
Basic and diluted earnings per share (cents)	**4.59**	**42.43**

26 Reconciliation of profit after income tax to net cash flows from operating activities

	6 month period ended 31 December 2022 $'000	12 month period ended 30 June 2022 $'000
Profit and total comprehensive income for the period	5,265	39,680
Add/(less) non-cash items:		
Change in fair value of derivatives	(714)	(1,913)
Change in fair value of investment property	(2,258)	(35,342)
Performance fee payable in shares	495	4,115
Interest income accrual	(590)	(1,061)
Deferred tax	174	(567)
Lease incentives - rent free period	(228)	(1,283)
Interest expense accrual	(424)	530
Lease fee amortisation	25	46
Movements in working capital items:		
Decrease / (increase) in other current assets	1,240	(698)
(Increase) / decrease in income tax receivable	(3)	13
Increase in trade and other payables	121	70
(Decrease) / increase in income in advance	(579)	579
Net cash generated by operating activities	**2,524**	**4,169**

27 Contingent liabilities and contingent assets

There are no contingent liabilities or assets as at 31 December 2022 (30 June 2022: nil).

28 Capital commitments

Capital expenditure commitments	Dec 2022 $'000	Jun 2022 $'000
Forestry estate acquisition	55,906	-

There is a capital commitment to acquire a Forestry estate (note 6) as at 31 December 2022.

29 Subsequent events

Subsequent to balance date, the directors have approved an ordinary dividend of 2.03 cents per share to be paid on 10 March 2023.

On 28 February 2023, the 1 for 3 rights issue was approved by the Board as detailed in note 6.

There were no other material events subsequent to the balance date.

Independent auditor's report

To the shareholders of New Zealand Rural Land Company Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of New Zealand Rural Land Company Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2022, its financial performance and its cash flows for the six months then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the six months then ended;
- the consolidated statement of changes in equity for the six months then ended;
- the consolidated statement of cash flows for the six months then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated 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.

Independence

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

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of investment property As disclosed in note 5, the portfolio of investment properties comprising rural land in the Canterbury, Southland and Otago regions was valued at $267.4 million as at 31 December 2022. The valuation of investment properties is inherently subjective. A small difference in any one of the key market inputs, when aggregated, could result in a material misstatement of the valuation of investment properties. The valuations were carried out by an independent registered valuer selected by the Group. The valuer performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Valuation and Property Standards. The valuer used is a well-known firm, with experience in the market in which the Group operates. In determining a property's valuation, the valuer considers available market evidence, including recent property sales, and property specific information, such as current tenancy agreements and rental income earned by the asset. They then apply assumptions in relation to comparable sales data, land growth rates and discount rates, based on available market data and transactions to determine the overall property valuation. Due to the unique nature of each property, the assumptions applied take into consideration the qualities of the lessee, individual property characteristics, as well as the qualities of the property as a whole.	The valuation of investment properties is inherently subjective given that there are alternative assumptions and valuation methods that may result in a range of values. We obtained sufficient appropriate audit evidence to demonstrate management's assessment of the suitability of the inclusion of the valuation in the balance sheet and disclosures made in the financial statements were appropriate. In assessing the individual valuations, we performed the procedures outlined below. We held discussions with management and the valuers to understand: ● movements in the Group's investment property portfolio ● changes in the conditions of properties within the portfolio ● the impact of climate change and related risks on the portfolio ● the processes in place for the valuations. On a sample basis, and in conjunction with our own valuation experts, we performed the following procedures: ● obtained an understanding of the key assumptions to the valuation and assessed their appropriateness ● agreed key inputs to the underlying sale and purchase agreements and lease agreements for investment properties ● inspected the valuation models used by the valuers and assessed them for reasonableness ● critiqued and independently assessed, based on our experts' valuation knowledge, the work performed, including the valuation approach, assumptions and estimates made by the Group's valuer. We assessed the valuer's qualifications, expertise and their objectivity and found no evidence to suggest that their objectivity was compromised in the performance of their valuation. We found no evidence of bias in determining the values.

Funding requirements for forestry acquisition As disclosed in note 6, the Group has an unconditional contract to acquire forestry assets for approximately $63 million subject to final costs (the Acquisition). The Acquisition and its associated costs are to be primarily funded from the proceeds of a 1 for 3 pro-rata rights offer to be made to existing shareholders to raise up to $38.5 million (Equity Raising). The success of the Equity Raising is dependent upon shareholders taking up the offer. In addition to the proceeds of the Equity Raising, the Acquisition will be funded with $25.2 million of new bank debt. Bank funding is conditional on final credit approval and the Group securing funding for the balance of the Acquisition purchase price. The Directors have considered the Group's ability to fund the Acquisition and the related costs and are comfortable with being able to meet this commitment based on the current plans in place outlined above. Whilst the outcome of the proposed equity raise and finalisation of the additional debt is uncertain, the Directors believe that no material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern considering also other alternative options available to the Group. This is a key audit matter given the significance of these events and conditions to conclude on the Group's ability to continue as a going concern.	We have performed the following audit procedures to assess the Group's ability to continue as a going concern: • assessed and challenged management's forecasted cash flows and associated assumptions • reviewed agreements and correspondence between the Group and their funding provider to obtain an understanding of existing facilities and the proposed conditional funding • in conjunction with our PwC debt and capital markets expert, assessed the feasibility of and challenged management's plans to obtain the required funding from the bank and the proposed capital raise • considered possible alternative funding scenarios • considered the appropriateness of the Group's disclosures, with specific focus on the disclosure included in note 6. .

Our audit approach

Overview

Overall group materiality: $936,000, which represents approximately 0.5% of net assets.

We chose net assets as the benchmark because, in our view, the focus of the Group in its early stages is on net asset growth.

Following our assessment of the risk of material misstatement, a full scope audit was performed over the consolidated Group balances.

As reported above, we have two key audit matters, being:

- Valuation of investment property
- Funding requirements for forestry acquisition.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated 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 consolidated financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report (but does not include the consolidated financial statements and our auditor's report thereon). The annual report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of audit opinion or 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 in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated 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 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 to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated 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 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 consolidated financial statements.

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

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, 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 Company and the Company's shareholders, 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 Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 February 2023

Auckland