Granity Forest Limited

Financial Statements
for the Year Ended 28 February 2019

Contents *Page*

MARKHAMS WAVERLEY LIMITED
CHARTERED ACCOUNTANTS
WAVERLEY

SILKS AUDIT CHARTERED ACCOUNTANTS LTD

Granity Forest Limited

Client Directory
For the Year Ended 28 February 2019

Director

Roger Ralph Dickie
Awatea
State Highway 3
Waverley

Registered Office

87 Weraroa Road
Waverley

Accountants

Markhams Waverley Limited
87 Weraroa Road
Waverley

Auditors

Silks Audit Chartered Accountants Limited
156 Guyton Street
Whanganui

Bankers

Bank of New Zealand
124-126 Victoria Avenue
Whanganui

Solicitors

Horsley Christie
14 Victoria Avenue
Whanganui

Granity Forest Limited

Directors Annual Report
For the Year Ended 28 February 2019

The Board of Directors present their Annual Report including financial statements of the Company for the year ended 28 February 2019.

Directors interests:

Director holding office during the year was R R Dickie.

No entries were made into the company's register during the year.

The nature of the company's business is that of Afforestation, and there has been no change during the year

Administration fees of $4,536 and management fees & forest expenses of $16,185 have been provided to the company by companies in which R R Dickie, a director, has a controlling interest. These services were provided on normal commercial terms.

There were no company shares acquired or disposed of by directors during the year.

No employees or former employees were paid in excess of $100,000 in the year

There were no donations made by the company during the year

For and on behalf of the Board

_________________________ Director

Granity Forest Limited

Statement of Total Profit/Loss & Other Comprehensive Income
For the Year Ended 28 February 2019

	Feb 2019 $	*Feb 2018* $	*Budget* $
Operating Revenue			
Interest Received	17,757	4,493	60
Carbon Credit Sales (Net)	-	187,956	-
Insurance Proceeds for Storm Damage	-	211,854	-
	17,757	404,303	60
Forest Expenses			
Fire Control	300	265	300
Management & Supervision Fees	5,537	7,736	9,331
Plot Imputation	3,711	2,037	3,478
Environmental Standards Expense	338	-	-
	9,886	10,037	13,109
Operating Expenses			
Accountancy Fees	2,790	2,735	2,790
Administration	4,536	4,440	4,536
Audit Fees	1,995	1,850	1,595
Bank Fees	84	32	60
Compliance	89	-	772
Depreciation for Period	259	275	259
Legal Expenses	55	19	600
Meeting Costs	1,083	981	450
Repairs & Maintenance - Fences	-	75	-
Repairs & Maintenance - Tracks & Dams	3,945	5,969	2,500
Statutory Supervisor	2,000	2,000	2,000
Subscriptions - Forest Health, Research, Kyoto	647	617	645
Sundry Expenses	125	125	2,000
Valuation - Forest	159	464	464
Weed & Pest Control	141	-	1,200
	17,908	19,581	19,871
Standing Charges			
Insurance - Public Liability	583	530	610
Insurance - Plantations	21,455	15,382	15,801
Rates	2,865	2,808	2,044
	24,903	18,720	18,455
Total Expenses	52,697	48,338	51,435
Profit/(Loss) for Tax Purposes	(34,940)	355,964	(51,375)
Fair Value Movement -			
Plantation Revaluation Increase (Decrease)	1,769,000	736,000	-
Liability-free NZU Value Increase (Decrease)	255,850	-	-
Net Surplus/(Deficit)for Year before Tax	1,989,910	1,091,964	(51,375)
Less Provision for Taxation	557,175	305,750	-
Net Surplus/(Deficit) for Year	1,432,735	786,214	(51,375)
Other Comprehensive Income	-	-	-
Total Comprehensive Income	$1,432,735	$786,214	($51,375)

Note: This Statement must be read in conjunction with the accompanying Notes.

Granity Forest Limited

Statement of Changes in Equity
For the Year Ended 28 February 2019

	Share Capital $	Retained Earnings $	*2019* Total $
Opening Balance 1 March 2018	1,500,000	4,396,079	5,896,079
Comprehensive Income	-	1,432,735	1,432,735
Shares Issued			-
Dividends Paid			-
Transactions with Owners			-
Equity as at 28 February 2019	1,500,000	5,828,814	7,328,814

	Share Capital $	Retained Earnings $	*2018* Total $
Opening Balance 1 March 2017	1,500,000	3,609,865	5,109,865
Comprehensive Income	-	786,214	786,214
Shares Issued			-
Dividends Paid			-
Transactions with Owners			-
Equity as at 28 February 2018	1,500,000	4,396,079	5,896,079

Note: This Statement must be read in conjunction with the accompanying Notes .

Granity Forest Limited

Statement of Financial Position
As at 28 February 2019

	Note	Feb 2019	Feb 2018
		$	$
Current Assets			
Accrued Interest		3,782	507
Accounts Receivable		-	13,352
Cash and Cash Equivalents	5	507,323	533,943
Goods & Services Tax		5,494	3,293
NZ ETS Units		255,850	-
Provision for Taxation		800	459
		773,249	551,554
Non Current Assets			
Plantations			
Plantation Value		6,719,000	5,983,000
Revaluation for Year	7	1,769,000	736,000
	7	8,488,000	6,719,000
Property, Plant and Equipment	8		
Land		424,112	424,112
Land Improvements		4,048	4,307
		428,160	428,419
Total Assets		9,689,409	7,698,973
Less Liabilities			
Current Liabilities			
Accounts Payable		526	-
Non Current Liabilities	13		
Deferred Tax		2,360,069	1,802,894
		2,360,069	1,802,894
Total Net Assets		$7,328,814	$5,896,079
Represented by:			
Shareholders Equity			
Equity as at 28 February 2019	15	$7,328,814	$5,896,079

For and on behalf of the Board of Directors

________________ Director 24 June 2019

Note: This Statement must be read in conjunction with the accompanying Notes.

Granity Forest Limited

Cashflow Statement
For the Year Ended 28 February 2019

	Note	*Feb 2019*	*Feb 2018*
		$	$
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		14,482	4,918
Operating Income		13,352	198,501
Carbon Credit Sales		-	187,956
		27,834	391,375
Cash was applied to:			
Operating Expenses		51,912	48,539
Goods & Services Tax		2,202	1,696
Income Tax Paid		341	459
		54,454	50,695
Net Cash inflow (outflow) from operating activities	10	(26,620)	340,681
Cash Flows from Investing Activities			
Cash was applied to:			
Cash Flows from Financing Activities			
Cash was provided from:			
Net increase (decrease) in cash held		(26,620)	340,681
Cash at Start of Year		533,943	193,262
Cash at End of Year		$507,323	$533,943

Note: This Statement must be read in conjunction with the accompanying Notes.

SILKS AUDIT CHARTERED ACCOUNTANTS LTD SA

Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

1. **STATEMENT OF ACCOUNTING POLICIES**

Reporting Entity

The Financial Statements presented here are for the entity Granity Forest Limited, which is a company registered under the Companies Act 1993.

The financial statements of Granity Forest Limited are for a scheme registered under the Financial Markets Conduct Act 2013, and that these financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013. The company is applying Tier 1 reporting standards.

These financial statements were authorised for issue by the Director on the 24 June 2019.

Segmental Reporting

The entity operates in the forestry industry at locations in the North Island of New Zealand.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed, with the exception that certain assets specified below have been revalued.

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and comply with the NZ equivalents to International Financial Reporting Standards. The financial statements also comply with International Financial Reporting Standards. For this purpose, the Company has designated itself to be profit-oriented.

New Zealand dollars are Granity Forest Limited functional and presentational currency.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

i Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method. Due allowance is made for impaired receivables (doubtful debts). The resulting carrying amount for receivables is not materially different from estimated realisable value.

ii The forest plantations are recorded at fair value less estimated point of sale costs. Any gains or losses in the fair value of the forest are recorded in the Statement of Total Profit/Loss.

iii NZ ETS Units without any future liability attached to them have been recorded at fair value, and any subsequent gains or losses are recorded in the Statement of Total Profit/Loss.

iv Revenue on sales of goods is recognised when they are delivered and ready for use by the customer.

v Interest received is recognised on an accrual basis, with interest earned but not yet received recognised as an asset.

vi The entity is not a party to financial instruments with off balance sheet risk.

vii Property improvements, plant and equipment is recorded at cost less accumulated depreciation. Land is recorded at cost. Depreciation has been calculated on a diminishing value basis.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the Statement of Total Profit/Loss and is calculated as the difference between the sale price and the carrying value of the item.

Depreciation is provided for on a diminishing value basis on all tangible property, plant and equipment other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost or valuation less estimated residual value, over their estimated useful lives.

Major Depreciation periods are:
Land Improvements - average 33 years

viii Cash and cash equivalents include cash on hand, bank balances, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

ix For the purposes of the cashflow statement, cash includes cash on hand and deposits held at call with banks.

x The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of:

Taxable temporary differences, except those arising from initial recognition of goodwill and other assets that are not depreciated; and

Deductible temporary differences to the extent that it is probable that they will be utilised.

Temporary differences arising from transactions, other than business combinations, effecting neither accounting profit nor taxable profit are ignored.

Tax effect accounting is applied on a comprehensive basis to all temporary differences using the liability method. A deferred tax asset is only recognised to the extent that it is probable there will be future taxable profit to utilise the temporary differences.

xi The financial statements have been prepared on a GST exclusive basis, except for receivables and payables which are presented inclusive of GST.

Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

Changes in Accounting Policies

NZ ETS units were previously recorded at nominal cost value. However, to the extent that there is no liability attaching to units, these have been now been recorded at fair value.
There have been no other changes in accounting policies. All other policies have been applied on bases consistent with those used in previous years.

2. **AUDIT**

These financial statements have been produced subject to audit, please refer to Auditor's Report.

3. **RELATED PARTIES**

The company paid administration fees of $4,536 (2018 - $4,440) and management fees and forest expenses of $14,074 (2018 - 10,431) to companies in which R R Dickie, a partner, has a controlling interest. These amounts were charged on normal commercial terms and conditions. The amount outstanding at balance date was $526 (2018 - $0). No related party debts have been written off or forgiven during the year.

4. **BUSINESS**

The principal activity of Granity Forest Limited is that of Afforestation. The company grows pinus radiata for the purpose of selling the harvest in 2024.

5. **CASH AND CASH EQUIVALENTS**

	Feb 2019	***Feb 2018***
B N Z Current Account	84,607	212,958
Corporate Trust Limited	73,418	70,879
BNZ Term Deposit	225,000	75,000
Deposit - Investment Fund	124,298	175,106
	$507,323	$533,943

BNZ Term Deposit
The deposit is available to fund any future obligation that Granity Forest Limited may assume under its arrangement with other forest entities in the Roger Dickie Group Investment Fund. Granity Forest Limited will contribute towards forest losses sustained by other entities and not covered by the Group Investment Fund.

6. **PLANTATION DETAILS**

The plantation is comprised of Pinus Radiata trees planted in the Hastings District. The Net Stocked Area of approximately 269 hectares was planted in 1996. The forest is a consumable immature biological asset.

Reconciliation of Net Stocked Area	***Feb 2019***	***Feb 2018***
Opening Net Stocked Area (Approx.)	272	281
Less Area Harvested	-	-
Less Windthrow & Area Recalculation	(3)	(9)
Closing Net Stocked Area (Approx.)	269	272

7. PLANTATION REVALUATIONS

Valuer

The plantation was valued as at 28 February 2019 by Jeff Schnell, Registered Forestry Consultant (NZIF), of PF Olsen Limited, forest consultants and managers. The estimated fair value of the plantation is categorised within Level 3 of the fair value hierarchy.

Valuation Methodolgy

The valuation uses the following procedure:

i Future Yields are forecast.
ii Log prices are attached and harvest costs deducted to arrive at projected harvest revenues.
iii Projected clearfell revenues are reduced to account for attrition.
iv Future costs are added.
v The effect of taxation is modelled from a purchaser's perspective.
vi The resulting post-tax cashflow is discounted at the nominal discount rate, This generates a Net Present Value (NPV) by stand and by forest.

If the stand has a negative NPV after the discounting as above, then the stand value is assessed as the sum of the current replacement costs.

The fair value estimate excludes the value of the land and the improvements thereon.

Also excluded are any costs and revenues associated with subsequent crops, and any value arising from the Emissions Trading Scheme.

The key inputs used in obtaining fair value are as follows, along with their sensitivity to a significant increase or decrease.

Projected Yield

The growth potential was determined for each crop type based on measurement data supplied by the forest manager. Where a crop has not been measured, the indices estimated in the original prospectus have been used. A clearfell age of 28 has been assumed for the majority of the radiata crops. Some small stands have been assigned other clearfell ages to coincide with the harvesting of larger neighbouring stands. Yields have been projected from measured starting points (where data allows) using appropriate growth models. The Atlas Forecaster modelling system has been used. A significant increase in this input would increase the fair value of the plantation.

Log Prices

The radiata pine log prices used in the valuation have been derived from prices paid at the Gisborne and Napier ports over the past three years. An exception to this is the radiata domestic pulp price, which has been derived from the three-year average price (averaged to February 2019) as reported by MPI. They range from $54 to $186 per m3 depending on grade. Log prices for other species are taken from recent industry publications and other sources. A significant increase in this input would increase the fair value of the plantation.

Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

Projected Costs
All costs apart from rates have been assessed by PF Olsen, and are based on current industry standards and expressed in New Zealand dollars.

i Tending costs vary with the age of the trees and depending on the rate of growth. The projected age of the pre-harvest inventory is two years prior to clearfell at this point the harvest plan can be prepared which forms the basis of specific costings for the harvest. Prior to the pre-harvest inventory and harvest plan being prepared tending costs used in the valuation represents an average across all crop costs and may differ when a pre-harvest inventory and harvest plan is completed.

ii Annual costs for insurance, forest management and other costs have been expressed in dollars per hectare over the whole estate. Costs may vary from forest to forest depending upon a number of forest related management factors.

iii Clearfell harvest costs are defined as all costs from stump to price point defined as at wharf or mill gate. They include costs for logging and loading, road and skid formation, harvest management and cartage. Costs are based on current average contract costs. Some of these costs vary depending on the size and volume per hectare harvested.

iv Logging and loading costs are based on harvest operations in the North Island over the past year. These costs vary widely depending upon location of forest, terrain, and existing roading access. An average logging and loading cost is calculated for each crop type based on the proportion of area by terrain class. The estimate of the proportion of the area in each terrain class has been made by PF Olsen staff during the site visit carried out at the feasibility stage.

v Road and skid formation costs have been re-assessed this year using a consistent basis across all forests. PF Olsen carried out detailed assessment of road formation costs for a representative sample of four forests. This assessment used topographic maps, together with information collected during the field inspections. The modelling uses an average per hectare cost however the actual costs could differ when a pre-harvest inventory and harvest plan is carried out.

vi Harvest management costs are set at an average price for all crop types. This is based on current industry efficient costs for management of similar sized operations.

vii Cartage costs are based on a cost model which has been derived from current actual contract rates. Cartage distances are taken from the original feasibility reports. Until a pre-harvest inventory and harvest plan is completed, including where the logs will be sold, this cost could vary. Any significant change in costings or forest yield would affect the fair value of the plantation.

Discount Rate
The discount rate used in the estimate of the tree crop market value is important. The value estimate of young immature forests in particular is very sensitive to the choice of discount rate. The discount rate used represents a real rate of return, which is over and above inflation. Rates quoted by financial institutions are generally nominal rates, which include inflation. The discount rate selected of 6.0% (2018 - 6.5%) (the equivalent pre-tax discount rate is 8.1%) is based on rates derived from actual transactions in the last three years applied to post-tax cash flows. A significant increase in this input would decrease the fair value of the plantation.

Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

Impact of the Emissions Trading Scheme
In respect of the pre-1990 forest land the carbon credits allocation, in the valuer's opinion, does not impact on the tree crop market value estimate. In respect of the post-1989 forest land premiums may have been paid for this carbon trading opportunity. It has not as yet been possible to quantify this premium or conclude that such premium still applies to any or all post-1989 forests. This valuation therefore does not include any value in respect of this carbon trading opportunity. A significant increase in this input would increase the fair value of the plantation.

Quantitative Information About Unobservable Inputs
Average weighted stumpage is estimated at $ per hectare based on the expected log volumes and types.

Annual expenditure is based on the current estimate of the costs to be incurred with reference to prior costs incurred and the remaining silviculture program.

The discount rate used to derive the fair value is 8.1% pre-tax.

Inter-relationship With Fair Value Measurement
The estimated fair value would increase (decrease) if the average weighted stumpage was higher (lower).
The estimated fair value would increase (decrease) if the estimated annual expenditure was lower (higher).
The estimated fair value would increase (decrease) if the discount rate was lower (higher).
The estimated fair value would increase (decrease) if the log prices were higher (lower)
The estimated fair value would increase (decrease) if the harvest rotation age extents (comes forward)
The estimated fair value would increase (decrease) if the notional land value decreases (increases)

8. **PROPERTY, PLANT AND EQUIPMENT**

	Opening Value	Additions/ Deletions	Closing Value
Land and Improvements - 2018 Year			
Cost - December 1996	439,900	-	439,900
Accumulated Depreciation	(11,206)	(275)	(11,481)
Net Book Value	428,694	(275)	428,419
Land and Improvements - 2019 Year			
Cost - December 1996	439,900	-	439,900
Accumulated Depreciation	(11,481)	(259)	(11,740)
Net Book Value	428,419	(259)	428,160

The latest land valuation set by Quotable Value for rating purposes in August 2016 was $750,000

Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

9. EMISSIONS TRADING SCHEME

Granity Forest Limited has voluntarily deregistered from the Emissions Trading Scheme ("ETS") in relation to 269 ha of plantation forest.
The company holds 10,234 NZUs (2018 - 10,234) on the New Zealand Emission Unit Register. During the year, 0 NZU's were sold. Of the 10,234 NZU Units held at balance date, 10,234 are able to be sold liability free. The company elects to record the NZU's at Fair Value based on prices offered by brokers as at 28 February 2019 and this is $255,850 (2018 - $241,095)

	Feb 2019 No.	*Feb 2018* No.
Opening Units Held	10,234	20,467
Emissions Trading Units Sold	-	(10,233)
Emissions Trading Units Surrendered	-	-
Emissions Trading Units Allocation	-	-
Closing Units Held	10,234	10,234

10. CASH FLOW RECONCILIATION

Reconciliation of Cash Flows from Operating Activities.		
Reported Surplus for Year	1,989,910	1,091,964
Non Cash Item - Depreciation	259	275
Non Cash Item - Forest Revaluation	(1,769,000)	(736,000)
Non-Cash Item - NZU Revaluation	(255,850)	-
	(34,681)	356,239
Movements in Working Capital:		
(Increase)/Decrease in Accounts Receivable	13,352	(13,352)
Increase/(Decrease) in Accounts Payable	526	(476)
(Increase)/Decrease in GST	(2,202)	(1,696)
	11,677	(15,524)
Net Cash Flow from Operating Activities	($23,005)	$340,715

11. IMPUTATION CREDIT ACCOUNT

Balance as at 28 February 2019	$800	$459

12. EVENTS AFTER BALANCE DATE

There have been no significant events subsequent to balance date.

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Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

13. **INCOME TAX AND DEFERRED TAX**

Surplus before Tax	1,989,910	1,091,964
Prima Facie Tax at 28%	557,175	305,750
Permanent Differences		
Different Deferred Tax Rate	-	-
Income Tax Expense	557,175	305,750
Represented by:		
Deferred Tax	557,175	305,750
	557,175	305,750

DEFERRED TAX LIABILITY

	Total
28 February 2017	1,497,144
Charged to Income	305,750
28 Febuary 2018	1,802,894
Charged to Income	557,175
28 February 2019	2,360,069

14. **FINANCIAL INSTRUMENTS**

Interest Rate Risk

The company has no interest rate risk given that no money is owed to other financial institutions.

Credit Risk

Financial Instruments which potentially subject the company to credit risk principally consist of bank balances, deposits and accounts receivable as set out in the Statement of Financial Position. The amounts set out are the maximum exposures and are net of any recognised provision for losses on these financial instruments. No collateral is held for any of these amounts.

Concentration of Credit Risk

The company is not exposed to any concentration of credit risk.

Liquidity Risk

Liquidity risk represents the company's ability to meet its financial obligations on time. For the most part the company generates sufficient cash flows from its shareholders capital contributions to make timely payments and cashflow from the sale of surplus carbon units held. The financial assets risks are being managed in accordance with normal procedures. Cash Balance funds are held with BNZ which are monitored by the Trustee Supervisor.

Currency Risk

The company has no currency risk given that any financial instruments it deals with is all in New Zealand dollars.

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Granity Forest Limited

Notes to the Financial Statements
For the Year Ended 28 February 2019

Price Rate Risk

Price risk is the risk that the value of financial instruments and the interest margin will fluctuate as a result of changes in market interest rates. The risk is that financial assets may re-price at a different time and/or by a different amount than financial liabilities. The company considers that such risk is minimal given that no funds are owed to other financial institutions.

Financial Risk Strategy

The company risk management strategy is to use a combination of 100% equity finance from shareholders or revenue from interest received and the sale of carbon units.

15. **SHARE CAPITAL**

Authorised Capital

1,562,500 ordinary shares	1,562,500	1,562,500

Issued and Paid Up Capital

1,562,500 issued shares	1,562,500	1,562,500
Less uncalled shares of 62,500	(62,500)	(62,500)
Total Issued and paid up capital	$1,500,000	$1,500,000

All shares have equal voting rights and share equally in dividends and surplus on winding up.

16. **JUDGEMENT AND ESTIMATE UNCERTAINTY**

The preparation of financial statements of necessity involves judgement and estimation. The only significant estimation required for the period is the plantation valuation which involves factors such as expected discounted cashflow rates, harvest dates and current log prices at mill or at wharf, refer to the plantation note for details.

Forest Plantation

Granity Forest Limited is one of approximately 90 forests administered by Roger Dickie (NZ) Limited using a common forest manager, Forest Management New Zealand (FMNZ) and a common valuer PF Olsen Limited. With a forestry estate of this size PF Olsen is able to carry out rotational checks on selected forests to validate the accuracy of forest data that FMNZ provides for the purposes of the forest valuation.

Due to the nature of a growing forest it is not practical or economic to be physically counted each year. The treecrop valuation is how the underlying growing forest is represented in financial terms.

FMNZ has been providing forest management services to the company since inception and has been producing the required data for the forest valuer (PF Olsen). PF Olsen is, a forestry consultant in its own right and qualifies as an expert for financial reporting purposes.

PF Olsen in order to rely upon the physical data provided by FMNZ validates this information on a rotational basis in the following manner:

PF Olsen prepared the initial feasibility study that takes into account significant factors such as plantable area, topography and soils, climate, growth potential, forest development programme, planting and tending, and forecast yields.

Has knowledge of the geographic estate that the forest is growing in.

Inspects a subset of forests each year.

Carries out a ground-check map (to validate net stocked area, access).

Checks tending status, and uniformity of stocking, on a selection of stands (to validate measurement data provided).

Visual checks of stand condition (crop health, growth to date).

Checks for protection measures (e.g. water points, evidence pest control).

Seek explanations for any changes observed in net stocked area, crop typing.

17. ADOPTION OF NEW AND REVISED STANDARDS - (Early adoption of Standards, Interpretations and Modifications)

The company believes there will be no effects from accounting standards which have been issued but not yet effective.

18. CAPITAL COMMITMENTS & OPERATING LEASES

There are no capital commitments, biological asset commitments nor operating leases as at balance date (2018 nil).

19. CONTINGENT ASSETS & CONTINGENT LIABILITIES

There were no contingent assets nor contingent liabilities as at balance date (2018 nil).

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INDEPENDENT AUDITORS REPORT

To the Shareholders of Granity Forest Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Granity Forest Limited (the Company) on pages 3 to 16, which comprise the statement of financial position as at 28 February 2019, and the statement of total profit and loss and other comprehensive income, statement of changes in equity and cashflow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 28 February 2019, and its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). 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 Company 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were address in the context of our audit of the financial statements as a whole, and in forming our opinion. We do not provide a separate opinion on these matters.

Biological Assets (Plantations)

Why Significant

The Company's plantation (forest) asset value comprises the majority of the entity's net asset value. Management engages an independent registered forest valuer, PF Olsen, to determine the fair value of this asset.

As explained in the accounting policy 1(ii) the forest plantations are recorded at fair value less estimated point of sale costs.

How our audit addressed the key audit matter

To address the key audit matter, we:

- Assessed the competence, qualifications, independence and objectivity of the external valuer. We also obtained representation from them regarding their independence and the scope of their work;

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These valuations require the exercise of judgement on behalf of the valuer. Key amongst these judgements are:

- Discount rate
- Log prices
- Projected yields
- Projected costs

This complexity with the valuation model results in this being an area of audit focus.

Plantation valuations are performed annually and last carried out in February 2019.

- The appropriateness of the valuation methodology;
- The accuracy of the underlying data used for the valuation;
- Assess the significant input assumptions applied by the valuer for reasonableness compared to previous periods assumptions, and other market changes;
- Meeting with the valuer to understand the valuation process adopted. The purpose of the meeting was to identify and challenge the critical judgement areas in the valuation model and to confirm the valuation approach was in accordance with NZ IAS 41;
- Engage a Forestry expert appointed by us as auditors to review the key assumptions and judgements used in the valuation report;
- Assessed the adequacy of the related financial statement disclosures.

Other information

The directors are responsible on behalf of the company for the other information. The other information comprises the Directors Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based, on the work we have performed, 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 Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, 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 financial statements, the directors are responsible on behalf of the Company for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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

A detailed description of the auditors' responsibilities including those related to assessment of risk of material misstatement, evaluation of appropriateness of going concern assumptions and determining key audit matters are available on the external reporting board website: http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

Restriction on Distribution or Use
This report is made solely to the 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 Shareholders, as a body, for our audit work, for this report, or for the opinions we have formed.

Talia Anderson-Town
Silks Audit Chartered Accountants Ltd
Whanganui, New Zealand

Date: 24 June 2019