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Canterbury Mortgage Trust

The Manager:

Canterbury Fund Managers Ltd
Unit 6a, 212 Antigua Street
Christchurch 8011
Phone (03) 377 5201
PO Box 13229,
Christchurch 8141

Directors of the Manager:

Colin Anthony Gower
Warren Michael Johnstone

The Trustee:

Trustees Executors Limited
Level 5
10 Customhouse Quay
Wellington 6011

Tax Advisor:

PricewaterhouseCoopers
Christchurch

Auditor:

Ernst & Young
Christchurch

Bank:

ANZ Bank New Zealand Limited
Christchurch

Approval by Directors

For the Year Ended 31 March 2019

Authorisation for Issue

The Directors of Canterbury Fund Managers Limited (as manager) authorised the issue of these financial statements on 2 July 2019.

Approval by Manager

The Directors of Canterbury Fund Managers Limited present the financial statements of Canterbury Mortgage Trust Group Investment Fund for the year ended 31 March 2019.

Signed for and on behalf of the Manager,
Canterbury Fund Managers Limited

Director

Director

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 March 2019

	Notes	31 March 2019	31 March 2018
Revenue			
Legal Claim Settlement		6,250,000	-
Interest Income from Bank Accounts		421,154	382,078
Other Income		9	-
Total Revenue		6,671,163	382,078
Expenses			
Management Fees	8	272,107	282,193
Trustees Fees	8	11,441	16,234
Trustee- Additional Fees	8	7,930	52,338
Credit Consultancy		83,724	67,355
Legal Fees		626,799	1,217,775
Loan Review		7,360	38,883
Accountancy		7,745	11,170
Administration	8	23,491	18,996
Audit Fees		34,860	34,650
Bank Charges		1,839	2,093
		1,077,296	1,741,687
Bad Debt Expense		964,776	2,122,482
Bad Debts Recovered		(6,401,830)	(94,325)
Net Movement in Bad Debt Accounts		(5,437,054)	2,028,157
Total Expenses/(Gains) Net of Recoveries		(4,359,758)	3,769,844
Profit/(Loss) Before Taxation		11,030,921	(3,387,766)
Taxation		-	-
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year		\$11,030,921	\$(3,387,766)

These statements are to be read in conjunction with the accounting policies and notes on pages 7 - 16

STATEMENT OF CHANGES IN TRUST EQUITY

For the Year Ended 31 March 2019

	Notes	31 March 2019	31 March 2018
Trust Equity at Start of Period			
		10,501,883	20,247,475
Profit/(Loss) and Total Comprehensive Income/(Loss) for the Year		11,030,921	(3,387,766)
Repayments to Unitholders	5	(5,030,000)	(6,280,288)
PIE Tax Effect	6	(1,708,988)	(77,538)
Trust Equity at End of Period	4	\$14,793,816	\$10,501,883

BALANCE SHEET

As At 31 March 2019

	Notes	31 March 2019	31 March 2018
Trust Equity			
	4	\$14,793,816	\$10,501,883
Represented by:			
Assets			
Cash and Cash Equivalents		444,827	657,286
Term Deposits		13,243,829	8,506,683
Tax Pool Deposit		1,594,029	615,768
Advances	3,10	1,400,000	1,790,000
Management Services Prepayment	8	25,000	25,000
Total Assets		16,707,685	11,594,737
Liabilities			
GST	1,3	1,589,161	587,813
Unitholder Redemptions Payable		25,697	61,607
Trade and Other Payables		56,821	365,896
PIE Taxation Payable		242,190	77,538
Total Liabilities		1,913,869	1,092,854
Net Assets		\$14,793,816	\$10,501,883

These statements are to be read in conjunction with the accounting policies and notes on pages 7 - 16

STATEMENT OF CASH FLOWS

For the Year Ended 31 March 2019

	Notes	31 March 2019	31 March 2018
Cash Flows from Operating Activities			
Cash was provided from:			
Interest Received		421,154	382,078
Legal Claim Settlement		6,250,000	-
Other Income		9	-
		6,671,163	382,078
Cash was applied to:			
Payments to Suppliers		(385,023)	(1,479,998)
		(385,023)	(1,479,998)
Net Cash Inflow/(Outflow) from Operating Activities before changes in operating assets		6,286,140	(1,097,920)
Cash was provided from:			
Repayment of Mortgages		5,827,054	5,547,842
		5,827,054	5,547,842
Net Cash Inflow from Operating Activities	7	12,113,194	4,449,922
Cash Flows from Investing Activities			
Cash was provided from:			
ANZ Term Deposit		-	2,879,482
		-	2,879,482
Cash was applied to:			
ANZ Term Deposit		(4,737,146)	-
Tax Pool Deposit		(978,261)	(615,768)
		(5,715,407)	(615,768)
Net Cash Inflow/(Outflow) from Investing Activities		(5,715,407)	2,263,714
Cash Flows from Financing Activities			
Cash was applied to:			
Payments for Redemptions of Units		(5,065,910)	(6,219,109)
PIE Tax Paid		(1,544,336)	(779,281)
		(6,610,246)	(6,998,390)
Net Cash Inflow/(Outflow) from Financing Activities		(6,610,246)	(6,998,390)
Net Increase/(Decrease) in Cash held		(212,459)	(284,754)
Add Opening Cash Brought Forward		657,286	942,040
Ending Cash Carried Forward		\$444,827	\$657,286
Represented by:			
Cash and Cash Equivalents		444,827	657,286
		\$444,827	\$657,286

These statements are to be read in conjunction with the accounting policies and notes on pages 7 - 16

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2019

1 STATEMENT OF ACCOUNTING POLICIES**Statement of Compliance**

These financial statements have been prepared for Canterbury Mortgage Trust Group Investment Fund ("the Fund") by Canterbury Fund Managers Limited ("the Manager"), on behalf of Trustees Executors Limited ("the Trustee"), in accordance with the Trustee Companies Act 1967, the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the provisions of the Trust Deed.

The Manager acting in its capacity as Manager of the Fund is relying on a class exemption issued by the Financial Markets Authority ("FMA"). The FMA have issued an exemption for funds that are in the process of winding up, from certain provisions of the Financial Markets Conduct Act 2013 ("FMC Act"), requirements that would otherwise need to be complied with. The Financial Markets Conduct (Unit Trusts and Group Investment Funds being Wound Up – Securities Allotted under Securities Act 1978) Exemption Notice 2017 (the "Exemption") has now been enacted and is being relied on by the Manager.

Due to cost and additional compliance requirements, the FMA has recognised that for schemes in active wind up, full compliance with the FMC Act may outweigh the benefits for investors. Accordingly, the Manager and the Fund are exempt from:

- The requirement that the Trust have a governance document that meets the standards prescribed by sections 135(1) and (3); s127(1)(b); and s133(a) of the FMC Act;
- The requirement that the Manager be licensed as a manager as prescribed under s127(1)(c); s133(a); and s388(a) of the FMC Act;
- Sections 164 and 166(1) of the FMC Act, that would otherwise require the manager to have a "statement of investment policy and objectives". As the Fund is being wound up this is not applicable to the Trust and the Manager is exempted;
- The requirement under s218 of the FMC Act that the Manager must ensure that its registers are audited or reviewed in accordance with the FMC Act and regulations;
- Reconciling cash records daily as required under regulation 86(3). Notwithstanding reliance on this exemption, the Funds cash assets will be reconciled on a regular basis; and
- Regulation 87(1), which requires the Custodian of the Trust to engage an auditor in regards to processes relating to the handling of the scheme's assets. There is one mortgage security and cash remaining, with the Manager and Custodian relying on this exemption.

The Fund is domiciled in New Zealand and was established as a Group Investment Fund in accordance with the provisions of its Trust Deed dated 26 June 2001 (as amended).

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. For this purpose the Fund has designated itself as profit-orientated.

The financial statements comply with International Financial Reporting Standards ("IFRS").

Principal Activities

The Fund's principal activities were:

- Receiving investments from unitholders; and
- Making advances generally on first mortgage security, general security agreements or specific security agreements.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

On 11 February 2009 the former manager (Fund Managers Canterbury Limited) resolved that the Fund should be wound up and the assets realised to permit the pro rata repayment of capital to unitholders. Since that date, the activities of the Fund have been limited to the management and realisation of loans and the repayment of capital to unitholders.

Basis of Preparation

As noted above, on 11 February 2009 the former manager resolved to wind up the Fund and realise the assets. Accordingly, the going concern assumption is no longer appropriate. These financial statements have been prepared on a realisation basis. Non-performing loans are held at recoverable value after consideration of bad debts, impairment losses and costs of debt recovery as detailed in the loan loss provisioning policy below. Since there is no set date for the Fund wind down, operating expenses are recognised as and when incurred during the wind down process, rather than accruing for cessation costs upfront due to the uncertainty over the value of cessation costs.

The reporting currency is New Zealand Dollars. The accounting policies used in these financial statements are the same as adopted for the year ended 31 March 2018.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported.

Use of Estimates and Judgement

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following note:

Note 3 - Mortgage Advances and GST Payable

Estimates and judgements have been applied where advances are outstanding beyond normal contractual terms. The likelihood of the recovery of these advances is assessed by the Trustee and Manager. Any impairment loss is estimated with reference to the probability and timing of recovery, the cost of possible enforcement through security and related costs and sale proceeds.

SPECIFIC ACCOUNTING POLICIES

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

Revenue Recognition

Interest revenue is recognised using the effective interest method. This method allocates interest over the relevant period by applying the effective interest rate to the carrying amount of the financial asset. Legal claim settlements are recognised as revenue when the cash payments are received.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Distributions

In accordance with the Fund's Trust Deed, the Fund fully distributes its distributable income to unitholders. Since the decision to wind up, this has been by way of a pro rata allocation of distributable income to unitholders' individual accounts. Distributable income equals all income after deduction of fees, expenses, taxes and any amount the Trustee and Manager considers prudent to withhold to meet possible loan losses.

The distributions are recognised in the Statement of Changes in Unitholders' Funds (see Note 5).

Application and Redemptions

Applications and redemptions have been suspended since 22 July 2008 and since the decision to wind up the Fund in February 2009, the Fund has made pro rata repayments of capital to unitholders as funds have been realised. At balance date capital repayments of 87.5% of the unitholder balances held at suspension (approximately \$219.9m) have been made to all unitholders.

Financial Assets

Financial assets carried on the balance sheet include cash and cash equivalents, trade and other receivables and advances. Financial assets are initially recognised at their fair value plus transaction costs. Fair value is determined by a market valuation based on market interest rates.

Interest income and expense is recognised in accordance with effective interest rate method, while carrying amount of assets and liabilities is then adjusted to net realisable value.

Financial Liabilities

Financial liabilities carried on the balance sheet include trade and other payables, and are measured at amortised cost using the effective interest rate method.

Trust Equity

In accordance with the February 2008 Amendments to NZ IAS 32 and NZ IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation, unitholders' funds are defined as "puttable instruments" and classified as Equity.

Impairment of Assets

At each reporting date the Manager and Trustee review the carrying amounts of the Fund's assets to determine whether there is any indication that those assets have suffered an impairment loss/gain. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss/gain (if any). Impairment losses/gains directly alter the carrying amount of assets and are recognised in the Statement of Comprehensive Income.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current interest rate as all advances are at floating rates.

Impaired assets are any assets where there is significant doubt about the collectability of the amounts owing.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

Portfolio Investment Entity Taxation

From 1 October 2007 the Fund elected to be taxed as a Portfolio Investment Entity ("PIE"). As a PIE, the Fund allocates income or losses on a daily basis to each investor and deducts tax from that allocated income at the Prescribed Investor Rate ("PIR") for each investor. The tax that is paid to the Inland Revenue is not shown as income tax in the Statement of Comprehensive Income, rather it is shown as the PIE Tax effect in the Statement of Changes in Unitholders' Funds.

Current Tax

The Fund qualifies as a PIE for tax purposes. Under the PIE regime income is effectively taxed in the hands of the unitholders and therefore the Fund has no income tax expense. Accordingly, no income tax expense is recognised in the Statement of Comprehensive Income.

Under the PIE regime, the Manager attributes the taxable income of the Fund to unitholders in accordance with the proportion of their interest in the Fund. The income is attributed to each unitholder quarterly and taxed at the Unitholder's PIR which is capped at 28%.

Goods and Services Tax

The Fund is registered for GST and has filed a Business to Business (B2B) GST election with Inland Revenue. This entitles the Fund to reclaim a significant portion of the GST on its expenses. The Fund returns GST in relation to income received while in possession of properties and also where a property is sold by way of a mortgagee sale on behalf of GST registered mortgagors.

Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct method.

Operating activities: are the principal revenue producing activities of the Fund and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long term assets.

Financing activities: are activities that result in changes in the size and composition of the contributed equity of the Fund.

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments or other short term highly liquid investments, net of outstanding bank overdrafts.

Term deposits, which have maturities greater than 90 days, are classified as Investment activity and excluded from total cash and cash equivalents.

STANDARDS AND INTERPRETATIONS ON ISSUE NOT YET ADOPTED

At the date of authorisation of the financial statements, a number of Standards and Interpretations were on issue but not yet effective. We are not aware of any standards on issue but not yet effective which would materially impact the amounts recognised or disclosed in these financial statements.

2. EVENTS SUBSEQUENT TO BALANCE DATE

In April 2019, the High Court heard an application for removal of the caveat and an extension of the interim injunction (both referred to in Note 3). Judgement was delivered in late May 2019 removing the caveat and preventing further caveats from being lodged. The interim injunction was also lifted. However, the judgment has been appealed. An appeal hearing date has been fixed for 3 July 2019.

3. MORTGAGE ADVANCES

The Fund has one significant security remaining; being an earthquake damaged multi-storey building located at 96 Lichfield Street, Christchurch ("the property"). FM Custodians Limited, as custodian of CMT's assets, entered into possession as mortgagee of this building, with CMT pursuing a material damage insurance claim, which settled in June 2018.

The advance with a gross value of \$790,963 plus unpaid interest (31 March 2018: \$6,116,904 plus unpaid interest) was past due and is impaired. A total of \$(609,037) (31 March 2018: \$4,326,904) of bad debts was written off/ (back) against this advance. This advance constitutes 8.4% (31 March 2018: 15.4%) of total assets of the Fund.

As stated in Note 1, the basis of preparation of the financial statements is on a realisation basis.

Valuation of Mortgage Advances

The carrying value of the loan has been determined by an assessment of the expected recoveries based primarily on the existence of a conditional contract for sale of the property by the second mortgagee, discounted for the estimated time taken to recover the funds. At balance date there was significant uncertainty as to the value and timing of the future cash flows expected from the realisation of the remaining security. The ultimate recoveries may therefore be materially different from the carrying value depending on the eventual sale price of the property, and the costs of sale including legal costs.

In relation to the loan there are the following matters still to be resolved:

- GST treatment of the insurance proceeds totalling \$12,220,888, which is currently being taken through the dispute resolution process with the Inland Revenue ("IR"). The outcome of this process is not certain. GST on insurance payments is recorded as a liability of \$1,594,029 in the balance sheet; and
- An interim injunction ("the injunction"), granted in favour of the alleged lessee of the property, which prevented FM Custodians Limited, as mortgagee, from demolishing, selling or leasing the property and which the alleged lessee seeks on appeal to be restored and extended; and
- A caveat ("the caveat") lodged by the alleged lessee of the property against one of the titles to the property which prevented the second mortgagee's sale of the property and which the alleged lessee seeks on appeal to be restored.

4. TRUST EQUITY

	31 March 2019	31 March 2018
Unitholders Funds (Note 5)	14,764,881	12,141,188
Accumulated Undistributed Income (Note 6)	28,935	(1,639,305)
	<u>\$14,793,816</u>	<u>\$10,501,883</u>

5. UNITHOLDERS' FUNDS

	31 March 2019	31 March 2018
Opening Balance	12,141,188	18,076,014
Less Repayments to Unitholders	(5,030,000)	(6,280,288)
PIE Income/ (Loss) Allocated to Unitholders	9,362,681	423,000
Less PIE Tax Refundable by/ (Payable to) the IRD	(1,708,988)	(77,538)
Income/ (Losses) Applied to Investors (Net of PIE Tax)	7,653,693	345,462
Closing Balance	\$14,764,881	\$12,141,188

Units were issued at \$1 per unit. Unitholders' funds were invested for no fixed term. As described in Note 1 redemptions were suspended from 22 July 2008. The former manager resolved on 11 February 2009 to wind up the Fund. All units have equal rights in any surplus on winding up. To balance date, 31 March 2019, the Fund had repaid unitholders 87.5 cents of each dollar held at the time the decision to wind up was made (31 March 2018: 85.5 cents).

Fund Value as at 11 February 2009		251,400,936
Repayments to Unitholders:		
Year ended 31 March 2010	163,355,222	
Year ended 31 March 2011	33,944,706	
Year ended 31 March 2012	5,030,002	
Year ended 31 March 2013	6,280,020	
Year ended 31 March 2018	6,280,288	
Year ended 31 March 2019	5,030,000	
Total Repaid to Date	219,920,238	87.5%

6. ACCUMULATED UNDISTRIBUTED INCOME

	31 March 2019	31 March 2018
Income/ (Loss) Attributable to Unitholders	11,030,921	(3,387,766)
PIE Loss/ (Income) applied to Unitholders	(9,362,681)	(423,000)
Increase/ (Decrease) in Undistributed Income	1,668,240	(3,810,766)
Opening Balance	(1,639,305)	2,171,461
Total Accumulated Undistributed Income at Year End	\$28,935	\$(1,639,305)
PIE Tax Effect Allocated on PIE Income / (Losses)	1,708,988	77,538

The PIE Tax Effect has been calculated at the individual unitholder's PIR (Prescribed Investor Rate).

7. RECONCILIATION OF NET PROFIT WITH NET CASH FLOW FROM OPERATIONS

	31 March 2019	31 March 2018
Profit After Tax Plus	11,030,921	(3,387,766)
(Decrease)/ Increase from Net Repayment of Mortgages	5,827,053	5,547,842
Increase in Bad Debt Write Off	(5,437,053)	2,028,158
	11,420,921	4,188,234
(Decreases)/Increases in Working Capital Items:		
Trade, Other Payables and GST	692,273	261,688
Net Movements in Working Capital	692,273	261,688
Net Cash Flow from Operating Activities	\$12,113,194	\$4,449,922

8. RELATED PARTIES

The related parties are Trustees Executors Limited, who provide trustee services to the Fund, and Canterbury Fund Managers Limited who provide management services to the Fund.

Trustee fees were defined by the Prospectus and subsequently agreed between the parties at 0.1% (2018: 0.1%) on Investments up to \$50 million and 0.08% (2018: 0.08%) on Investments exceeding \$50 million. Plus time and cost during the wind up for matters outside the scope of the original trustee agreement.

Management Fees paid to Canterbury Fund Managers Limited were negotiated on its appointment, in September 2013, to be reimbursement for actual expenditure incurred in undertaking the role of manager.

The following transactions occurred during the period under review in regard to parties directly related to the Fund.

	31 March 2019	31 March 2018
Trustees Executors Limited - Fees and Costs		
Trustee Fees	11,441	16,234
Additional Fees	7,930	52,338
	\$19,371	\$68,572
Canterbury Fund Managers Limited - Management Fees		
BDO Management Fees	116,548	91,418
Wages and Consultants Fees	128,382	133,142
Other Operating Expenses	27,177	57,633
	\$272,107	282,193
Total Trustee and Managers Fees	\$291,479	\$350,765
Administration		
Fund Manager Software Service Charge	16,625	15,125
FMA registration fees and related costs	6,866	3,871
	\$23,491	\$18,996

Amounts Payable to Related Parties at Period End:

Canterbury Fund Managers Limited	21,706	30,073
Trustees Executors Limited	4,673	3,344

Amounts payable are unsecured and repayable at normal trade terms.

8. RELATED PARTIES (continued)

The personal client services division of Trustees Executors Limited invested in the Fund on behalf of its retail trust clients and as at 31 March 2019 held \$410,871 in the Fund (31 March 2018: \$333,457).

Amounts receivable from related parties at period end:

Canterbury Fund Managers Limited	\$25,000	\$25,000
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On appointment Canterbury Fund Managers Limited received an unsecured operating advance, of \$25,000, separately disclosed in the Balance Sheet. This advance provides the Manager with an operating fund, allowing the payment of expenses incurred in managing the Fund as they fall due and was agreed to by the Trustee.

9. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

Credit Risk

Credit risk is the risk that a counterparty will default on its obligation resulting in a financial loss to the Fund. Prior to the decision to wind up all prospective mortgagors were subject to lending criteria established by the former manager. These included maximum loan security value ratios, a demonstrated debt servicing ability and all advances are secured by first mortgage and/or general security agreement or specific security agreement. Approvals were by management, or by the board of directors of the former manager.

For the period since the commencement of the wind up the Fund has a credit risk on outstanding advances. The Fund's policy with regard to outstanding advances is that all expired loans are required to be repaid. The Fund, with the assistance of a third party credit consultant, is working to have the loans repaid or recover the outstanding amounts by realising securities held against the loans, with the Trustee monitoring the progress on an ongoing basis.

At balance date the maximum credit exposure (net of provisions and write-offs) of the Fund is \$16,707,685 (31 March 2018: \$11,594,737). Estimated collateral held in respect of advances of \$1,400,000 (31 March 2018: \$1,430,000) is by way of registered first mortgage.

At balance date \$13,688,656 (31 March 2018: \$9,163,969) or 81.93% (31 March 2018: 79.04%) of the Fund was invested with the ANZ Bank New Zealand Limited.

Liquidity Risk

Liquidity risk is the risk that the Fund may encounter difficulty in raising funds at short notice to meet its commitments and arises from the mismatch of the maturity of monetary assets and liabilities, and unitholder funds.

Management monitors the risk as follows:

- The Fund is being wound down, with funds being returned to unitholders only when sufficient reserves have been accumulated to make a repayment of capital.
- Expenses incurred protecting or realising the Fund's position on advances are paid as they fall due.
- All mortgages have expired and been called up. The Fund is working to realise its investment in the most efficient manner.

9. FINANCIAL INSTRUMENTS (continued)

a. Financial Risk Management Policies (continued)

The Fund monitors its liquidity position on an ongoing basis and maintains deposits at call which, together with funds received from mortgage repayments, enable the Fund to meet its commitments as they fall due.

To meet both expected and unexpected fluctuations in operating cash flows, the Fund maintains a stock of liquid investments. As a result of the Fund's resolution to wind up the Fund, the level of funds held to cover operating cash flows has been set to levels proportionate to the risk.

The remaining advance is significantly impaired and set as non-accruing. Interest rates on bank call and term deposit accounts are within the range of .25% to 4.0%. Interest rates can be reset daily for call accounts or on maturity of the term deposit.

While all financial assets/liabilities, other than term deposits, are ultimately at call the ability to liquidate a financial asset to repay unitholders is ultimately constrained by the timeliness to realise the asset. It is not possible to predict with any certainty when the remaining mortgage advances will be repaid.

Capital Management

The Fund has no externally imposed capital requirements other than those set out in the Trust Deed dated 26 June 2001 (as amended) and Investment guidelines. However, since the decision was taken to wind up the Fund, the focus has been on maximising loan recoveries. All surplus funds will be repaid to unitholders.

b. Quantitative Risk Exposure Disclosures

Concentration of Funding

	31 March 2019	31 March 2018
Canterbury Region	9,291,587	7,799,885
Other South Island Regions	2,254,208	1,836,565
North Island Regions	2,978,611	2,303,144
Offshore	240,475	201,594
	<u>\$14,764,881</u>	<u>\$12,141,188</u>

Funding is primarily from unitholders in the Canterbury region of New Zealand and excludes undistributed income as detailed in Note 6. Refer to Note 5 for details on movements in the balance.

Sensitivity Analysis

The Fund has been focused solely on the recovery of the remaining loan, which is significantly in arrears with no principle or interest payments being made by the borrower. It is not considered relevant or practical to calculate the Fund's sensitivity to changes in interest rates. The overall recovery of the loan is more sensitive to the property market and the outcome of the insurance claim, as these factors will determine the Fund's overall recovery on the remaining loan.

10. ASSET QUALITY

Impaired Assets	31 March 2019	31 March 2018
Opening Impaired Assets	1,790,000	13,471,120
New Impaired Assets	-	-
Net Bad Debt Reversal/ (Expense)	6,401,830	94,325
Impaired Assets Repaid/Written Off	(6,791,830)	(11,775,445)
Closing Impaired Assets	<u>\$1,400,000</u>	<u>\$1,790,000</u>

The impaired assets include the total amounts owing by the borrowers who are in arrears, not just the past due portion. The recorded amounts are net of write-downs for previously identified impairments.



Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF CANTERBURY MORTGAGE TRUST GROUP INVESTMENT FUND

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Canterbury Mortgage Trust Group Investment Fund ("the Fund") on pages 4 to 16, which comprise the balance sheet of the Fund as at 31 March 2019, and the statement of comprehensive income, statement of changes in trust equity and statement of cash flows for the year then ended of the Fund, and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements on pages 4 to 16 present fairly, in all material respects, the financial position of the Fund as at 31 March 2019 and its financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

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

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

Emphasis of matter – Basis of preparation of the financial statements

The financial statements have been prepared on a realisation basis as described in Note 1. This basis differs from the normal convention in that financial statements are usually prepared on the basis that the Fund will carry on business as a going concern. These financial statements include adjustments to the net book value of assets, reducing them to the amounts expected to be realised. Since there is no set date for the Fund wind-down, operating expenses are recognized as and when incurred during the wind-down process rather than accruing for the cessation costs. Our opinion is not qualified in respect of this matter.

Key audit matters

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

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

Valuation of Mortgage Advances

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> ▶ As disclosed in Note 3 of the financial statements, the Fund has one significant underlying security interest remaining in relation to its mortgage advances. An injunction and caveat over the remaining underlying security interest currently prevent the Fund from realising the underlying security. ▶ As discussed in Note 2 of the financial statements, a High Court judgement removing the caveat was delivered subsequent to balance date. However, that judgement has been appealed and the appeal hearing has not yet been heard. ▶ Significant uncertainty therefore exists over the \$1.4 million recorded value of mortgage advances at balance date, which represent 8.4% of the carrying value of all assets of the Fund. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▶ Obtaining an understanding of the status of the legal proceedings and the estimated value of the remaining security interest from the Manager and the Manager's contractors; ▶ Obtaining and reviewing correspondence from the Manager's lawyer advising on the current legal proceedings relating to the security interest. ▶ Reading the conditional contractual information supporting the estimated future cash flows from realisation of the security interest; ▶ Reviewing the discounted cash flow analysis prepared by the Manager to estimate the present value of uncertain future cashflows.

GST Payable on the Insurance Proceeds

Why significant	How our audit addressed the key audit matter
<ul style="list-style-type: none"> ▶ As disclosed in Note 3 of the financial statements, the Fund's GST treatment of insurance receipts totalling \$12.22 million (inclusive of GST if any) is currently in a dispute resolution process with Inland Revenue (IRD). The outcome of this process is not certain and so we consider this matter significant to our audit. ▶ A GST liability of \$1.59 million arising from the insurance receipts is recorded in the balance sheet at 31 March 2019. 	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▶ Obtaining and reviewing the Notice of Proposed Adjustment (NOPA) issued by IRD and Notice of Response (NOR) lodged by the Fund's tax advisor; ▶ Obtaining and reviewing the Fund tax advisor's correspondence with IRD; ▶ Involving our tax specialist to obtain an understanding of the status of the dispute resolution with the Fund's tax advisor and so the appropriateness of the Fund's recorded liability.

Information other than the financial statements and auditor's report

The Manager of the Fund is responsible for the other information, which includes the information in this report other than the financial statements and auditor's report.

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 during the audit, or otherwise appears to be materially misstated.

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

Manager's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- ▶ Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities internal control.
- ▶ Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concludes on the appropriateness of the Manager's use of the going concern basis of accounting. When such use is inappropriate and the Manager uses an alternative basis of accounting, we conclude on the appropriateness of the Manager's use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- ▶ Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



Chartered Accountants
Christchurch
3 July 2019

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