

PUNAKAIKI FUND LIMITED
Financial Statements

For the 6 months ended 30 September 2018

14 March 2019

Punakaiki Fund Limited

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For the 6 months ended 30 September 2018

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Punakaiki Fund Limited

Directors

For the 6 months ended 30 September 2018

	Appointed
Simpson, Amanda Rhean	22-Sep-16
Bennetts, Michael John	30-Sep-15
Berry, John Charles	30-Sep-15
Wiggs, Graeme Lance Turner	10-Apr-13

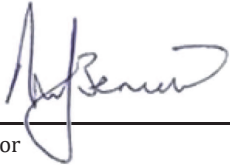
Punakaiki Fund Limited

Directors' responsibility statement

The directors are pleased to present the interim financial statements of Punakaiki Fund Limited for the 6 months ended 30 September 2018.

The Board of Directors of Punakaiki Fund Limited authorised the financial statements set out on pages 5 to 17 for issue on 14 March 2019.

For and on behalf of the Board



Director



Director

Punakaiki Fund Limited
Statement of comprehensive income

for the 6 months ended 30 September 2018

		6 months ended 30/09/2018 (Unaudited) \$'000	6 months ended 30/09/2017 (Unaudited) \$'000
	Notes		
Interest Income		1	2
Dividend Income		110	138
Change in fair value of investments	3.5	4,675	1,628
Other operating income		-	-
Accrued Performance Fees	5.3	(927)	(273)
Management Fees	5.1	(367)	(292)
Insurance		(21)	(15)
Consulting and Accounting Expenses		(56)	(11)
Audit Fees		-	(19)
Other		(10)	(13)
Profit before tax		<u>3,405</u>	<u>1,145</u>
Income tax expense		-	-
Profit and total comprehensive income		<u><u>3,405</u></u>	<u><u>1,145</u></u>

These financial statements are to be read in conjunction with the accompanying Notes

Punakaiki Fund Limited
Statement of financial position

at 30 September 2018

	Notes	30/09/2018 (Unaudited) \$'000	31/03/2018 (Audited) \$'000
ASSETS			
Current assets			
Cash and cash equivalents		1,691	735
Resident Withholding Tax receivable		33	31
Prepayments		3	26
Trade and other receivables		-	1
Total current assets		1,727	793
Non-current assets			
Investments	3.1	40,700	34,160
Total non-current assets		40,700	34,160
Total assets		42,427	34,953
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable		23	52
Total current liabilities		23	52
Non-current liabilities			
Performance fee payable	5.3	763	504
Total non-current liabilities		763	504
Total liabilities		786	556
Capital and reserves			
Issued capital	4	27,941	24,770
Share based payment reserve	4.1	1,963	1,295
Retained earnings	4.2	11,737	8,332
Total equity		41,641	34,397
Total equity and liabilities		42,427	34,953

These financial statements are to be read in conjunction with the accompanying Notes

Punakaiki Fund Limited
Statement of changes in equity

for the 6 months ended 30 September 2018

	Share capital \$'000	Share based payment reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 April 2017 (Audited)	17,773	1,449	8,581	27,803
Profit for the period			1,145	1,145
Total comprehensive income for the period	-	-	1,145	1,145
Contributed capital	1,800	-	-	1,800
Transaction costs	(54)	-	-	(54)
Share based payments in relation to performance fee	-	197	-	197
Balance at 30 September 2017 (Unaudited)	19,519	1,646	9,726	30,891
Balance at 1 April 2018 (Audited)	24,770	1,295	8,332	34,397
Total comprehensive income for the period	-	-	3,405	3,405
Contributed capital	3,222	-	-	3,222
Transaction costs	(51)	-	-	(51)
Share based payments in relation to performance fee	-	668	-	668
Balance at 30 September 2018 (Unaudited)	27,941	1,963	11,737	41,641

These financial statements are to be read in conjunction with the accompanying Notes

Punakaiki Fund Limited

Statement of cash flows

for the 6 months ended 30 September 2018

	6 months ended 30/09/2018 (Unaudited) \$'000	6 months ended 30/09/2017 (Unaudited) \$'000
Cash flows from operating activities		
Interest received	1	2
Dividend received	102	138
Payments to suppliers	(91)	(51)
Management Fees	(367)	(292)
Resident Withholding Tax refunded/(paid)	6	(10)
Net cash (used in)/generated by operating activities	(349)	(213)
Cash flows from investing activities		
Proceeds from sale of Investments	1,109	-
Payments to acquire Investments	(1,464)	(2,082)
Net cash (used in)/generated by investing activities	(355)	(2,082)
Cash flows from financing activities		
Proceeds from issue of equity instruments of the Company	1,712	1,800
Payment of transaction costs on issue of equity instruments	(51)	(54)
Net cash used in financing activities	1,661	1,746
Net (decrease)/increase in cash and cash equivalents	957	(549)
Cash and cash equivalents at the beginning of the period	734	2,843
Cash and cash equivalents at the end of the period	1,691	2,294

These financial statements are to be read in conjunction with the accompanying Notes

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

1 General information

Punakaiki Fund Limited ('Fund' or 'Company') is a company 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. The Company was incorporated on 10 April 2013. The Company is an investor in fast growing businesses. These interim financial statements are for the 6 months ended 30 September 2018.

2 Significant accounting policies

2.1 Statement of compliance and reporting framework

The interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with the New Zealand equivalent to International Accounting Standard 34 ("NZ IAS 34") *Interim Financial Reporting*.

The interim financial statements do not include all of the information required for full year financial statements and should be read in conjunction with the company's annual financial report for the year ended 31 March 2018.

Consistent accounting policies with the full financial statements for the year ended 31 March 2018 have been applied in preparation of these interim financial statements.

2.2 Basis of preparation

The Company is an investment entity as defined in NZ IFRS 10 and the method used for determining the fair value of the investments is consistent with the full financial statements for the year ended 31 March 2018.

3 Fair values of financial instruments

3.1 Investments in Equity Instruments

The Company has equity investments in a portfolio of early stage companies recognised at \$40.700 million (As at 31 March 2018: \$34.160 million). These investments are accounted for as financial assets at fair value through profit or loss. During the period, a net gain of \$4.675 million (6 months ended 30 September 2017: \$1.628 million) was recognised through profit and loss for these assets. The following tables give information about the Company's holdings and how the fair values of these investments are determined (in particular, the valuation technique(s) and inputs used). All of the following investments are Level 3 in the fair value hierarchy. This means the valuation techniques include inputs for which market observable data is not available (unobservable inputs).

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

3.1 Investments in Equity Instruments (continued)

Ownership Summary	2018 September			2018 March		
	Shares Held	Total Shares	Fund %	Shares Held	Total Shares	Fund %
Boardingware International Limited ¹	400,000	1,433,890	27.9%	400,000	1,400,000	28.6%
EverEdgeIP Global Limited ^{1,3}	3,937,915	13,159,542	29.9%	3,937,915	13,131,072	30.0%
Hayload Limited ²	4,338	18,618	23.3%	4,338	18,618	23.3%
InfluxHQ Limited ¹	182,491	724,881	25.2%	182,491	724,881	25.2%
Melon Health Limited ^{1,3,4}	568,211	2,285,415	24.9%	559,211	2,249,101	24.9%
Mindfull Group Limited ¹	327	1,670	19.6%	327	1,705	19.2%
Mobi2Go Limited	28,960	147,524	19.6%	24,828	143,392	17.3%
New Zealand Artesian Water Limited ¹	6,128	24,907	24.6%	6,128	23,025	26.6%
Onceit Limited ¹	25,625	100,000	25.6%	25,625	100,000	25.6%
Populate Limited	1,908,860	13,102,267	14.6%	1,908,860	13,102,267	14.6%
QA Tech Limited (Conqa) ¹	26,250	137,222	19.1%	26,250	137,222	19.1%
Raygun Limited	501,445	7,945,197	6.3%	501,445	7,945,197	6.3%
RedSeed Limited ¹	31,374	105,350	29.8%	14,400	109,750	13.1%
TD Limited	302,669	2,744,330	11.0%	302,669	2,744,330	11.0%
Timely Limited ³	63,647	1,662,417	3.8%	63,647	1,662,417	3.8%
Vend Limited ³	672,178	36,556,616	1.8%	672,178	34,356,616	2.0%
Devoli Limited ^{2,3}	2,219,600	5,499,000	40.4%	1,594,000	5,499,000	29.0%
Weirdly Limited ^{1,3}	115,113	365,468	31.5%	101,577	324,860	31.3%
Coherent Solutions ^{1,3}	44,253	279,677	15.8%	42,291	279,677	15.1%
Family Zone Cyber Safety Limited ^{3,5}	-	175,201,638	0.0%	1,913,708	134,500,000	1.4%

¹ Lance Wiggs, a director of LWCM and the Company is also a director of these companies.

² Chris Humphreys, a director of LWCM and a manager of the Company is also a director of these companies.

³ Excludes the dilutionary impact of employee and other options.

⁴ The Company also holds a convertible note in Melon Health.

⁵ The Company holds 1,900,000 Family Zone Cyber Safety Limited performance shares which convert into ordinary shares if certain performance thresholds are met.

Punakaiki Fund Limited
Notes to the financial statements

For the 6 months ended 30 September 2018

3.2 Fair value, valuation technique and unobservable inputs used in measuring investments

Fair value as at 30 September 2018 (unaudited)

Investment Type	Valuation technique(s) and unobservable input(s)	Fair value (\$)
1) Substantial & fast growing - Devoli - OncelT - Vend - Mindfull	Earnings multiple, or Revenue Multiple, or Market Value on Acquisition	\$15.030 million
2) Well-established businesses - Raygun - Timely - Melon Health - RedSeed - Mobi2Go - Everedge IP - Coherent Solutions	Market Value on Acquisition or Transactional Evidence or Revenue Multiple	\$16.350 million
3) Early Stage - Boardingware - Weirdly - InfluxHQ - ThisData - Populate - New Zealand Artesian Water - Hayload - Conqa	Market Value on Acquisition, Revenue Multiple or Transaction Evidence	\$8.900 million
4) Listed - Family Zone	Forecasting vesting data (including weighted multiples)	\$0.420 million
Total Investment at fair value		\$40.700 million

Fair value as at 31 March 2018 (audited)

Investment Type	Valuation technique(s) and unobservable input(s) used	Fair value (\$)
1) Substantial & fast growing - Devoli - OncelT - Vend - Mindfull	Market value on acquisition, or revenue multiple, or EBITDA Multiple	\$12.510 million
2) Well-established businesses - Raygun - Timely - Melon Health - RedSeed - Mobi2Go - Everedge IP - Coherent Solutions	Market value on acquisition, or Transaction Evidence, or Revenue Multiple	\$12.610 million
3) Early Stage - Boardingware - Weirdly - InfluxHQ - ThisData - Populate - New Zealand Artesian Water - Hayload - Conqa	Market Value on Acquisition, or Revenue Multiple or Transaction Evidence	\$7.320 million
4) Listed - Family Zone	Forecasting vesting data (including weighted multiples)	\$1.720 million
Total Investment at fair value		\$34.16 million

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

3.3 Unobservable inputs used in fair value of measuring investments

Unobservable inputs	Range(weighted average)	Sensitivity to changes in significant unobservable inputs
EBITDA multiple	14.4 - 16.0 (15.8) After discount: 10.8 - 12.8 (12.6)* (March 2018: 14.4 - 16.0 (15.8), After discount: 10.8 - 12.8 (12.6.X))*	The estimated fair value would increase if the EBITDA multiples were higher. The estimated fair value would decrease if EBITDA multiples were lower.
Revenue Multiple	1.7 - 19.0 (9.2) (After discount: 1.2 - 11.9 (6.5))* (March 2018: 1.7 - 19.0 (8.0), After discount: 1.2 - 11.9 (5.8))*	The estimated fair value would increase if the revenue multiples were higher. The estimated fair value would decrease if revenue multiples were lower.
Net Assets (modified)	N/A	The estimated fair value would increase if net assets were higher. The estimated fair value would decrease if net assets were lower.

56.6% of the total fair value of Investments are valued based on Market Value on Acquisition or Transaction Evidence (both observable inputs) and 43.4% of the total fair value of Investment are based on Revenue or EBITDA multiples (both unobservable inputs).

- * Aggregated discounts of between 20% and 37.5% (March 2018: 20% and 37.5%) are applied when estimating the fair value of investments valued using unobservable inputs to reflect applicable small company discounts, illiquidity discounts and control premiums. Aggregated discounts are applied after undiscounted multiples (the range for which is headlined above) are used in the valuation process. To illustrate the impact of these aggregated discounts they have been applied to undiscounted multiples and are disclosed as "After discount" multiples. After discount multiples provide a more accurate representation of the unobservable inputs used to value the investments.

Significant unobservable inputs are developed as follows:

- *EBITDA/Revenue multiples*: Represents amounts that market participants would use when pricing the investments. EBITDA/Revenue multiples are selected from comparable public companies based on geographic location, industry size, target markets and other factors that management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the enterprise value of the Company by its EBITDA or revenue.
- *Market value on acquisition or transaction evidence*: represents the price paid by the Company to acquire the investment (market value on acquisition) or the price paid by third parties to acquire equity instruments in the investee (transaction evidence). These approaches are appropriate where the investment by the Company or third party was completed close to balance date and there is no other information available indicating a significant change in the underlying fair value of the investment.
- *Net Assets (modified)*: represents the net assets of the investee at balance sheet modified for any factors that the Company believes are pertinent in deriving its fair value.

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

3.4 Sensitivity of fair value measurement to changes in unobservable inputs

Although management believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level three, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects on total equity.

	Favourable (Unfavourable)	
	\$'000	\$'000
2018 September		
Investments	45,900	35,500
2018 March		
Investments	37,640	30,920

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of the investments have been calculated by recalibrating the model values using unobservable inputs based on the Company's estimate of reasonable high (favourable) and low (unfavourable) estimates of EBITDA/revenue multiples (before aggregated discounts). The most significant unobservable inputs are earnings/revenue multiples.

The undiscounted revenue multiples used in our valuations at 30 September 2018 were 1.7 - 19.0 (with reasonably possible alternative assumptions of 2.2 - 24.7 (favourable) and 1.2 - 13.3 (unfavourable)) (March 2018: 1.7; 19.0; 2.2; 24.7; 1.2 and 13.3 respectively). Once adjusted for discounts of 22.5% - 37.5% , the revenue multiples at 30 September 2018 were 1.2 - 11.9.

The undiscounted EBITDA multiples used in our valuations at 30 September 2018 were 14.4 - 16.0 (with reasonably possible alternative assumptions of 18.7 - 20.8 (favourable) and 10.1 - 11.2 (unfavourable)) (March 2018: 14.4; 16.0; 18.7; 20.8; 10.1 and 11.2 respectively). Once adjusted for discounts of 20% - 25%, the EBITDA multiples at 30 September 2018 were 10.8 - 12.8.

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

3.5 Reconciliation of level 3 fair value measurements

The following table shows a reconciliation from opening to closing balances for fair value measurements in Level 3 of the fair value hierarchy.

	As at 30/09/2018 (Unaudited) \$'000	As at 31/03/2018 (Audited) \$'000
<i>Equity investments</i>		
Balance at beginning of period	34,160	25,540
Purchases - cash	1,464	6,783
Disposals - cash	(1,109)	(40)
Purchases - issue of shares	1,510	1,895
Change in fair value of investments	4,675	(18)
Balance at end of period	40,700	34,160

There have been disposals of investments of \$1.109 million (Year ended 31 March 2018: \$0.040 million) at carrying value therefore the full unrealised gain for the 6 months ended 30 September in fair value of investments of \$4.675 million (Year ended 31 March 2018: \$1.182 million) is included in the carrying value of investments at balance date.

4 Issued capital

	As at 30/09/2018 (Unaudited) \$'000	As at 31/03/2018 (Audited) \$'000
Issued capital comprises:		
1,809,674 fully paid ordinary shares (31 March 2018: 1,656,236)	27,941	24,770
	27,941	24,770

The Issued Capital set out above is net of transaction costs associated with raising new capital. Transaction costs for the 6 months ended 30 September 2018 were \$0.051 million (6 months ended 30 September 2017: \$0.054 million).

At 30 September 2018, there are no unpaid shares on issue (As at 31 March 2018: None) and no options on issue (As at 31 March 2018: None).

4.1 Share based payment reserve

	As at 30/09/2018 (Unaudited) \$'000	As at 31/03/2018 (Audited) \$'000
Balance at beginning of period	1,295	1,449
Arising on share-based payments (performance fee)	668	(154)
Balance at end of period	1,963	1,295

The share based payment reserves relates to the portion of the Manager's performance fee that is settled through the issue of shares rather than cash. More detail on performance fees is provided in note 5.3.

4.2 Retained earnings

	As at 30/09/2018 (Unaudited) \$'000	As at 31/03/2018 (Audited) \$'000
Balance at beginning of period	8,332	8,581
Profit attributable to owners of the Company	3,405	(249)
Balance at end of period	11,737	8,332

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

5 Related Party Transactions - Remuneration of the Manager

Lance Wiggs Capital Management Limited (LWCM) is the Manager of the Fund. Details of the remuneration of the Manager are provided below:

5.1 Management Fees

The Manager is entitled to an annual management fee of 2% of the Net Asset Value (NAV) of the Fund up to \$50 million and 1.5% thereafter. The management fee is calculated and paid quarterly in advance. During the 6 months ended 30 September 2018 the management fee paid was \$0.367 million (6 months ended 30 September 2017: \$0.292 million).

5.2 Equity Raising Fee

The Manager receives an equity raising fee of 3% of the total capital raised. During the 6 months ended 30 September 2018, \$1.712 million equity was raised and therefore \$0.051 million equity raising fee was charged (6 months ended 30 September 2017: \$0.054 million). No amounts were outstanding at 30 September 2018 (6 months ended 30 September 2017: None).

5.3 Performance Fee

On the occurrence of a Liquidity Event (as defined in the management agreement, but principally on Initial Public Offering (IPO) on a recognised exchange), the Manager receives a performance fee equal to 20% of the return over the subscription price of each Share Tranche provided the relevant Share Tranche has exceeded an annualised 10% return as at the date of the Liquidity Event (e.g. IPO). The performance fee, if payable at the Liquidity Event, would be settled 72% through the issue of ordinary shares and 28% in cash based on the current corporation tax rate in New Zealand.

During the 6 months ended 30 September 2018, a total expense of \$0.927 million (6 months ended 30 September 2017: \$0.273 million) has been recognised. Of this expense, \$0.259 million (28% of total expense) was recognised as an increase in the performance fee payable liability in relation to the cash settled portion of the performance fee and \$0.668 million (72% of total expense) was recognised as part of the share based payment reserve in relation to the equity settled element of the performance fee.

The Company has control over the timing of a Liquidity Event and does not expect one within 12 months from 30 September 2018, therefore the liability has been recorded as non-current.

5.4 Directors beneficial interests in the Company

At 30 September 2018, directors of the Company or LWCM holding a beneficial interest in shares of the Company were Lance Wiggs (63,614 shares), Michael Bennetts (49,500 shares), John Berry (9,658 shares), Amanda Rhean Simpson (6,600 shares) and Chris Humphreys (400 shares).

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

6 Financial risks

This note presents information about the Company's exposure to each financial risk and how those risks are managed.

6.1 Market risk

The Company is exposed to the risk of fluctuations in the fair value of its investments.

All equity investments and particularly those in early stage companies present a risk of loss of capital, often due to factors beyond the Company's control such as competition and changes in general economic climates domestically and internationally. The Manager moderates this risk through careful investment selection and diversification, and regular reporting to the Board.

In addition, all investments made by the Manager must comply with the criteria in the Management Agreement.

The maximum market risk resulting from investments is their fair value as reported in the statement of financial position.

The investments in Devoli Limited, Mobi2Go Limited and Onceit Limited are individually equal to or more than 10%, but less than 20% of total investments at balance date.

The Company has no significant interest rate or currency risk, but holds Family Zone shares with a value of \$0.420 million, which are traded in Australian dollars.

6.2 Credit risk

Credit risk arises principally from cash and cash equivalents.

The Company's cash and cash equivalents are all held with Bank of New Zealand, which is rated AA- based on rating agency Standard & Poors. The maximum exposure to credit risk is the carrying value at balance date.

6.3 Liquidity risk

At balance date, the Company had no significant liquidity risk.

6.4 Capital Risk Management

The Company's objective when managing capital (share capital and reserves) is to safeguard the Company's ability to continue as a going concern.

The Company is fully equity funded at this time. Our current expectation is additional investments will be funded through existing cash reserves or further equity raising.

The Company was not subject to any externally imposed capital requirements during the period.

Punakaiki Fund Limited

Notes to the financial statements

For the 6 months ended 30 September 2018

7 Subsequent Events

On 20 November 2018, Punakaiki Fund Limited completed a retail capital raising offer in New Zealand which resulted in the receipt of \$2,536,506 by Punakaiki Fund Limited and the issue of 117,977 new ordinary shares. On 18 December 2018, Punakaiki Fund Limited completed a wholesale capital raising offer in New Zealand which resulted in the receipt of \$64,500 by Punakaiki Fund Limited and the issue of 3,000 new ordinary shares. On 18 February 2019, Punakaiki Fund Limited completed a wholesale capital raising offer in New Zealand which resulted in the receipt of \$258,000 by Punakaiki Fund Limited and the issue of 12,000 new ordinary shares. Following these transactions, Punakaiki Fund Limited has 1,942,651 ordinary shares on issue and no options or other equity-type securities on issue.

Subsequent to the balance date, Punakaiki Fund Limited has made new investments in Weirdly, New Zealand Artesian Water, Boardingware, Melon Health, Mobi2Go, Coherent Solutions, Devoli and RedSeed. These investments total \$3.028 million in cash and were in the form of ordinary shares and convertible notes in those companies.

Subsequent to the balance date, the carrying value of 10 of 20 of Punakaiki Fund Limited's investments has changed in value. Three have been revalued downwards and seven have been revalued upwards. The drivers for these revaluations include fund raising activities by the investments at changed valuations, the operating performance of the investments and the Company investing further funds into these investments.

