

**CITY FORESTS LIMITED**

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# **CITY FORESTS LIMITED**

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**HALF-YEAR REPORT  
FOR THE SIX MONTHS  
ENDED  
31 DECEMBER 2020**

# CITY FORESTS LIMITED

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# **CITY FORESTS LIMITED**

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## **DIRECTORY**

**As at 31 December 2020**

### **DIRECTORS**

J F Gallaher (Chairman) – A.F.A., F.C.A., B Com., CF.Inst.D

T J Mephram – B Com., C.A., CF.Inst D

S A Mason – F.C.A., CM.Inst.D, B Com., B.A., cBA., DipGradBus., (Disp Res),  
AAMINZ (Appointed 1 October 2019)

K A Posa – BMS(Hons), CA. GAICD, CM.Inst.D. (Appointed 1 October 2019)

### **CHIEF EXECUTIVE OFFICER**

Grant Dodson – B.For.Sci, M.N.Z.I.F., M.Inst.D

### **REGISTERED OFFICE**

123 Crawford Street  
Dunedin  
New Zealand

### **BANKERS**

Westpac Banking Corporation

### **SOLICITORS**

Gallaway Cook Allan

### **ACCOUNTANTS**

Deloitte

### **AUDITOR**

Audit NZ on behalf of the Controller and Auditor General

# CITY FORESTS LIMITED

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## **DIRECTORS' REPORT**

**For the Six Months Ended 31 December 2020**

The Directors of City Forests Limited present their report on the activities of the Company for the period ended 31 December 2020.

### ***Dividends***

The Directors paid an interim dividend of \$2,000,000 and a special dividend of \$2,000,000 that represents a catch up from the previous financial year which was negatively impacted by Covid 19 in December 2020.

### ***Review of Operations***

This review of operations and the accompanying financial reports cover the first six months of the 2020 / 2021 financial year.

The Company experienced profitable trading conditions and delivered a \$4.940m profit after tax for the first six months of the 2020 / 2021 financial year. This is an improvement compared to the previous year (\$3.976m).

No serious harm injuries were recorded in Company operations during the period. The Company has met its Health and Safety targets during the period.

Forest production for the period was on budget as the Company progresses the harvesting of its projected sustainable cut for the year which includes a catch up of volume unable to be harvested in the later part of the previous year due to Covid-19 lockdown restrictions. The Company traded limited volumes of logs from third party suppliers during the period to ensure customer commitments were met.

There were no transactions of Carbon Credits (NZU's). No changes in the value of the Forest Estate were recorded during the period (see note 2).

The Company's log markets, particularly the China export market, have experienced a period of steadily increasing demand and pricing during the period. The domestic log market remains robust, however the Company's log supply to domestic mills has reduced due to the sale and restructuring of the Company's largest domestic customer Craigpine Timber. Logs have been diverted to alternative domestic customers where possible.

The log sale price increases in the China and Korea markets have been moderated in New Zealand Dollar terms due to increases in the cost of shipping and by an increase in the value of the New Zealand Dollar vs. the United States Dollar.

The international economic impact of the Covid-19 pandemic and a rise in geopolitical tensions particularly between Australia and China have impacted log markets in both positive and negative ways. These factors have been favourable for the China market but are creating challenges in the Korean market. Overall conditions are expected to remain volatile and changeable for some time.



# CITY FORESTS LIMITED

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## DIRECTORS' REPORT

For the Six Months Ended 31 December 2020

During the period, the Company has been successful in purchasing our joint venture partners' share of the tree crop at its Kaitangata joint venture area (288ha). The Company now owns 100% of the crop and the underlying land is under contract to be purchased pending subdivision. In addition, two new land areas (combined area of approximately 100ha) have been purchased including some small areas of tree crop. The purchases will increase both wood and carbon production from the forest estate. The purchase of the new forest area will be funded from cash flow and / or the sale of carbon credits and existing Company debt funding arrangements. Further acquisition opportunities are under investigation.

The Company has continued sponsorship agreements with Otago Natural History Trust (Orokonui Eco Sanctuary) which has been increased to \$60,000 this year (previously \$30,000), the Yellow Eyed Penguin Trust which has been increased to \$10,000 (previously \$5000) and the Wildlife Hospital Trust \$5,000. The Otago Peninsular Biodiversity Group sponsorship has ended during the period as this initiative is now funded by Predator Free Dunedin. Within the forest estate the Company is funding ecological research and protection activities for the NZ Falcon (Karearea) which is commonly found hunting and nesting in exotic forest areas. Operational pest control contributions continue to be made to Predator Free Dunedin.

### *Events Subsequent to Balance Date*

As noted above the Company has a purchase contract for two forestry blocks at Kaitangata which will transact following subdivision.

The long-term impacts of Coronavirus on the Company's export markets have yet to be fully determined. Currently customer orders are forthcoming across both the domestic and export markets, log prices are robust and customer credit terms are normal. Although markets are currently positive it must be noted that a combination of Covid-19 pandemic impacts and increased geopolitical tensions may lead to increased market and supply chain volatility over the coming period.

### *Statement of Responsibility*

The Directors accept responsibility for the preparation of the interim financial statements and the judgement used in them.

The Directors accept responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Directors, the interim financial statements fairly reflect the financial position and operations of City Forests Limited.

The Board of Directors of City Forests Limited have pleasure in presenting the interim financial statements, set out on pages 6 to 12, for the six months ended 31 December 2020 and authorises them for issue on Friday 12<sup>th</sup> February 2020.

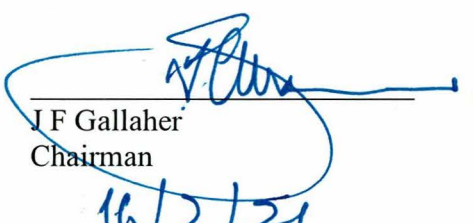
# CITY FORESTS LIMITED

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## DIRECTORS' REPORT

For the Six Months Ended 31 December 2020

On behalf of the Board of Directors:

  
\_\_\_\_\_  
J.F. Gallaher  
Chairman

\_\_\_\_\_  
Date

16/2/21.

  
\_\_\_\_\_  
T.J. Mepham  
Director

\_\_\_\_\_  
Date

16/2/21.

# CITY FORESTS LIMITED

## Trend Statement

	6 Months Ended 31 Dec 20 \$'000	6 Months Ended 31 Dec 19 \$'000	Year Ended 30 Jun 20 \$'000	Year Ended 30 Jun 19 \$'000	Year Ended 30 Jun 18 \$'000
<b><u>FINANCIAL PERFORMANCE</u></b>					
Domestic Revenue	5,583	4,801	9,553	11,831	13,043
Export Revenue	23,093	23,907	37,085	46,785	39,421
Other Revenue	567	221	576	432	1,514
<b>Total Revenue</b>	<b>29,243</b>	<b>28,929</b>	<b>47,214</b>	<b>59,048</b>	<b>53,978</b>
Percentage Increase (Annualised)	23.9%	(2.0%)	(20.0%)	9.4%	34.6%
Inventory Movement	(1,088)	(1,315)	(43)	86	237
<b>Total Expenses</b>	<b>28,411</b>	<b>26,202</b>	<b>48,484</b>	<b>48,484</b>	<b>39,683</b>
Percentage Increase (Annualised)	17.2%	8.1%	(5.2%)	5.9%	37.5%
<b>Operating Surplus</b>	<b>(256)</b>	<b>1,412</b>	<b>1,245</b>	<b>10,650</b>	<b>14,532</b>
New Zealand Carbon Credits	-	-	4,861	4,247	6,467
Gain in Fair Value of Forestry Asset	6,897	4,136	11,628	20,333	13,584
Write down value of land	62	-	(69)	(462)	(1,528)
<b>Surplus after Non-Operating Items and Before Taxation</b>	<b>6,703</b>	<b>5,548</b>	<b>17,665</b>	<b>34,768</b>	<b>33,055</b>
Income Tax	1,763	1,572	4,987	9,536	9,142
<b>Total Surplus after Taxation</b>	<b>4,940</b>	<b>3,976</b>	<b>12,678</b>	<b>25,232</b>	<b>23,913</b>
<b><u>SHAREHOLDERS' FUNDS</u></b>					
Shareholders Funds	208,494	191,720	201,816	184,759	160,343
Operating Cashflow	9,102	5,799	5,659	13,578	15,353
Dividends Provided – Normal	2,000	2,000	4,500	6,500	5,000
– Special	2,000	-	-	1,500	3,000
Value of Forest	171,699	165,128	169,150	164,010	150,172
Surplus after tax to shareholders funds	2.37%	4.15%	6.28%	13.66%	14.91%
Proprietorship Ratio	72.31%	72.05%	72.12%	71.60%	70.03%
Net Forest Revaluation	4,966	2,978	8,374	14,640	13,585
Net Land Revaluation	(220)	-	2,796	4,735	2,277
<b><u>FOREST STATISTICS</u></b>					
Forest harvested (m <sup>3</sup> )	198,074	170,722	310,100	336,374	303,922
Volume traded (m <sup>3</sup> ) (Outside Jobs)	1,718	18,107	27,093	31,967	44,014
Forest planted (ha)	619	599	970	765	739
Total forest (ha)	19,129	18,273	19,050	18,143	17,285
Forest purchased (ha)	58	-	-	38	244



# CITY FORESTS LIMITED

## Statement of Comprehensive Income For the Six Months Ended 31 December 2020

Note	Unaudited Six months to 31 December 2020 \$'000	Unaudited Six months to 31 December 2019 \$'000	Audited Year to 30 June 2020 \$'000
Sales revenue	28,676	28,708	46,638
Gain on sale of property, plant and equipment	330	8	24
Other revenue	275	200	516
New Zealand carbon credits	-	-	4,862
Financial income	2	13	36
Gain (loss) in fair value of forestry asset	6,897	4,136	11,628
<b>Total revenue</b>	<b>36,180</b>	<b>33,065</b>	<b>63,704</b>
Inventory movement	(799)	(1,315)	(43)
<b>Less expenses</b>			
Audit fees	38	20	48
Contractors	11,668	10,544	18,673
Cost of bush applied	7,520	4,859	9,441
Depreciation and amortisation expense	282	204	527
Donations	1	1	28
Directors fees	72	76	145
Employee expenses	789	773	1,537
Financial expenses	644	796	1,852
Rental expense on operating leases	1	8	3
Research expenditure	82	112	170
Shipping costs	5,517	5,757	8,446
Other expenses	2,064	3,052	5,126
<b>Total expenses</b>	<b>28,678</b>	<b>26,202</b>	<b>45,996</b>
<b>Profit before tax</b>	<b>6,703</b>	<b>5,548</b>	<b>17,665</b>
Income tax expense	1,763	1,572	4,987
<b>Net profit/(loss) after tax</b>	<b>4,940</b>	<b>3,976</b>	<b>12,678</b>
<b>Other comprehensive income</b>			
Gains/(loss) on cash flow hedges taken to equity	2,849	639	(7)
Tax effect of cash flow hedges taken to equity	(798)	(179)	2
Increase/(decrease) in land revaluation	(221)	-	2,875
Tax effect of land revaluation taken to equity	-	-	(78)
Carbon credits revaluation above initial recognition taken to equity	5,428	6,285	8,454
Tax effect of carbon credits taken to equity	(1,520)	(1,760)	(2,367)
<b>Other comprehensive income for the period</b>	<b>5,738</b>	<b>4,985</b>	<b>8,879</b>
<b>Total Comprehensive Income for the period</b>	<b>10,678</b>	<b>8,961</b>	<b>21,557</b>



# CITY FORESTS LIMITED

## Statement of Changes in Equity For the Six Months Ended 31 December 2020

	Share capital \$'000	Hedge reserve \$'000	Forest revaluation reserve \$'000	Carbon credit reserve \$'000	Land revaluation reserve \$'000	Retained earnings \$'000	Total equity \$'000
<b>Unaudited</b>							
<b>Equity as at 1 July 2020</b>	25,691	(399)	84,495	8,019	33,081	50,929	201,816
Profit after income tax	-	-	-	-	-	4,940	4,940
Other comprehensive income for the period	-	2,051	-	3,908	(221)	-	5,738
Dividend distributions	-	-	-	-	-	(4,000)	(4,000)
<b>Equity as at 31 December 2020</b>	25,691	1,652	84,495	11,927	32,860	51,869	208,494
<b>Unaudited</b>							
<b>Equity as at 1 July 2019</b>	25,691	(394)	82,027	5,697	30,285	41,453	184,759
Profit after income tax	-	-	-	-	-	3,976	3,976
Other comprehensive income for the period	-	460	-	4,525	-	-	4,985
Dividend distributions	-	-	-	-	-	(2,000)	(2,000)
<b>Equity as at 31 December 2019</b>	25,691	66	82,027	10,222	30,285	43,429	191,720
<b>Audited</b>							
<b>Equity as at 1 July 2019</b>	25,691	(394)	82,027	5,697	30,285	41,453	184,759
Profit after income tax	-	-	-	-	-	12,678	12,678
Other comprehensive income for the period	-	(5)	-	6,088	2,796	-	8,879
Transfer of carbon reserve	-	-	-	(3,766)	-	3,766	-
Revaluation of forestry assets	-	-	2,468	-	-	(2,468)	-
Dividend distributions	-	-	-	-	-	(4,500)	(4,500)
<b>Equity as at 30 June 2020</b>	25,691	(399)	84,495	8,019	33,081	50,929	201,816

# CITY FORESTS LIMITED

## Balance Sheet At 31 December 2020

	Note	Unaudited 31 December 2020 \$'000	Unaudited 31 December 2019 \$'000	Audited 30 June 2020 \$'000
<b>Equity</b>				
Share capital		25,691	25,691	25,691
Forest reserve		84,495	82,027	84,495
Land revaluation reserve		32,860	30,285	33,081
Hedging reserve		1,652	66	(399)
Carbon credit reserve		11,928	10,222	8,019
Retained earnings		51,868	43,429	50,929
<b>Total Equity</b>		<b>208,494</b>	<b>191,720</b>	<b>201,816</b>
<b>Current Liabilities</b>				
Trade and other payables		2,313	1,700	3,504
Other current liabilities		56	72	463
Employee provisions		186	158	170
Derivative financial instruments	7	-	106	399
Provision for taxation		6,136	6,305	3,670
Lease liability		128	70	110
Subvention payable		-	-	-
<b>Total current liabilities</b>		<b>8,819</b>	<b>8,411</b>	<b>8,316</b>
<b>Non-Current Liabilities</b>				
Derivative financial instruments	7	139	201	261
Term borrowings	8	15,800	13,600	17,000
Lease liability		501	432	479
Other liabilities		-	320	-
Deferred tax liability		54,591	51,394	51,962
<b>Total non-current liabilities</b>		<b>71,031</b>	<b>65,947</b>	<b>69,704</b>
<b>Total Liabilities</b>		<b>79,850</b>	<b>74,358</b>	<b>78,018</b>
<b>TOTAL EQUITY PLUS LIABILITIES</b>		<b>288,344</b>	<b>266,078</b>	<b>279,834</b>

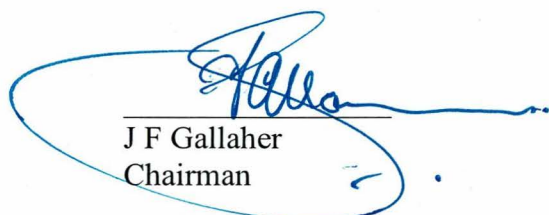
# CITY FORESTS LIMITED

## Balance Sheet (cont'd)

At 31 December 2020

		Unaudited 31 December 2020 \$'000	Unaudited 31 December 2019 \$'000	Audited 30 June 2020 \$'000
<b>Current Assets</b>				
Cash and cash equivalents		4,124	1,184	2,143
Trade and other receivables		2,163	3,691	3,333
Derivative financial instruments	7	1,422	134	33
Inventories		554	370	1,642
Prepayments		253	216	137
GST refund		163	170	280
Deposit on property purchase		105	1,905	105
Property intended for sale		-	480	1,770
<b>Total current assets</b>		<b>8,784</b>	<b>8,150</b>	<b>9,443</b>
<b>Non-Current Assets</b>				
Derivative financial instruments	7	1,012	264	73
Property, plant and equipment	5	69,426	59,337	69,165
Forestry assets	4	171,699	165,128	169,150
Investments		1	2	1
Intangibles – computer software		24	25	32
Intangibles – New Zealand carbon credits		37,398	33,172	31,970
<b>Total non-current assets</b>		<b>279,560</b>	<b>257,928</b>	<b>270,391</b>
<b>TOTAL ASSETS</b>		<b>288,344</b>	<b>266,078</b>	<b>279,834</b>

For and on behalf of the Board of Directors

  
J F Gallaher  
Chairman

  
T J Mepham  
Director

11<sup>th</sup> February 2021

# CITY FORESTS LIMITED

## Statement of Cash Flows

For the Six Months Ended 31 December 2020

	Note	Unaudited Six months to 31 December 2020 \$'000	Unaudited Six months to 31 December 2019 \$'000	Audited Year to 30 June 2020 \$'000
<b>Cash Flows from Operating Activities</b>				
<i>Cash was provided from</i>				
Receipts from customers		31,417	31,413	49,540
Interest received		2	13	35
Income tax refund		1,015	-	-
		<u>32,434</u>	<u>31,426</u>	<u>49,575</u>
<i>Cash was disbursed to</i>				
Payments to suppliers and employees		22,705	23,787	35,055
Interest paid		247	283	507
Income tax		-	-	6,995
Subvention		-	1,007	-
Effect of exchange rate changes		380	550	1,360
		<u>23,332</u>	<u>25,627</u>	<u>43,917</u>
<b>Net Cash Inflows / (Outflows) from Operating Activities</b>	<b>3</b>	<b>9,102</b>	<b>5,799</b>	<b>5,658</b>
<b>Cash Flows from Investing Activities</b>				
<i>Cash was provided from</i>				
Carbon credits sold		-	-	8,240
Sale of property, plant and equipment		1,575	10	517
		<u>1,575</u>	<u>10</u>	<u>8,757</u>
<i>Cash was disbursed to</i>				
Purchase of property, plant and equipment		792	2,170	9,507
Purchase of Forest Assets – Cost of bush		2,628	1,329	2,441
		<u>3,420</u>	<u>3,499</u>	<u>11,948</u>
<b>Net Cash Inflows / (Outflows) from Investing Activities</b>		<b>(1,845)</b>	<b>(3,489)</b>	<b>(3,191)</b>



# CITY FORESTS LIMITED

## Statement of Cash Flows (cont'd)

For the Six Months Ended 31 December 2020

	Unaudited Six months to 31 December 2020 \$'000	Unaudited Six months to 31 December 2019 \$'000	Audited Year to 30 June 2020 \$'000
<b>Cash Flows from Financing Activities</b>			
<i>Cash was provided from</i>			
Proceeds from borrowings	1,300	2,500	8,900
	<u>1,300</u>	<u>2,500</u>	<u>8,900</u>
<i>Cash was disbursed to</i>			
Lease payments	77	-	98
Repayment of borrowings	2,500	2,500	5,500
Dividends paid	4,000	2,000	4,500
	<u>6,577</u>	<u>4,500</u>	<u>10,098</u>
<b>Net Cash Inflows / (Outflows) from Financing Activities</b>	(5,277)	(2,000)	(1,198)
<b>Net Increase / (Decrease) in Cash Held</b>	1,980	310	1,269
Cash and cash equivalents at the beginning of the year	<u>2,143</u>	<u>874</u>	<u>874</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>4,124</u>	<u>1,184</u>	<u>2,143</u>
<b>Composition of Cash</b>			
Cash and cash equivalents	<u>4,124</u>	<u>1,184</u>	<u>2,143</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>4,124</u>	<u>1,184</u>	<u>2,143</u>

# **CITY FORESTS LIMITED**

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## **Notes to the Financial Statements** **For the Six Months Ended 31 December 2020**

### **1. REPORTING ENTITY**

City Forests Limited is a Council Controlled Trading Organisation as defined in the Local Government Act 2002. The company, incorporated in New Zealand under the Companies Act 1993, is a wholly owned subsidiary of Dunedin City Holdings Limited. Dunedin City Holdings Limited is wholly owned by Dunedin City Council.

The registered address of the company is 123 Crawford Street, Dunedin.

City Forests Limited is a profit orientated entity.

These financial statements have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and the Financial Reporting Act 2013.

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the company operates.

### **2. BASIS OF PREPARATION**

The financial statements for the period ended 31 December 2020 are unaudited.

The financial statements have been prepared in accordance with New Zealand Equivalents to International Reporting Standards 34, Interim Financial Reporting, and should be read in conjunction with the audited financial statements for the year ended 30 June 2020.

The accounting policies applied are consistent with those published in the annual report for the year ended 30 June 2020.

The judgement, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2020.

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd)

For the Six Months Ended 31 December 2020

### 3. RECONCILIATION OF NET SURPLUS FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited 31 December 2020 \$'000	Unaudited 31 December 2019 \$'000	Audited 30 June 2020 \$'000
Net gain/(loss) for the year	4,940	3,976	12,678
<i>Items Not Involving Cash Flows</i>			
Depreciation and loss on sale	579	204	576
Depletion of forest	7,520	4,860	9,441
Deferred tax	312	257	319
Depreciation recovered/capital gains	(360)	(8)	(104)
Forestry revaluation	(6,897)	(4,136)	(11,628)
Carbon credits allocated/revaluation	-	7	(4,862)
Write down value of land	62	-	69
Lease liability	13	-	21
Other non-cash items			
<i>Impact of Changes in Working Capital Items</i>			
(Increase)/Decrease in accounts receivable	1,170	1,146	1,505
(Increase)/Decrease in inventories	544	803	(469)
(Increase)/Decrease in prepayments	(116)	(90)	(11)
(Increase)/Decrease in tax refund due	2,466	809	(1,826)
(Increase)/Decrease in other current assets	116	(498)	(581)
Increase/(Decrease) in accounts payable	(1,262)	(1,660)	255
(Increase)/Decrease in other current liabilities	15	129	275
Net cash inflows/(outflows) from operating activities	9,102	5,799	5,658

# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2020

### 4. FORESTRY ASSETS

	Unaudited 31 December 2020 \$'000	Unaudited 31 December 2019 \$'000	Audited 30 June 2020 \$'000
Balance at the beginning of the year	169,150	164,010	164,010
Add Costs capitalized in establishing forests during the year	3,047	1,841	2,953
Increase in forest from acquisition	125	-	-
Forest revaluation	6,897	4,136	11,628
Less Cost of trees harvested at fair value	(7,520)	(4,859)	(9,441)
	171,699	165,128	169,150

The Directors of City Forests Limited revalue its forestry assets annually.

### 5. PROPERTY, PLANT AND EQUIPMENT

Opening balance	69,165	58,759	58,759
Plus purchases/(disposals)	(1,014)	1,258	9,815
Less impairment	-	-	-
Less property intended for sale	1,770	(480)	(1,770)
Less depreciation	(213)	(200)	(514)
Plus/Less revaluations	(282)	-	2,875
	69,426	59,337	69,165
Capital commitments	945	2,745	945

All assets are shown at cost with the exception of land which is held at fair value based on independent valuation from Morice Limited (30 June 2020 accounts only).

The Company has a conditional commitment to purchase \$0.945 million of land assets during the second half of the 2021 financial year.

### 6. FINANCIAL INSTRUMENTS

All financial assets are recognised at cost/face value while financial liabilities are recognised at amortised cost except derivative financial instruments which are recognised at fair value.



# CITY FORESTS LIMITED

## Notes to the Financial Statements (cont'd) For the Six Months Ended 31 December 2020

### 7. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 31 December 2020 \$'000	Unaudited 31 December 2019 \$'000	Audited 30 June 2020 \$'000
Assets:			
Forward foreign exchange contracts	2,434	398	106
	2,434	398	106
Liabilities:			
Forward foreign exchange contracts	-	107	440
Interest rate swaps	139	200	220
	139	307	660

### 8. TERM LOANS

Dunedin City Treasury loan facility	15,800	13,600	17,000
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### 9. CARBON CREDITS

Opening balance	31,970	26,894	26,894
Plus credits allocated	-	(7)	4,853
Plus/(less) revaluation	5,428	6,285	8,463
Plus/(less) sales	-	-	(8,240)
Closing balance	37,398	33,172	31,970

Carbon credits are revalued based on marked to market every 6 months. Credits allocated are valued at the current market price.

### 10. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2020, (prior period \$nil).