ANNUAL REPORT

DECEMBER 2017

DUXTON WATER LIMITED

ACN 611 976 517

CORPORATE DIRECTORY

Non-Executive Chairman
Edouard Peter

Non-Executive Director
Stephen Duerden

Independent Non-Executive Directors
Dirk Wiedmann
Peter Michell
Dennis Mutton

Company Secretary
Donald Stephens

Principal and Registered Office
7 Pomona Road
Stirling SA 5152
Telephone: (08) 8130 9500
Facsimile: (08) 8130 9599

Legal Advisors
Cowell Clarke
63 Pirie Street
Adelaide SA 5000

Share Registry
Computershare

Auditors
KPMG
151 Pirie Street
ADELAIDE SA 5000

Computershare Investor Services
Level 5, 115 Grenfell Street
Adelaide SA 5000

Stock Exchange Listing
Australian Securities Exchange
Share Code: D20
Option Code: D200

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CHAIRMAN'S LETTER TO SHAREHOLDERS

Monday 27 February 2018

Dear Shareholder,

We are pleased to present to you the annual report for Duxton Water Limited (ASX: D2O) for the year ending 31 December 2017, ending the Company's first full year of operation.

Duxton Water at 31 December 2017

Duxton Water Limited's (D2O) goal has been to provide our Shareholders with an accessible exposure to an emerging asset class in Australian Water Entitlements. In doing so we aim to capitalise on the intensification of Australian agriculture, of which irrigation water is a key input. Through our targeted investment strategy, we are providing both direct cash yield returns and capital growth exposure to the underlining water entitlements.

I am pleased to report that after the Company's first full year we have delivered a 12.54% return to shareholders inclusive of a 2.3c dividend in November (franked to 75%) as well as capital growth of the portfolio. The Company established a dividend reinvestment program providing shareholders with flexibility and choice between reinvestment or a cash dividend. With establishment and listing costs behind us, the Directors affirm our intention to "pass through" net generated returns of the portfolio to shareholders biannually.

On a fair market value basis, the net asset value of the Company has increased from $1.074 per share at 31 December 2016 to $1.180 per share at 31 December 2017.

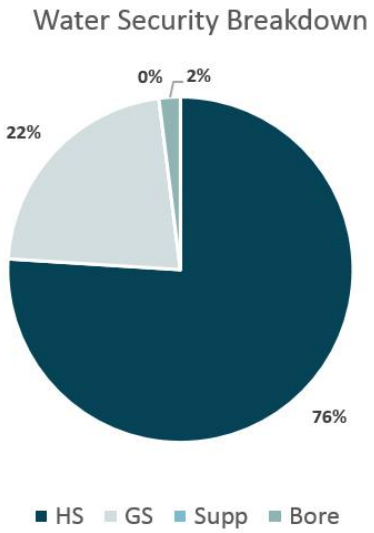
Below is a breakdown by zone of permanent water entitlements held by the Company as at 31 December 2017.

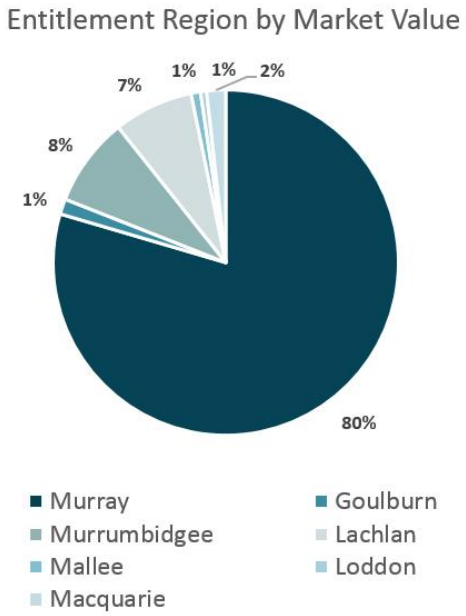
Entitlement type held	Volume held by portfolio (ML)
Victoria Zone 1A Goulburn High Reliability	207.50
Victoria Zone 3 Goulburn High Reliability	120.00
Victoria Zone 5 Loddon High Reliability	239.00
Victoria Zone 6 Murray High Reliability	3,987.60
Victoria Zone 7 Murray High Reliability	3,606.10
Victoria Zone 7 Murray Low Reliability	19.20
New South Wales Zone 10 Murray General Security	6,686.00
New South Wales Zone 11 Murray High Security	7,381.15
New South Wales Zone 11 Murray General Security	1,666.41
New South Wales Zone 11 Murray Supplementary	83.00
New South Wales Murrumbidgee High Security	1,813.00
New South Wales Lachlan Jemalong Irrigation General Security	2,660.00
New South Wales Lachlan General Security	5,110.00
New South Wales Lachlan Groundwater Aquifer	638.00
New South Wales Macquarie General Security	1,120.00
South Australia Murray High Security	921.58
South Australia Mallee Prescribed Wells Area – Parilla Red Zone	500.00
Total	36,758.54

Capital Deployment

After listing in September of 2016 and completing the acquisitions flagged through the IPO, the Board and the Investment Manager focused on deploying the balance of the funds raised. Twelve months ago, I reported that the company was on track to have fully committed the IPO proceeds within our first 6 months. At 31 December 2016 the Company's diversified portfolio held 24,430 ML of permanent water entitlements which had a total market value of $50.35 million. At this date, the Company also had additional funds of $17.33 million available for further water entitlement acquisition.

At 31 December 2017 the Company holds 36,759 ML of water entitlements with a total portfolio value of $86.3 million, as valued by Aither. Additionally, the company had entered into contracts for a further $2.32 million in entitlements. Whilst it remains the Directors' position that the Company will not hold long term debt, a decision was made in November 2017 to secure a debt facility. This has enabled the Company to continue to build the portfolio through the acquisition of assets with immediate yield potential, whilst smoothing capital deployment ahead of additional equity anticipated to be raised through the exercise of outstanding options. The Directors' have limited the debt facility to less than a 20% debt to equity level.





With increased irrigated development and a positive outlook for a number for irrigated agricultural industries through the Southern Murray Darling system, competition for water entitlement assets has remained strong. The full impact of new and proposed agricultural developments will not impact the water demand for a number of years as these projects become more established and the crops mature. Whilst over the past 12 months we have seen the capital value of held water rights increase between 10 to 20%, we do not believe the market had yet fully factored the further development of many industries, including increased nut plantings, a re-emergence of citrus and viticulture investment, and a shift toward cotton through the Murrumbidgee and Murray Valleys. The Investment Manager continues to take a targeted approach to building the portfolio, balancing both short term returns against longer term leasing opportunities and capital growth. We are confident of our ability to continue to deploy capital and build the portfolio through our market engagement and unique deal flow. The company will continue to target core areas of the Southern Murray Darling Systems with focus along the Murray, and Murrumbidgee river systems.

Revenue

The Company maintains the target of having between 70 to 80% of the portfolio leased out with terms of between 3-10 years. Returns from the remainder of the portfolio are derived through the sale of water allocation through the spot market. The split between leased and unleased water entitlements will shift over time as we accumulate further assets and negotiate new leases.

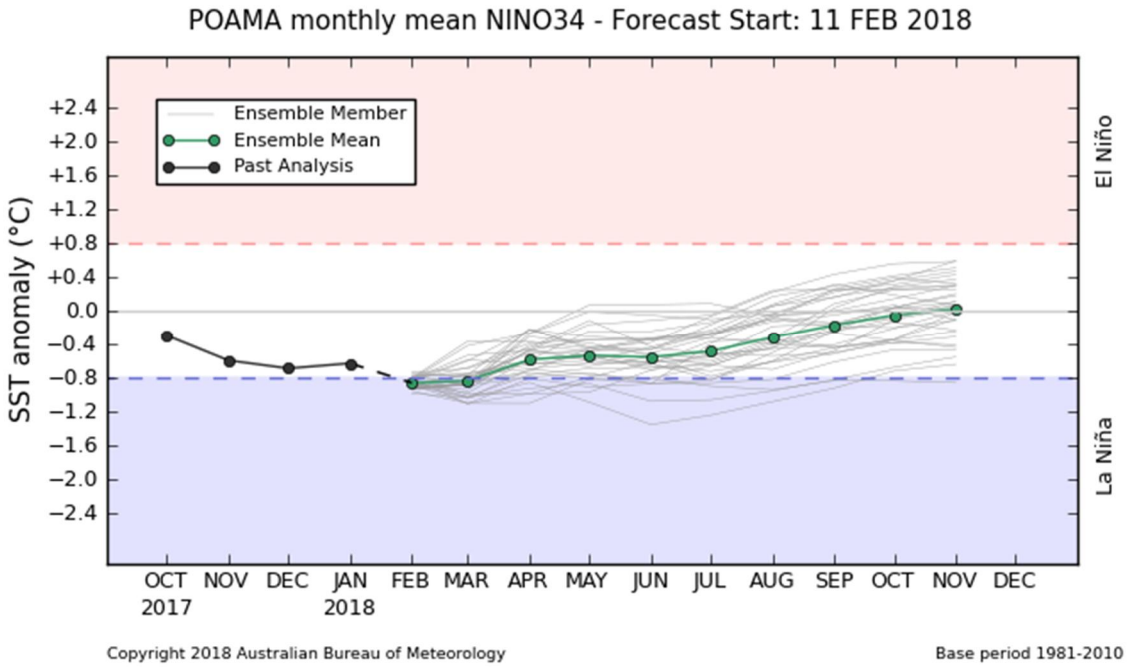
At 31 December 2017, leased water entitlements comprised 62% of the overall portfolio with a weighted average yield of 6.2% and a weighted average leased term of 5.48 years. During 2017, Duxton Water Ltd entered into three new lease agreements and began a number of discussions with potential future lessee's which are expected to come to fruition in the first half of 2018 ahead of the 2018/2019 water year.

At 31 December 2017 we had recorded sales of $1.65 million of water allocations. Allocation pricing was lower in the first half of the year with an average price recorded of $43.51/ML. This was due to the significant spring 2016 rainfall and lower 2016/2017 annual summer crop production. Conversely through the second half of 2017 we achieved an average price of $121.30/ML. Lower levels of inflow through winter/spring and significant annual crop production has seen stronger prices throughout the regions that we have exposure to. Due to the mix of entitlements that Duxton Water holds, the portfolio has delivered strong allocations over the period.

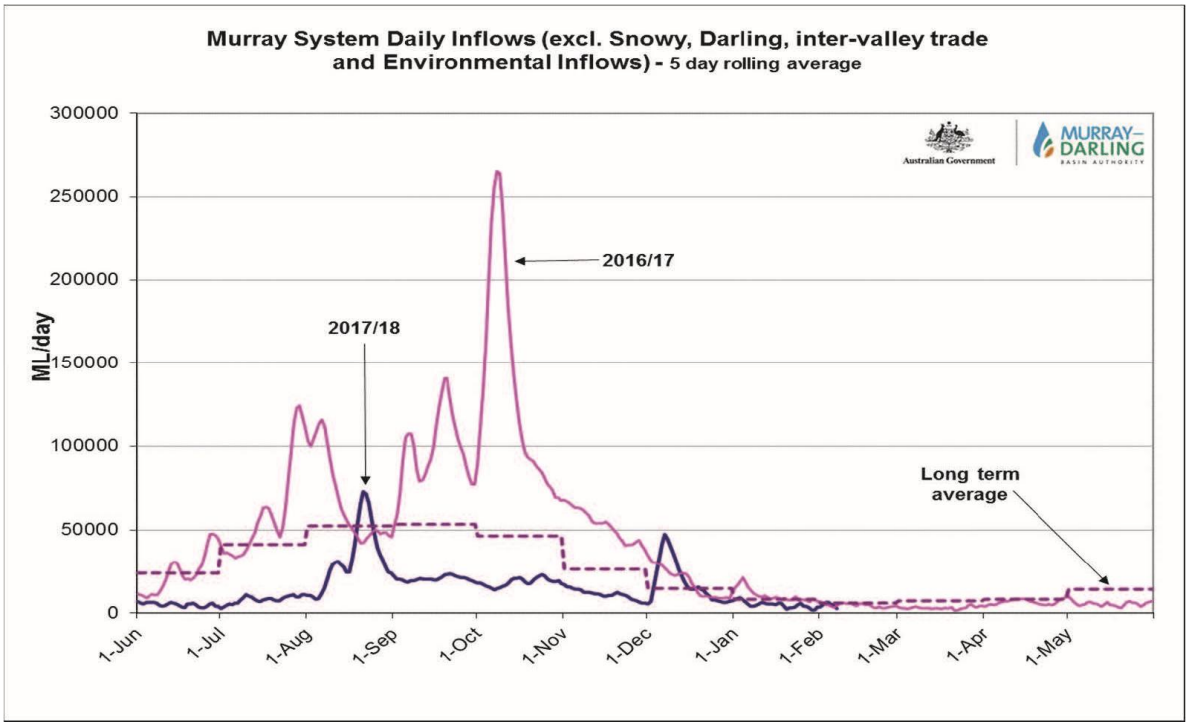
In December 2017 we sold fewer water allocations than we had expected, due to a rain event early in the month. This rain event caused prices to fall and demand remained low, in what would usually be a period of high demand. The Company decided to carry allocations to 2018 where stronger prices are now being achieved and will be reflected in the 2018 year.

Towards 2018

El Nino and La Nina weather events are contributing factors to Australia's climate. El Nino events are often associated with drier than normal conditions across eastern and northern Australia, while La Nina events are associated with wetter than normal conditions across eastern and northern Australia. Australia is currently experiencing a weak La Nina event which has had little impact on summer rainfall and inflows. This is expected to dissipate and return to a neutral condition over the course of the next month. Most models are suggesting that we will remain in neutral territory for most of 2018.



Significant levels of carryover allocation were brought across into the 2017/2018 water year as a legacy of the 2016 spring conditions. This resource has underpinned the 2017/2018 annual summer crop production and will be drawn down through the remaining summer irrigation period. At this stage we expect to enter autumn with significantly lower levels of available water allocations than we did in 2017.



MDBA Weekly Report 7th February 2018 © Murray – Darling Basin Authority 2018

The NSW, Victorian and South Australian governments will begin providing resource and allocation forecasts through late February and into March for the new water year (July 2018-June 2019). However, with a weakening La Nina and with storages starting the 2018/2019 inflow period at a lower base level currently, it is likely that lower allocation levels will be available in the 2018/2019 water year. The market is forecasting higher allocation prices in the 2018/2019 water year. Forward allocation sales in the 2018/2019 year are currently selling for between $160-$170 in the Murrumbidgee and $150-$160 in the Murray Valley (early February allocation prices for these zones were approximately $135 and $110/ML respectively).

With the targeted approach we have taken in the development of our water entitlement portfolio and through appropriate positioning ahead of the 2018/2019 water year, we believe we are in a strong position to support our current and future lessee's and other customers through the provision of water supply solutions.

On behalf of my fellow Directors, I would like to thank you for investing with us.

Edouard Peter
Chairman

27 February 2018

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of Duxton Water Limited submit herewith their report, together with the financial report of Duxton Water Limited (the Company) for the year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the Directors of the Company that held office during and since the end of the financial year are:

Mr Edouard Peter
Mr Stephen Duerden
Mr Dirk Wiedmann
Mr Peter Michell
Mr Dennis Mutton

The above named directors held office during the whole of the financial year and since the end of the financial year.

The office of company secretary is held by Mr Donald Stephens.

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the remuneration report section of this directors' report. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Principal activities

The principal activities of the Company during the financial year were the acquisition of water entitlements. Income was derived via long term lease arrangements with primary producers of these water entitlements as well as via the sale of annual water allocations.

There were no significant changes in the nature of the activities of the Company during the year.

Review of operations

Over the last 12 months the Company has finalised the deployment of all IPO proceeds. As a result of this, the Company now has achieved its goal of acquiring a targeted and diverse water entitlement portfolio. In November 2017, the Company completed a purchase and lease back transaction to secure a further 2,402 ML of NSW Murray Water Entitlement. In December 2017 a debt facility (to remain under 20% of equity) was secured to take advantage of short term opportunities and assist with the Company's future capital deployment strategy. Duxton Water Ltd currently holds water entitlements spanning 17 different water zones and classes. The diversity within the water portfolio ensures that the Company has the ability to be flexible when entering into lease arrangements as well as when transacting in the spot and forward allocation market.

The Company has entered into three lease contracts since 31 December 2016 totalling 3,802ML, which represents approximately 15.34% of the total portfolio. As at 31 December 2017, 62% of the Company's water portfolio is leased out with the goal of total lease contracts to represent approximately 70 to 80% of the total portfolio in the near future. The Company expects to enter into further leases in the next 6 – 12 months to help with achieving this goal.

Financial overview

The Company's net profit after tax for the year amounted to $2.066 million (2016: loss after tax of $0.232 million). The net asset value (NAV) of the Company in accordance with Australian Accounting Standards as at 31 December 2017 is $77.378 million or $1.087 per share (2016: $68.801 million or $1.076 per share).

The net asset value of the Company on a fair market value basis at 31 December 2017 was $84.026 million or $1.180 per share (2016: $68.712 million or $1.074 per share).

Key metrics	2017	2016
Profit (loss) attributable to owners of the company	$2.066m	($0.232m)
Basic earnings per share	$0.032	($0.015)
Dividends paid	$1.471m	-
Dividends per share	$0.023	-
Share price (at 31 December)	$1.12	$1.00
Return on capital employed	$0.038	($0.007)

Permanent water rights and entitlements are held at historical cost of $75.784m (2016: $51.125) million less accumulated impairment losses of $0.032 million (2016: $0.771 million). The net asset book value of the water rights as at 31 December 2017 is $75.753 million (2016: $50.354 million).

Duxton Water releases a monthly NAV statement, expressed as a value per share. This is consistent with the manner in which the NAV of the Company is reported to the Board for internal reporting purposes. To determine the NAV on a fair market value approach, the Company's permanent water entitlements, and temporary water allocations related to those entitlements and separately acquired, are valued by an independent expert. The use of an independent expert commenced in November 2017. The independent expert employs a market valuation approach which draws on publicly available water trade data from the relevant state water registers as well as analysis of trade data obtained from market intermediaries to calculate a dollar per ML volume weighted average price for each entitlement and allocation type. Prior to this the valuation was determined internally by calculating a dollar per ML volume weighted average price for each entitlement and allocation using the price per ML of the three most recent comparable trades reflected on the relevant water register to which each entitlement or allocation relate. This measure of reporting is not in accordance with the recognition and measurement requirements of the Australian Accounting Standards in relation to the Company's permanent water entitlements and temporary water allocations related to those entitlements.

For financial statement reporting purposes, in accordance with the basis of preparation described in Note 2 of the financial statements, the Company's permanent water entitlements are carried at its cost less any accumulated impairment losses, while the temporary water allocations related to those entitlements are not recognised in the Statement of Financial Position. Temporary water allocations are recognised at cost when they are separately acquired.

Presented below is a summary of the Company's NAV on the fair market value basis compared to the basis of preparation described in Note 2 of the financial statements.

31 December 2017	Per Company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
Assets			
Permanent water entitlements	75,753	84,566	8,813
Temporary water entitlements	1,116	1,799	683
Net current and deferred tax asset	257	(2,591)	(2,848)
Net other assets	2,252	2,252	-
Net non-current liabilities	(2,000)	(2,000)	-
Total net assets	77,378	84,026	6,648
Net asset value per share	$1.087	$1.180	$0.093

31 December 2016	Per Company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
Assets			
Permanent water entitlements	50,354	50,496	142
Temporary water entitlements	-	438	438
Net current and deferred tax asset	669	-	(669)
Net other assets	17,778	17,778	-
Total net assets	68,801	68,712	(89)
Net asset value per share	$1.076	$1.074	$(0.002)

* Fair market value is a non-IFRS measure which has not been audited or reviewed by the Company's auditor. The fair market value is provided because it is consistent with the way the assets are measured and reviewed internally.

Further detail by reported segment is disclosed in Note 19 of the financial statements.

Market Overview

The impact of an extremely wet 2016 spring period was carried through into the first half of 2017, with lower allocation pricing. However, the mitigation strategy implemented by the Company with regards to leasing a significant portion of the portfolio, has reduced the direct exposure to the volatility of the allocation market. In addition to this, the decision to structure the Company's financial year to overlap two water seasons, has assisted in mitigating the impact of these conditions. Whilst the Company achieved an average allocation price on our unleased entitlements in the first half of 2017 of $43.51/ML, increased demand and lower availability has meant the average sale price has increased to $121.30/ML through the second half of 2017.

Through 2017 we have seen a strengthening of permanent entitlement values. Across the portfolio, capital gains of between 10 to 20% have been achieved. Permanent pricing broadly is not impacted by seasonal variability but driven by long term trends and industry development. The continued investment in water efficiencies and the focus on higher yielding crops, in particularly the development of nut production in the Southern Murray Darling Basin, is underpinning the capital growth of the Company's portfolio. In many cases the impact of new greenfield development and the subsequent increase in water requirements will not come into fruition for several years. This is due to the significant amount of time that new developments take to mature and come into full production. Whilst we believe current developments are having a relatively small impact on water entitlement prices, we are of a view that predicted future demand may not be fully factored into current entitlement values.

Future developments

With lower levels of storage and carryover likely to be received in the 2018/2019 water year (beginning 1 July 2018), weather conditions in the second half of 2018, will have a big impact on inflows through winter and spring. Conditions are forecast to move out of La Nina, back to a neutral position where it is currently predicted it will remain for the remainder of 2018. La Nina is one factor that can have an impact on seasonal inflows and the shift out of this current La Nina may mean that abnormally high inflows into the system through 2018 are unlikely. With the targeted structure of the portfolio and our active management, the Company is well positioned to maximise returns to shareholders through this period.

The Company continues to build strong relationships with customers through the provision of leasing entitlements and other water supply solutions, as well as consistently being involved in the irrigated cultural community.

Throughout 2018, the Company will continue to build the portfolio with assets that complement our existing holdings, through market based acquisitions and taking advantages of opportunities through our unique deal flow.

Changes in state of affairs

There was no significant change in the state of affairs of the Company during the financial year.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Environmental regulation

The Company operates in a highly regulated environment and is subject to both Commonwealth and State legislation in relation to its acquisition of water entitlement activities. Based on the results of enquiries made, the board is not aware of any significant breaches during the period covered by this report.

Dividends

In respect of the financial year ended 31 December 2017, an interim dividend of 2.3 cents per share franked to 75% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 16 November 2017.

During the year the Company established a Dividend Reinvestment Plan. Shareholders were able to participate in the Dividend Reinvestment Plan for the interim dividend.

Total dividends paid for the 2017 financial year were $1.471 million. This consisted of cash distributions of $0.825 million and shares issued under the DRP to the value of $0.646 million.

Indemnities and insurance of officers

The Company has agreed to indemnify all of the Directors of the Company against all liabilities to another person that may arise from their position as Directors of the Company except where the liability arises out of conduct involving lack of good faith.

The agreement stipulates that the Company will meet the future amount of any such liabilities, including costs and expenses.

The Company has paid premiums amounting to $0.040 million to insure against such liabilities. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome;
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The Investment Manager is responsible for effecting and maintaining professional indemnity insurance, fraud and other insurance as are reasonable having regard to the nature and extent of the Investment Manager's obligations under the Investment Management Agreement.

Provided that the Investment Manager has complied with the Investment Management Agreement, it will not be liable for any loss incurred by the Company in relation to the investment portfolio. The Investment Manager has agreed to indemnify the Company for all liabilities and losses incurred by the Company by reason of the Investment Manager's wilful default, bad faith, negligence, fraud in performance of its obligations under the Investment Management Agreement or a material breach of the Investment Management Agreement.

Provided that the Investment Manager has complied with the Investment Management Agreement in all material respects, it is entitled to be indemnified by the Company in carrying out its obligations and performing its services under the Investment Management Agreement.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 6 board meetings and 6 audit and risk committee meetings were held.

Director	Board Meetings		Audit and Risk Committee Meetings	
	Meetings attended	Meetings held	Meetings attended	Meetings held
Mr Edouard Peter	6	6	-	-
Mr Stephen Duerden	6	6	6	6
Mr Dirk Wiedmann	6	6	-	-
Mr Peter Michell	5	6	6	6
Mr Dennis Mutton	6	6	6	6

Mr Dennis Mutton was appointed to the Audit and Risk Committee on 10 February 2017. Dirk Wiedmann retired from the Audit and Risk Committee on 10 February 2017.

Research and development

The Company did not undertake any research or development during the Period.

Non-Audit Services

There were no non-audit services provided by KPMG during the year.

Corporate Governance

The Company's Corporate Governance Statement and ASX Appendix 4G (Key to Disclosures – Corporate Governance Council Principles and Recommendations) is available in the Corporate Governance section of the Duxton Water website at www.duxtonwater.com.au.

As at the date of the Corporate Governance Statement, the Company complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd Edition – March 2014 (unless otherwise stated).

EDOUARD PETER

Qualifications

- Bachelor English Literature

Other Directorships*

- Duxton Capital (Australia) Pty Ltd,
- Duxton Vineyards Pty Ltd,
- Duxton Vineyards Water Pty Ltd,
- Duxton Viticulture Pty Ltd
- Hathor Dairies Pty Ltd,
- Duxton Capital Pte Ltd
- Duxton Broadacre Farms Ltd

CHAIRMAN OF THE BOARD

Edouard Peter, is the co-founder and Chairman of Duxton Asset Management Pte Ltd ("Duxton"). Prior to forming Duxton in 2009, Ed was Head of Deutsche Asset Management Asia Pacific ("DeAM Asia"), Middle East & North Africa. He was also a member of the Deutsche Bank's Group Equity Operating Committee and Asset Management Operating Committee. Ed joined Deutsche Bank in 1999 as Head of Equities and Branch Manager of DB Switzerland. In March 2001, Ed moved to Hong Kong with Deutsche Bank and was appointed Head of Global Equities for Asia and Australia, becoming responsible for all of Global Emerging Markets Equities in the beginning of 2003. In November 2004, Ed became Head of Asian and Emerging Market Equities for the new Global Markets Division.

Mr Peter holds a Bachelor's Degree in English Literature from Carleton College in Northfield, Minnesota. Ed's first foray into agricultural investing was in 1999 and he remains passionately interested in agriculture today.

Ed is appointed to the Board of the Company as a representative of the Investment Manager.

Interest in Securities

Fully paid ordinary shares	666,000
$1.10 options expiring on 31/05/2018	50,000

Interest in Securities via Duxton Vineyards

Fully paid ordinary shares	7,989,840
$1.10 options expiring on 31/05/2018	4,529,009

Committees

None

STEPHEN DUERDEN

Qualifications

- B Com Accounting Finance and Systems)
- GradDipAppFin at FINSIA
- CPA
- F FIN

Other Directorships*

- Duxton Capital Pte Ltd,
- Duxton Capital (Australia) Pty Ltd
- Duxton Broadacre Farms Ltd

NON-EXECUTIVE DIRECTOR

Stephen Duerden is currently the CEO of Duxton Capital (Australia) Pty Ltd. Stephen has over 25 years of experience in investment management and joined Duxton in May 2009, as the CEO of Duxton in Singapore. Before joining Duxton, Stephen was the COO and Director for both the Complex Assets Investments Team and the Singapore operation of Deutsche Bank Asset Management Asia. Prior to this Stephen worked with Deutsche in Australia where he was a member of the Australian Executive Committee responsible for the management of the Australian business, with assets under management of approximately AUD $20 billion, and a member of the Private Equity Investment Committee overseeing the management of over AUD $2.5 billion in Private Equity and Infrastructure assets. Stephen has had exposure to a broad range of financial products and services during his career. He has been involved in direct property development and management, the listing and administration of REITS, as well as the operation and investment of more traditional asset portfolios.

Stephen holds a Bachelor of Commerce in Accounting Finance and Systems with merit from the University of NSW Australia and a Graduate Diploma in Applied Finance and Investments from the Financial Services Institute of Australasia. Stephen is a Fellow of the Financial Services Institute of Australasia and a Certified Practicing Accountant.

Stephen is appointed to the Board of the Company as a representative of the Investment Manager.

Interest in Securities

Fully paid ordinary shares	10,194
$1.10 options expiring on 31/05/2018	10,000

Interest in Securities via Duxton Vineyards

Fully paid ordinary shares	45,009
$1.10 options expiring on 31/05/2018	727

Committees

Member - Audit and Risk Management Committee.

DIRK WIEDMANN

Qualifications

- Diplom Kaufmann from Johann Wolfgang Goethe University/ Frankfurt, Germany
- Advanced Management Program at The Wharton School, University of Pennsylvania

Other Directorships*

- Duxton Vineyards Pty Ltd,
- Duxton Vineyards Water Pty Ltd,
- Duxton Viticulture Pty Ltd

INDEPENDENT NON-EXECUTIVE DIRECTOR

Dirk Wiedmann has 25 years of experience in the finance industry. Over his career, Dirk has held senior global positions with several Banks, including UBS AG, Bank Julius Baer & Co Ltd and Rothschild Bank AG. Throughout his time in the industry, Mr Wiedmann has gained a vast range of experience covering international equities and derivatives, business sector market development, executive education and strategic marketing. Dirk has been invested in Australian agriculture business, including wine and dairy operations, since 1999.

Until August 2015, Dirk was the Global Head of Investments & Chief Investment Officer at Rothschild Wealth Management and Trust, a Member of the Divisional Board and a member of the Executive Committee of Rothschild Bank AG. Within his role as Global Head of Investments and CIO, Dirk was also responsible for all trading and execution activities and strategic marketing in the Bank.

Mr Wiedmann is an Independent Non-Executive Director of the Company.

Interest in Securities

Fully paid ordinary shares	51,096
$1.10 options expiring on 31/05/2018	880,000

Interest in Securities via Duxton Vineyards

Fully paid ordinary shares	1,272,268
$1.10 options expiring on 31/05/2018	20,543

Committees

Member - Audit and Risk Management Committee (Retired 10/02/2017).

PETER MICHELL

Qualifications
- Bachelor of Management
- FAICD
- FGLF2000

Other Directorships*
- Mutual Trust Ltd

INDEPENDENT NON-EXECUTIVE DIRECTOR

Peter Michell is a Director at Michell Wool Pty Ltd and was its Managing Director for the decade following 2004. Peter also currently sits on the Board of Mutual Trust Pty Ltd and the University of Adelaide's Agribusiness Advisory Board.

In 2004 Peter and his brother consolidated shareholding in their 140-year-old family agribusiness from 40 shareholders to 2. He then oversaw the reengineering and growth of the business; a greenfield wool textile investment in China, R&D and incubation of a number of start-ups within the wool group, and purchased, developed and then sold two significant wool textile processing business in Malaysia (500fte).

His 30 years in the wool, wool textile and leather industry has seen Peter responsible for commodity trading, global B2B industrial sales and marketing, production management, trade finance, and water and waste water management.

Interest in Securities

Fully paid ordinary shares	310,000
$1.10 options expiring on 31/05/2018	450,000

Interest in Securities via Duxton Vineyards

Fully paid ordinary shares	936,198
$1.10 options expiring on 31/05/2018	15,116

Committees
Chairman - Audit and Risk Management Committee.

DENNIS MUTTON

Qualifications
- BSc (Hons 1)
- Grad Dip Mgt
- FAICD
- FAIM

Other Directorships*
- WPG Resources Ltd (resigned 27/03/2017)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Dennis Mutton is an independent consultant in the fields of natural resource management, primary industries, regional growth initiatives, leadership development and government-business relationships. He also holds a range of board directorships in government, business and not for profit organisations at State and National levels. His full time work career included executive management roles in both the private and public sectors culminating in 15 years as CEO of a number of South Australian State Government agencies including the Department of Environment, Water and Natural Resources and the Department of Primary Industries and Regions. Dennis also held roles as Commissioner and Deputy President of the Murray Darling Basin Commission and Chair of the SA Natural Resources Management Council.

Interest in Securities
None

Committees
Member - Audit and Risk Management Committee (Appointed 10/02/2017).

COMPANY SECRETARY

Donald Stephens is a Chartered Accountant and corporate adviser with over 25 years of experience in the accounting industry, including 14 years as a partner of HLB Mann Judd, a firm of Chartered Accountants. Mr Stephens holds a number of positions as a public Company Director and Company secretary. Mr Stephens also provides corporate advisory services to a wide range of organisations.

DONALD STEPHENS

Qualifications

- B Acc
- FCA

* Other Directorships refers to ASX listed and related party entities only

Remuneration report (audited)

The Company has appointed Duxton Capital (Australia) Pty Ltd as its Investment Manager to manage its assets and implement its investment strategy. The Company does not have any employees and therefore does not see the need for a remuneration committee. The full board have appointed the Investment Manager in line with the terms of the Investment Management Agreement.

The Investment Management Agreement signed on 25 July 2016 is for an initial term of ten (10) years. After this initial term, the Investment Management Agreement will be renewed for further new terms of five (5) years, unless terminated by the Company or the Investment Manager.

Under the Investment Management Agreement, the Investment Manager will be responsible for the day-to-day management of the Company and management of the investment portfolio. Services provided by the Investment Manager include, but are not limited to, the selection, determination, structuring, investment, reinvestment, leasing and management of the Company's assets.

In return for the performance of its duties, the Investment Manager is entitled to be paid an annual Management Fee equal to 0.85% (plus GST) of the Portfolio Net Asset Value.

The Management Fee for the first calendar month from the Closing Date and for the final calendar month in which the Company is wound up or the Investment Management Agreement is terminated will be calculated using the following formula:

$$\text{Monthly Management Fee} = \frac{\text{(Days in Operation)} \times 0.85\%}{365} \times \text{Portfolio Net Asset Value on the relevant Valuation Day}$$

"Days in Operation" means the number of days in that calendar month in which the Company incurs liabilities or debts and/ or generates revenue or owns assets.

"Closing Date" means the Listing Date of the Company on the ASX.

"Portfolio Net Asset Value (PNAV)" means the total assets of the Company including water assets which for the purpose of determining the Management Fee, will be valued at fair market value based upon independent valuation, or the weighted average price of the last three applicable trades on or prior to the relevant Valuation

Day, received from at least one broker, excluding outliers). Outliers are defined as a trade with greater than 10% variance from the last transacted price and transactions that are less than 10ML. (unless there are no applicable transactions greater than 10ML) less; the total liabilities of the Company excluding provisions for tax payable and Performance Fee.

"Valuation Day" means the last day in each month, unless the Directors resolve otherwise, and such other days as the Directors may determine, each being a day on which the Portfolio Net Asset Value is calculated.

The Management Fee is to be paid to the Investment Manager regardless of the performance of the Company. Management Fees would increase if the Portfolio value increases, and decrease if the Portfolio value decreases, over the period. The Management Fee payable to the Investment Manager is calculated on the basis of the total value of the Company's assets at the applicable valuation date, including any unrealised capital gains of the Company.

The management fee paid or payable to the Investment manager for the year ended 31 December 2017 amounted to $0.619 million (period ended 31 December 2016 $0.169 million).

In addition to the monthly Management Fee, the Investment Manager is entitled to be paid a Performance Fee at the end of each financial year from the Company. The Performance Fee is split over two hurdles and is calculated as:

- 5% of the outperformance of the Investment Return of the Company above a hurdle return of 8% per annum up to 12% per annum; plus
- If the Investment Return is above 12% for the year then the Performance Fee will include 10% of the remaining outperformance of the Investment Return over the hurdle of 12% per annum.

The Performance Fee will be subject to a High Water Mark and will be accrued monthly and paid annually. The terms of the Performance Fee are outlined below:

The Performance Fee will be calculated by reference to the audited accounts of the Company ("Audited Accounts") adjusted to reflect the value of water assets as determined by independent valuation, and the Company will pay the Performance Fee to the Investment Manager in arrears within 30 days from the completion of the Audited Accounts. The Performance Fee will be payable if the Company outperforms either of the First Benchmark Hurdle or the Second Benchmark Hurdle (as defined below) during any Calculation Period. The formula for calculating the Performance Fee payable to the Investment Manager for any Calculation Period is as follows:

(a) If the Investment Return of the Company between the Start Date and the Calculation Date is less than the First Benchmark Return Hurdle (8%) then no Performance Fee is payable.

(b) If the Investment Return of the Company between the Start Date and the Calculation Date is greater than the First Benchmark Hurdle (8%) but less than the Second Benchmark Hurdle (12%) then the Performance Fee will be:
5% x ((Adjusted Ending PNAV - Opening PNAV – Capital Raisings) – First Benchmark Return Hurdle)

(c) If the Investment Return of the Company between the Start Date and the Calculation Date is greater than the Second Benchmark Hurdle (12%) then the Performance Fee will consist of two components as follows:
Component A = 5% x (Second Benchmark Return Hurdle - First Benchmark Return Hurdle)
Plus
Component B = 10% x ((Adjusted Ending PNAV – Opening PNAV – Capital Raisings) – Second Benchmark Return Hurdle)

Where:

"Investment Return" means the percentage by which the Adjusted Ending Portfolio Net Asset Value exceeds the Opening Portfolio Net Asset Value at the Calculation Date; excluding any additions or reductions in the equity of the Company including distributions paid or provided for, dividend reinvestments, new issues, the exercise of share options, share buy-backs and the provision or payment of tax made since the previous Calculation Date.

"Adjusted Ending PNAV" means the PNAV at the Calculation Date, adjusted by adding back to the Ending PNAV:

- Any Distributions or reductions in capital paid or provided for during such Calculation Period; and

- Any relevant taxes paid or provided for during such Calculation Period.

"First Benchmark Return Hurdle" means an amount equal to: 8% per annum of the Opening PNAV;

- Plus 8% per annum on Capital Raisings during the Calculation Period, calculated on a time weighted basis;
- Minus 8% per annum on the amount of any Distributions paid during the Calculation Period, calculated on a time weights basis.

"Second Benchmark Return Hurdle" means an amount equal to: 12% per annum of the Opening PNAV;

- Plus 12% per annum on Capital Raisings during the Calculation Period, calculated on a time weighted basis;
- Minus 12% per annum on the amount of any Distributions paid during the Calculation Period, calculated on a time weights basis.

"Ending PNAV" means the Portfolio Net Asset Value of the Company at the end of the relevant Calculation Period.

"Opening PNAV" means the higher of Portfolio Net Asset Value of the Company at the relevant Start Date for the Calculation Period or the highest Ending PNAV since inception of the Company on which a performance fee has been paid.

"High Water Mark" means the highest Adjusted Portfolio Net Asset Value at which a Performance Fee has been paid to the Investment Manager.

"Commencement Date" means the first Business Day immediately following the Listing Date (including such extended period(s) where applicable).

"Calculation Period" commences from a "Start Date" and ends on a "Calculation Date".

"Start Date" means 1st of January of each year except for the first Calculation Period which will start on the first Business Day immediately following the Listing Date (i.e. Commencement Date).

"Calculation Date" means the 31st December of each year, except for the year in which the Company is wound up or the Investment Management Agreement is terminated, in which case the Calculation Date will be the last Business Day before the termination of the Company or the Investment Management Agreement (as applicable).

"Business Day" means a day on which banks are open in South Australia, excluding weekends and public holidays in South Australia.

The performance fee paid or payable to the Investment manager for the year ended 31 December 2017 amounted to $0.472 million (period ended 31 December 2016 nil).

A termination fee is payable by the Company to the Investment Manager if the Investment Management Agreement is terminated within the first ten years of the Agreement, unless the Company has terminated the Investment Management Agreement for default by the Investment Manager. The termination fee is equal to 5% of the PNAV of the Company, reduced by 1/60th for each calendar month elapsed after the first five years since commencement of the Investment Management Agreement up to the date of termination.

Remuneration of non-executive directors

The Board policy is to remunerate Independent Non-Executive Directors at market rates for comparable companies for time, commitment and responsibilities. Fees for Non-Executive Directors are not linked to the performance of the Company.

In determining competitive remuneration rates, the Board review local and international trends among comparative companies and industry generally. Typically, the Company will compare Non-Executive Remuneration to companies with similar market capitalisations. These reviews are performed to confirm that non-executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

Further to ongoing reviews, the maximum aggregate amount of fees that can be paid to Non-Executive Directors is $0.250 million and is subject to approval by shareholders at the Annual General Meeting.

Details of the remuneration of the Non-Executive Directors of the Company, paid for the reported period, are set out in the following table.

Non-executive directors	Fees $	Total remuneration $
Mr Edouard Peter[1]	-	-
Mr Stephen Duerden[1]	-	-
Mr Dirk Wiedmann	35,000	35,000
Mr Peter Michell	35,000	35,000
Mr Dennis Mutton	35,000	35,000
Total	105,000	105,000

(1) These Non-Executive Directors are employed by the Investment Manager (Duxton Capital (Australia) Pty Ltd) and receive no remuneration from Duxton Water Ltd, however Duxton Capital (Australia) Pty Ltd does receive management fees and performance fees.

Options

The Directors have not received any options as remuneration by the Company during the reported period.

– End of Remuneration Report –

Shares under option

Unissued ordinary shares of Duxton Water Limited under option at the date of this report are as follows:

Date options granted	Expiry Date	Exercise Price	Number under Option
19/09/2016	31/05/2018	$1.10	63,942,406

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of these proceedings. The Company was not a party to any such proceedings during the year.

Non-audit services

No amounts were paid or payable to the auditor for non-audit services during the year.

Corporate governance statement

The Company's corporate governance statement can be viewed on the Company's website www.duxtonwater.com.au.

Auditor's independence declaration

Section 307C of the Corporations Act 2001 requires our auditors, KPMG, to provide the Directors of the Company with an Independence Declaration. This Lead Auditor's Independence Declaration is included on page 19.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

Edouard Peter
Chairman

Peter Michell
Independent Non-Executive Director

Stirling, South Australia
27 February 2018

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Duxton Water Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Duxton Water Limited for the financial year ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Partner

Adelaide

27 February 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue	4	4,111	843
Cost of sales		(140)	-
Gross profit		3,971	843
Management fees		(619)	(169)
Performance fees		(472)	-
Listing costs		-	(185)
Legal and professional fees		(151)	(90)
Other expenses	5	(607)	(217)
Impairment reversal /(impairment) of water entitlements	6	739	(771)
		(1,110)	(1432)
Profit/(loss) before net finance income		2,861	(589)
Finance income		90	113
Finance expense		-	(5)
Net finance income		90	108
Profit/(loss) before tax		2,951	(481)
Income tax benefit/(expense)	7	(885)	249
Profit/(loss) for the year attributable to shareholders of Duxton Water Limited		2,066	(232)
Other comprehensive income, net of income tax		-	-
Total comprehensive income/(loss) for the year attributable to shareholders of Duxton Water Limited		2,066	(232)
Earnings per share attributable to shareholders of Duxton Water Limited			
Basic earnings/(loss) per share	17	0.032	(0.015)
Diluted earnings/(loss) per share	17	0.032	(0.015)

The notes on page 24 to 41 are an integral part of these financial statements
The comparative figures above are for the period from incorporation on 20 April 2016 to 31 December 2016.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	2,878	13,996
Term deposits	8	-	3,333
Trade and other receivables	9	573	1,042
Water allocations		1,116	-
Other current assets	11	103	43
Total current assets		4,670	18,414
Non-current assets			
Water entitlements	12	75,753	50,354
Deferred taxation	7	375	711
Total non-current assets		76,128	51,065
Total assets		80,798	69,479
LIABILITIES			
Current liabilities			
Trade and other payables	13	626	165
Unearned revenue		676	471
Tax liability	7	118	42
Total current liabilities		1,420	678
Non-current liabilities			
Interest-bearing liabilities	14	2,000	-
Total non-current liabilities		2,000	-
Total liabilities		3,420	678
Net assets		77,378	68,801
EQUITY			
Issued capital	15	77,015	69,033
Retained earnings (accumulated loss)		363	(232)
Total equity		77,378	68,801

The notes on page 24 to 41 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Issued capital $'000	Retained earnings $'000	Total equity $'000
At incorporation		-	-	-
Shares issued	15	70,362	-	70,362
Share issue costs – net of taxes	15	(1,329)	-	(1,329)
Profit/(loss) for the period		-	(232)	(232)
Other comprehensive income for the period, net of tax		-	-	-
Total comprehensive loss for the period		-	(232)	(232)
Balance at 31 December 2016		69,033	(232)	68,801
Balance at 1 January 2017		69,033	(232)	68,801
Shares issued	15	7,979	-	7,979
Share issue costs – net of taxes	15	3	-	3
Profit/(loss) for the year		-	2,066	2,066
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive loss for the year		-	2,066	2,066
Distribution of dividends	15	-	(1,471)	(1,471)
Balance at 31 December 2017		77,015	363	77,378

The notes on page 24 to 41 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers		4,649	841
Payments to suppliers		(1,451)	(595)
Purchase of water allocation		(1,215)	-
Interest received		90	113
Interest paid		-	(5)
Income tax paid		(473)	-
Net cash generated from operating activities	18	1,600	354
Cash flows from investing activities			
Purchase of water entitlements		(24,336)	(22,463)
Disposal of water entitlements		6,995	-
Deposits used (paid) for the purchase of water entitlements		107	(513)
Proceeds from (investment in) term deposits		3,333	(3,333)
Net cash used in investing activities		(13,901)	(26,309)
Cash flows from financing activities			
Proceeds from issue of shares	15	25	41,700
Transaction costs related to issues of shares	15	(17)	(1,749)
Proceeds from borrowings	14	2,000	-
Payment of dividends	15	(825)	-
Net cash generated from financing activities		1,183	39,951
Net increase in cash and cash equivalents		(11,118)	13,996
Cash and cash equivalents at beginning of the period		13,996	-
Cash and cash equivalents at end of period	8	2,878	13,996

The notes on page 24 to 41 are an integral part of these financial statements
The comparative figures above are for the period from incorporation on 20 April 2016 to 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. Corporate information

Duxton Water Limited is a Company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under the symbol D20. Its registered office and principal place of business is located at 7 Pomona Road Stirling SA 5152.

The Company is a for-profit entity.

The financial statements were authorised for issue by the Directors on 27 February 2018.

2. Basis of preparation

Basis of accounting

The financial statements have been prepared under the historical cost convention. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The Company was incorporated on 20 April 2016. The comparative information provided for the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and associated notes is for the period from incorporation on 20 April 2016 to 31 December 2016. The Statement of Financial Position contains comparative balances as at 31 December 2016.

Statement of compliance

The financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001, and Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards Board (AASBs) 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. Actual results may differ from these estimates.

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

In particular, 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:

a) Permanent water entitlements

Permanent water entitlements are treated as intangible assets on the Statement of Financial Position at cost (in accordance with AASB 138 Intangible Assets). It has been determined that there is no foreseeable future limit to the period over which the asset is expected to generate net cash inflows for the entity, therefore the entitlements will not be subject to amortisation, as the permanent water entitlements have an indefinite life. Permanent water entitlements will be tested annually for impairment, unless there are indications present that the asset is impaired or if there are indications present that a previously impaired asset is no longer impaired.

b) Temporary water allocations

Temporary water allocations purchased are treated as items of inventory available for resale in accordance with AASB 102 Inventories. Temporary water allocations are measured at the lower of its individual cost and net realisable value.

Standards issued but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below.

Standard/Interpretation	Effective for annual reporting periods on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments'	1 January 2018	31 December 2018
AASB 15 'Revenue from Contracts with Customers'	1 January 2018	31 December 2018
AASB 16 'Leases'	1 January 2019	31 December 2019

AASB 9 Financial Instruments

AASB 9 Financial Instruments is a new standard published in July 2014, which replaces AASB 139 Financial Instruments: Recognition and Measurement. This standard introduces a new impairment model for financial assets, a new measurement category 'fair value through other comprehensive income' for certain debt instruments and new general hedge accounting requirements.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of AASB 9 is not expected to have a material impact on the Company's financial assets and liabilities.

Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers establishes a single comprehensive framework to assist with accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance including AASB 118 Revenue.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of AASB 15 is not expected to have a material impact on the Company's financial assets and liabilities.

Leases

AASB 16 Leases will replace existing accounting requirements for leases under AASB 117 Leases. AASB 16 removes the lease classification test and requires all lessees to record both finance and operating leases on the balance sheet.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AASB 15 Revenue from Contracts with Customers. The adoption of AASB 16 is not expected to have a material impact on the Company's financial statements.

3. Significant accounting policies

a) Segment reporting

Operating segments are reported in a manner consistent with the internal reports which are provided to the chief operating decision maker. The chief operating decision maker, who is responsible for

resource allocation and assessment of segment performance, has been identified as the board of Directors.

b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of any amount of goods and services tax (GST) payable to the taxation authority.
The Company's revenue is derived primarily from:

Sale of temporary water allocations

Revenue from the sale of temporary water allocations is recognised (net of discounts and allowances) when the risks and rewards or ownership have passed to the customer, recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement with the water allocations, and the amount of revenue can be measured reliably.

Lease of water entitlements

Revenue from water entitlement lease agreements is recognised as revenue on a straight-line basis over the term of the lease.

Interest revenue

Interest revenue comprises of income earned on financial assets and interest charged on overdue customer accounts in accordance with customer contracts. Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Interest revenue is recognised in the Statement of Profit or Loss, using the effective interest method.

Sale of water entitlements

The profit or loss on the disposal of water entitlements (which are a non-current asset) is recognised in the Statement of Profit or Loss on the date in which control of the asset passes to the purchaser, usually when an unconditional contract of sale is achieved. This gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

c) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In this case, GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a net basis.

d) Income tax

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in the Statement of Profit or Loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

e) Financial instruments

Non-derivative financial assets

Recognition

Financial assets are initially recognised at their fair value plus directly attributable transaction costs. The Company recognises receivables, loans and debt securities issued on the date when they occurred. All other financial assets are recognised on the trade date.

Measurement

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’.
Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

De-recognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.
On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Non-derivative financial liabilities

Recognition

Financial liabilities are initially recognised at their fair value less any directly attributable transaction costs. The Company recognises payables and loans on the date when they occurred, and all other financial liabilities are recognised on the trade date.

Measurement

Financial liabilities measured at 'Fair value through profit or loss' are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

De-recognition

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

f) Share-based payments arrangements

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

g) Intangible assets

Intangible assets with finite lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives (permanent water entitlements) that are acquired separately are carried at cost less accumulated impairment losses.

Permanent water entitlements

Permanent water entitlements are treated as intangible assets on the Statement of Financial Position at cost (in accordance with AASB 138 Intangible Assets). It has been determined that there is no foreseeable future limit to the period over which the asset is expected to generate net cash inflows for the entity, therefore the entitlements will not be subject to amortisation, as the permanent water entitlements have an indefinite life. Permanent water entitlements will be tested at least annually for impairment, unless there are indications present that the asset is impaired or if there are indications present that a previously impaired asset is no longer impaired.

Temporary water allocations

Temporary water allocations purchased are treated as items of inventory available for resale in accordance with AASB 102 Inventories. Temporary water allocations are measured at the lower of its individual cost and net realisable value. At 31 December 2016 no items of inventory were carried at cost or net realisable value.

h) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives (permanent water entitlements) and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Permanent water entitlements

Permanent water entitlements are tested for impairment at the cash generating unit (CGU) level by comparing the CGU's recoverable amount with its carrying amount annually. Whenever there is an indication that an impairment exists, any excess of the carrying amount over the recoverable amount is recognised as an impairment loss in the Statement of Profit or Loss.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine if there is any indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

The Company determines the fair value of its permanent water entitlements based upon independent valuations. Prior to November 2017 the Company determined the fair value of its permanent water entitlements based upon independent valuations, or recent observable comparable trades on or prior to the reporting date as per the relevant public water trading register.

Impairment losses are recognised in the Statement of Profit or Loss and are only reversed to the extent of previously recognised impairment.

i) Cash and cash equivalents

For the purposes of the Statement of Cash Flow, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts.

j) Share capital

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with AASB 112 Income Taxes.

k) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

l) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the dilutive effect, if any.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. Revenue

	2017 $'000	2016 $'000
Lease income from water entitlements	2,436	698
Sale of temporary water allocations	1,649	145
Profit on sale from disposal of water entitlements	26	-
	4,111	843

5. Other expenses

	2017 $'000	2016 $'000
Administration and marketing expenses	125	62
ASX Listing fees	47	-
Auditors remuneration – KPMG – Audit of financial statements	52	40
Auditors remuneration – KPMG – Other assurance services	-	4
Brokerage, bank fees and other expenses	22	20
Company secretary	76	21
Directors' and officers' insurance	45	23
Government water charges	93	-
Non-executive directors' fees	105	21
Share registry costs	42	26
	607	217

The auditor's remuneration for the year relating to the audit of financial statements and other assurance services amounted to $51,607 (2016: $43,600).

6. Impairment of water entitlements

	2017 $'000	2016 $'000
Impairment/(impairment reversal) of water entitlements	(739)	771
	(739)	771

The recoverable amount the cash generating unit to which each water entitlement belongs is determined at least annually using, using a market based approach. Each cash generating unit constitute a discrete zone within a river system, or entitlement type. The key assumption applied to determining the recoverable amount of each cash generating unit is the estimated price per mega litre (ML).

Prior to November 2017, the recoverable amount of each water entitlement type was determined internally by calculating a dollar per ML volume weighted average price for each entitlement and allocation using the price per Mega Litre (ML) of the three most recent comparable trades reflected on the relevant water register, to which each water entitlement relates. The Directors have formed the view that as Duxton enters its second year as a listed entity and continues to grow, it is prudent that the value assessment of the water portfolio is undertaken by an independent third party. The use of an independent expert commenced in November 2017. The independent expert employs a market valuation approach which draws on publicly available water trade data from the relevant state water registers as well as analysis of trade data obtained from market intermediaries to calculate a dollar per ML volume weighted average price for each entitlement and allocation type.

Water entitlements are classified as Level 3 fair value hierarchy assets (2016: Level 2). The determination of fair value is subject to unobservable judgment applied by the independent expert in selecting transactions sourced

from state water registers and intermediary transaction data as input in calculating a dollar per ML volume weighted average price.

At 31 December 2016 the Company booked impairment against a number of the water entitlements that it held. During 2017 we have seen an increase in agricultural investment, particularly through new Greenfields permanent crop production. This increased investment in production has resulted in an increase in the demand for water, a key input in determining the price per ML. Across our portfolio we have seen an uplift of between 10 to 15% in price per ML over the year, which has reversed the impairment recorded at 31 December 2016.

Details of information to which reportable segment the impairment relates to, is disclosed in Note 19. The impairment/(impairment reversal) relates to the following entitlement types held:

	2017 $'000	2016 $'000
Murrumbidgee Zone 13	(153)	153
Goulburn Zone 1A HR	(61)	61
Goulburn Zone 1A HS	(96)	96
Murray Zone 6 HR	(182)	182
Murray Zone 10 GS	(57)	57
Murray Zone 11 HR	(57)	57
Macquarie Zone 2A GS	(44)	66
Other	(89)	99
	(739)	771

7. Taxation

a) Recognised in the statement of profit or loss and other comprehensive income

	2017 $'000	2016 $'000
Current tax expense	654	42
Deferred tax expense (benefit)	231	(291)
Total income tax expense	885	(249)

b) Recognised in the statement of changes in equity

Current tax expense (benefit) – share issue expenses	(105)	-
Deferred tax expense (benefit) – share issue expenses	105	(419)
Income tax recognised directly in equity	-	(419)

c) Numerical reconciliation between tax expense through Profit or Loss and pre-tax accounting profit:

Profit (loss) before tax	2,951	(481)
Income tax expense at 30%	885	(144)
Increase/(decrease) in income tax expense due to:		
Capitalised share issue costs	-	(105)
Total income tax expense recognised in profit or loss	885	(249)

d) Current Tax liability

Current tax expense recognised through profit or loss	654	42
Current tax benefit recognised in the statement of changes in equity	(105)	-
Income tax instalments paid	(431)	-
Current tax liability	118	42

e) Deferred Tax Asset

Deferred tax assets (liabilities) in relation to:		
Share issue and listing costs	357	475
Water entitlements	9	231
Accrued expenses	7	5
Other expenses	2	-
	375	711

f) Dividend Franking Account

	2017 $'000	2016 $'000
Total franking account balance at 30%	118	-

The above amount represents the balance of the franking account as at 31 December, after taking into account adjustments for:

- Franking credits that will arise from the payment of income tax payable for the current year
- Franking credits that will arise from the receipt of dividends recognised as receivables at the year end
- Franking credits that may be prevented from being distributed in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

8. Cash and cash equivalents

	2017 $'000	2016 $'000
Cash at bank	2,878	10,641
Term deposits	-	6,688
	2,878	17,329
Less: term deposit having maturity over 3 months	-	(3,333)
	2,878	13,996

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

9. Trade and other receivables

	2017 $'000	2016 $'000
Trade debtors	128	488
Deposits paid	407	513
Other receivables	38	41
	573	1,042

10. Leases as lessor

Duxton Water leases out some of the water entitlements that it owns. At 31 December 2017 the future minimum lease payments under non-cancellable leases receivable was:

	2017 $'000	2016 $'000
Less than one year	2,804	2,001
Between one and five years	10,881	8,004
More than five years	1,747	3,002
	15,432	13,007

During 2017, lease income of $2.436 million was included in revenue (2016: $0.698m).

11. Other current assets

	2017 $'000	2016 $'000
Prepaid expenses	103	43
	103	43

12. Water entitlements

Permanent water entitlements - at cost	$'000
Balance at incorporation	-
Additions	51,125
Balance at 31 December 2016	51,125
Balance at 1 January 2017	51,125
Additions	31,628
Disposals	(6,968)
Balance at 31 December 2017	75,785
Accumulated impairment	
Balance at incorporation	-
Impairment loss recognised in profit or loss	771
Balance at 31 December 2016	771
Balance at 1 January 2017	771
Reversal of impairment losses recognised in profit or loss	(739)
Balance at 31 December 2017	32

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

13. Trade and other payables

	2017 $'000	2016 $'000
Trade creditors	29	15
Accrued expenses	597	150
	626	165

14. Interest-bearing liabilities

	2017 $'000	2016 $'000
Bank loans – unsecured	2,000	-
	2,000	-

The board approved the use of an interest only $16 million credit facility through National Australia Bank to assist with the Company's future capital deployment strategy. The interest payable on this facility is calculated as BBSY plus 0.82% p.a + Facility Fee of 0.75%. Repayment in full is due by 30 November 2019.

Covenants of NAB credit facility:

- Maximum Primary Debt to Equity Ratio to be 20% in accordance with the company charter and to be measured against annual audited accounts.
- Right of review trigger if minimum Interest Cover Ratio of 1.50x is not maintained and to be measured annually against audited accounts.

15. Equity

a) Ordinary shares

	No. Shares	$'000
Shares issued as compensation for water entitlements acquired	26,056,680	28,662
Shares issued during the period	37,908,726	41,700
Share issue costs – net of taxes	-	(1,329)
Closing balance at 31 December 2016	63,965,406	69,033
Opening balance at 1 January 2017	63,965,406	69,033
Shares issued as compensation for water entitlements acquired	6,610,000	7,308
Shares issued during the year (dividend reinvestment plan)	615,226	646
Shares issued during the year (options exercised)	23,000	25
Share issue costs – net of taxes	-	3
Closing balance at 31 December 2017	71,213,632	77,015

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

Information relating to options including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 16.

Vendor shares are no longer subject to voluntary escrow as at 31 December 2017.

b) Dividends

Total dividends paid for the 2017 financial year were $1.471 million. This consisted of cash distributions of $0.825 million and shares issued under the DRP to the value of $0.646 million.

16. Share options

Details of share options on issue are as follows:

Expiry date	Exercise price	Balance – start of period	Granted during the period	Issued (exercised) during the period	Cancelled / lapsed during the period	Balance end of the period
31/05/18	$1.10	63,965,406	-	(23,000)	-	63,942,406

17. Earnings per share

	2017	2016
Earnings/(loss) $'000	2,066	(232)
Earnings/(loss) used in the calculation of basic EPS $,000	2,066	(232)
Weighted average number of ordinary shares (basic)	64,932,007	26,896,475
Weighted average number of ordinary shares (diluted)	64,932,007	26,896,475
Basic earnings per share from continuing operations (cents)	0.032	(0.015)
Diluted earnings per share from continuing operations (cents)	0.032	(0.015)

18. Reconciliation of cash flows from operating activities

	2017 $'000	2016 $'000
Profit (loss) after tax	2,066	(232)
Adjustments for non-cash items included in profit/(loss):		
Finance costs	-	5
Impairment / (impairment reversal) of water entitlements	(739)	771
Changes in other items:		
Trade receivables	359	(530)
Net GST paid (received)	3	(42)
Prepaid expenses	(60)	-
Creditors	15	165
Unearned revenue	205	471
Accrued expenses	446	-
Income taxes	181	(249)
Deferred tax	231	-
Water allocations	(1,100)	
Other	(7)	(5)
Net cash generated from operating activities	1,600	354

Non-cash transaction

During the year, the Company entered into the following non-cash activities which are not reflected in the statement of cash flows:

- 615,226 shares were issued under the Company's Dividend Reinvestment Plan for the interim dividend.

- An independent valuation was obtained by the Company, to acquire permanent water entitlements from a related party, Duxton Vineyards, as disclosed in Note 21, amounting to $7.308 million. This was settled through the issue of 6.610 million ordinary shares fully paid (see Note 15).

  A market based approach was used by the independent valuer, using prices and other relevant information generated by market transactions involving identical or comparable assets. The method used publicly available water trade data from the Victorian, New South Wales and Sound Australian water registers as well as analysis of trade data obtained from water market intermediaries.

19. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker to make strategic decisions. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors.

The amounts provided to the board of Directors with respect to profit or loss, liabilities and assets other than water entitlement assets is measured in a manner consistent with that of the financial statements, while permanent water entitlement assets and temporary water allocations are allocated to a segment based on the geographical region of the water entitlement assets and measured on a "fair market value" basis.
"Fair market value" for purposes of valuing the Company's water entitlement and allocation portfolio that is reported to the board of Directors, is based on the independent monthly valuation that is undertaken by an independent expert. The use of an independent expert commenced in November 2017. The independent expert employs a market valuation approach which draws on publicly available water trade data from the relevant state water registers as well as analysis of trade data obtained from market intermediaries to calculate a dollar per ML volume weighted average price for each entitlement and allocation type. Prior to this the valuation was determined internally by calculating a dollar per ML volume weighted average price for each entitlement and allocation using the price per Mega Litre (ML) of the three most recent comparable trades reflected on the relevant water register to which each entitlement or allocation relate.

No inter-segment sales occurred during the current financial period. No revenue was derived from external customers in countries other than the country of domicile. Revenue of $1.962 million was derived from one Australian customer during the period. This revenue was attributable to the Murray and Murrumbidgee segment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

For the year ended 31 December 2017

	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Total segment revenue	3,009	457	197	448	1	4,111
Total segment profit before interest, income tax and impairment of permanent water entitlements	2,793	454	195	438	(1,758)	2,122
Reversal of impairment/(impairment) of permanent water entitlements	374	153	167	45	-	739
Net interest income	-	-	-	-	90	90
Income tax expense	-	-	-	-	(885)	(885)
Total comprehensive profit for the year as per the financial statements	3,167	607	362	483	(2,553)	2,066
Total segment liabilities	-	-	-	-	3,420	3,420
Total segment assets excluding permanent water entitlements	-	-	-	-	1,080	1,080
Permanent water entitlements at cost	60,086	6,635	867	8,197	-	75,785
- Less accumulated impairment	(1)	-	-	(31)	-	(32)
- Add fair market value increments[2]	7,393	436	83	901	-	8,813
Permanent water entitlements at fair market value	67,479	7,071	950	9,067	-	84,566
Temporary water allocations at cost	632	114	370	-	-	1,116
Temporary water allocations at fair market value[3]	612	1,029	61	98	-	1,799
Total segment assets[4]	68,091	8,098	1,011	9,165	1,080	87,445
Adjustments in accordance with Australian Accounting Standards[(2,3)]	(7,374)	(1,349)	226	(999)	2,849	(6,647)
Total segment assets as disclosed in the financial statements	60,717	6,749	1,237	8,166	3,929	80,798

Income and expenses for the period ended 31 December 2016
Assets and liabilities as at 31 December 2016

	Murray $'000	Murrumbidgee $'000	Other[1] $'000	Unallocated $'000	Total $'000
Total segment revenue	787	-	56	-	843
Total segment profit before interest, income tax and impairment of permanent water entitlements	787	-	56	(661)	182
Impairment of permanent water entitlements	(374)	(153)	(244)	-	(771)
Net interest income	-	-	-	108	108
Income tax expense	-	-	-	249	249
Total comprehensive loss for the period as per the financial statements	(413)	(153)	(188)	(304)	(232)
Total segment liabilities	(471)	-	-	(207)	(678)
Total segment assets excluding permanent water entitlements	431	-	-	18,694	19,125
Permanent water entitlements at cost	37,684	6,485	6,956	-	51,125
- Less accumulated impairment	(374)	(153)	(244)	-	(771)
- Add fair market value increments[2]	37	-	105	-	142
Permanent water entitlements at fair market value	37,347	6,332	6,815	-	50,496
Temporary water allocations at cost	-	-	-	-	-
Temporary water allocations at fair market value[3]	346	1	91	-	438
Total segment assets[4]	38,124	6,333	6,908	18,694	70,059

Adjustments in accordance with Australian Accounting Standards[2,3]	(383)	(1)	(196)	-	(580)
Total segment assets as disclosed in the financial statements	37,741	6,332	6,712	18,694	69,479

1 . "Other" comprises of the Lachlan, Loddon, Mallee and Campaspe regions, which individually account for less than 10% of the Company's revenue, loss before taxation, total liabilities and total assets. Goulburn was also included in "Other" at 31 December 2016.
2. In accordance with the Australian Accounting Standards requirements on measuring permanent water entitlements subsequent to initial recognition, fair market value increments are not included in the amounts recognised in the financial statements.
3. In accordance with the requirements of the Australian Accounting Standards, temporary water allocations obtained through owned permanent water entitlements are not recognised as assets in the Statement of Financial Position. Only those allocations separately acquired are recognised.
4. "Total segment assets" is a measure used by the Company for internal reporting purposes. For purposes of determining this measure, all assets excluding water entitlements are measured consistent with the financial statements and water entitlements is measured at fair value. The measure of water entitlements does not comply with the recognition and measurement requirements of the Australian Accounting Standards.

20. Key management personnel

The Company has appointed Duxton Capital (Australia) Pty Ltd as its Investment Manager to manage its assets and implement its investment strategy. Details of the basis of remuneration paid or payable to the Investment Manager is fully disclosed in the Remuneration Report of the Directors' Report. During the year the Company recognised management fees paid or payable to its Investment Manager amounting to $0.619 million (2016: $0.169 million) and performance fees paid or payable to its Investment Manager amounting to $0.472 million (2016: nil).
Key management personnel of the Company are:

Mr Edouard Peter
Mr Stephen Duerden
Mr Dirk Wiedmann
Mr Peter Michell
Mr Dennis Mutton.

Mr Edouard Peter, Chairman of the Company, controls the Investment Manager and is a shareholder and Director of the Investment Manager's parent Company Duxton Capital Pte Ltd and as such, may receive remuneration from the Investment Manager for services provided to the Investment Manager.

Company Director, Mr Stephen Duerden, is also a shareholder and Director of the Investment Manager's parent Company and as such, may receive remuneration from the Investment Manager for Services provided to the Investment Manager.

As shareholders of the Investment Manager, Mr Peter and Mr Duerden may receive a financial benefit from the Company as a result of payment of fees by the Company to the Investment Manager.

The Investment Management Agreement is on arms-length commercial terms and was approved by the Non-Executive Directors of the Company.

Neither Mr Edouard Peter nor Mr Stephen Duerden have received directors' fees from the Company.

Mr Edouard Peter has a direct interest of 215,000 shares in the Company and an indirect interest in 451,000 shares in the Company and in 50,000 options ($1.10 options expiring 31/05/2018). Mr Edouard Peter also has an indirect interest of 7,989,840 shares in the Company via his 24.04% interest in the Duxton Vineyards Group, which holds 33,237,989 shares in Duxton Water Limited. Via this interest in Duxton Vineyards, Mr Edouard Peter also has an interest in 4,529,009 options in the Company.
Mr Stephen Duerden has an interest in 10,194 shares in the Company and an interest in 10,000 options. Via his interest in Duxton Vineyards, Mr Stephen Duerden also has an indirect interest of 45,009 shares in the Company and 727 options in the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. Related party transactions

The following transactions occurred with related parties during the year ended 31 December 2017 (and the period ended 31 December 2016):

	2017 $'000	2016 $'000
Management fee – Duxton Capital (Australia) Pty Ltd	619	169
Administration fee – Duxton Capital (Australia) Pty Ltd	107	52
Performance fee – Duxton Capital (Australia) Pty Ltd	472	-
Revenue – Duxton Viticulture Pty Ltd	1,962	613
Revenue – Duxton Broadacre Farms Ltd (Previously Merriment Rural Investments Pty Ltd)	187	56
Revenue – Hathor Dairies Pty Ltd	92	28
Purchase of water entitlements – Duxton Vineyards Pty Ltd	7,308	3,702
Purchase of water entitlements – Duxton Vineyards Water Pty Ltd	-	24,960
Purchase of water entitlements – Merriment Rural Investments Pty Ltd	-	3,339
Purchase of water entitlements – Hathor Dairies Pty Ltd	-	2,718

Transactions between related parties are on commercial terms and conditions.

The following balances are outstanding between the Company and its related parties:

	2017 $'000	2016 $'000
Amount due to (from) Duxton Capital (Australia) Pty Ltd	599	-
Amount due to (from) Duxton Viticulture Pty Ltd	(19)	(431)
Amount due to (from) Hathor Dairies Pty Ltd	-	(1)
Amount due to (from) Duxton Broadacre Farms Ltd (Previously Merriment Rural Investments Pty Ltd)	(5)	(52)

22. Financial instruments – risk management and fair value

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable. The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets	Note	2017 $'000	2016 $'000
Cash and cash equivalents	8	2,878	13,996
Term deposits	8	-	3,333
Trade and other receivables	9	166	529
Total financial assets		3,044	17,858

Financial Liabilities	Note	2017 $'000	2016 $'000
Trade and other payables	13	626	165
Interest-bearing liabilities	14	2,000	-
Total financial liabilities		2,626	165

Financial risk management framework

The Company's board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Specific financial risk exposures and management

The main risks the Company is exposed to through its financial instruments are credit risk, liquidity risk and market risk relating to interest rate risk and other price risk. This note presents information about the Company's exposure to each of the above risks, the Company's objective, policies and processes for measuring and managing risk, and the Company's management of capital.

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Company.

Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and the regular monitoring of exposures and the financial stability of significant customers and counterparties.

Risk is also minimised through investing surplus funds with financial institutions that maintain a high credit rating or in entities that the board of Directors have otherwise assessed as being financially sound.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period is equivalent to the carrying amount and classification of those financial assets (net of any provisions) as presented in the Statement of Financial Position.

The fair values of financial assets and liabilities held by the Company at the reporting date are considered to be approximate to their carrying amounts.

Past due and impaired assets

No financial assets carried at amortised cost were past due or impaired at 31 December 2017.

Liquidity risk

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities that are settled by delivering cash or another financial asset. The Company manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities; and
- obtaining funding from a variety of sources.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Financial Liabilities	Note	Carrying Value $,000	Contractual Cash Flows $'000	6 Months or Less $'000	Over 6 Months $'000
Trade and other payables	12	626	626	626	-
Interest-bearing liabilities	14	2,000	2,000	2,000	-
		2,626	2,626	2,626	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or its value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising returns.

The Company has exposure to interest rate risk through its new interest-bearing loan from NAB. Movements in interest rates is not expected to have a material impact on the Company's profit or equity.

23. Capital commitment

At 31 December 2017 the Company has entered into contracts to acquire permanent water entitlements to the value of $2.315 million, and settled deposits relating to these contracts amounting to $0.407 million.

24. Subsequent events

No matter or circumstance has arisen since the end of the reporting period ended 31 December 2017, that has significantly affected or could significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

DIRECTOR'S DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2017

The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that Duxton Water Limited will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including that:

   i. the financial report complies with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   ii. the financial statements and notes give a true and fair view of Duxton Water Limited's financial position and performance for the year ended 31 December 2017.

c) the audited remuneration disclosures set out on pages 14 to 17 of the Directors' report comply with section 300A of the Corporations Act 2001; and

d) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the directors made pursuant to s.295A of the Corporations Act 2001.

Edouard Peter
Chairman

Peter Michell
Independent Non-Executive Director

Stirling, South Australia
27 February 2018

KPMG

Independent Auditor's Report

To the shareholders of Duxton Water Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Duxton Water Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- *Statement of financial position* as at 31 December 2017;
- *Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended;
- Notes including a summary of significant accounting policies; and
- *Directors' Declaration.*

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KPMG

Carrying value of Permanent Water Entitlements ($75.753m)	
Refer to Notes 6 and 12	
The key audit matter	**How the matter was addressed in our audit**
Permanent water entitlements are recorded by the Company as indefinite useful life intangible assets, measured at acquisition cost less any impairment in value since acquisition. The carrying value of permanent water entitlements is a key audit matter as: • They are the most significant value assets on the Company's balance sheet and form the basis of the Company's future revenue and cash-flow. • The Company engaged an external expert to assist with the fair value less costs of disposal impairment assessment of permanent water entitlements. The Company applied a market approach fair value valuation technique to determine the recoverable amount of the permanent water entitlements. This approach used prices observed in the market for transactions deemed comparable to determine an adjusted observable selling price. We considered this to create a risk of a biased selection and focused our efforts on evaluating the selection of comparable transaction data and the Company's adjustments to this data, to determine an adjusted observable selling price, on the assessment of impairment. • An impairment reversal of $0.739 million was recorded in the financial year ended 31 December 2017, increasing the attention we applied.	Our procedures included: • We assessed the Company's external expert's methodology of a market approach as a fair value valuation technique, and the adjustment of observable selling prices, against the criteria in the accounting standards. • We assessed the competence, experience and objectivity of the external expert engaged by the Company. • We involved our industry experts to assess the Company's market approach fair value valuation technique of using prices of recent comparable transactions to calculate an adjusted observable selling price to determine the recoverable amount of the permanent water entitlements, against industry practice. • We independently developed adjusted observable selling prices and compared these to the Company's and investigated differences to challenge the Company's estimates of recoverable amount. This process involved: - obtaining transactions, by water entitlement type, from state government water trades register websites; and - assessing the attributes of the transactions for comparability to the entitlements held by the Company and also against criteria contained in accounting standards. Specific attributes we evaluated for comparable transactions included: • Age – current transactions within one month of the 31 December 2017 year end; • Volumes of water transacted, considering the Company's entitlements; • Geography – same water zone, considering the Company's ownership profile; and • checking the calculation of and consistency of adjustments across the entitlements. • We compared the results of our calculations to the recoverable amount applied in the Company's assessment of impairment and determination of reversal of impairment by entitlement type. We considered this impairment reversal against our knowledge and understanding of the economic factors impacting on the price of permanent water entitlements, such as expected rainfall, demand for water, expected usage and government regulation and allocation. • We considered the sensitivity of the recoverable amount, by permanent water entitlement and in aggregate, to a reasonably possible range of dollar price per mega litre, to identify those permanent water entitlements at higher risk of impairment. • We assessed the disclosures made in the financial statements using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

KPMG

Other Information

Other Information is financial and non-financial information in Duxton Water Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Duxton Water Limited for the year ended 31 December 2017, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in *pages 12 to 15* of the Directors' report for the year ended 31 December 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

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Paul Cenko
Partner

Adelaide

27 February 2018

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2017

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at 31 January 2018 (unless otherwise stated).

Twenty largest equity security holders

The names of the twenty largest holders of quoted equity securities as at 31 January 2018 are listed below:

	Ordinary shares	
Name	Number held	Percentage of issued shares
Duxton Vineyards Water Pty Ltd <Duxton Water Unit A/C>	23,188,636	32.55
Duxton Vineyards Pty Ltd <Duxton Vineyards Unit A/C>	10,049,353	14.11
Friday Investments Pty Ltd <Goldburg Family A/C>	1,364,000	1.91
National Nominees Limited	1,225,730	1.72
Geat Incorporated <Geat-Preservation Fund A/C>	1,000,000	1.40
HSBC Custody Nominees (Australia) Limited	838,686	1.18
Citicorp Nominees Pty Limited	549,590	0.77
Mr David Wayne Rasheed <The Lake Family S/Fund A/C>	510,962	0.72
Ms Wendy Kathren Michell <The Ronwynne No 2 A/C>	478,001	0.67
J P Morgan Nominees Australia Limited	401,911	0.56
Bnp Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp	374,198	0.53
Mutual Trust Pty Ltd	310,000	0.44
Ironica Pty Ltd <Ferro Family Holdings A/C>	300,000	0.42
Duxton Offices Pty Ltd	250,000	0.35
Eramu Pty Ltd	250,000	0.35
W K M Holdings Pty Ltd	250,000	0.35
Mrs Jean Thyne Hadges	227,272	0.32
Mr Stephen Maurice Linton Lake	220,245	0.31
Mr Edouard Fernen Peter	215,000	0.30
Bond Street Custodians Limited <Asrj - D45880 A/C>	200,000	0.28
Total	42,203,584	59.24

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2017

	Options	
Name	Number held	Percentage of issued options
Presali Australia Holdings Pty Ltd <Presali Australia A/C>	4,400,000	6.88
Seppeltsfield Pty Ltd <Seppeltsfield Estate A/C>	4,400,000	6.88
HSBC Custody Nominees (Australia) Limited	3,440,000	5.38
Duxton Vineyards Pty Ltd <Duxton Vineyards Unit A/C>	3,365,561	5.27
Duxton Vineyards Water Pty Ltd <Duxton Water Unit A/C>	3,331,119	5.21
Sherbrook Land Pty Ltd <Vineyard Bare A/C>	1,672,000	2.62
Friday Investments Pty Ltd <Goldburg Family A/C>	1,364,000	2.13
National Nominees Limited	1,271,230	1.99
Mr Ben Smith	1,221,031	1.91
Mr Michael Hartweg	1,210,000	1.89
Geat Incorporated <Geat-Preservation Fund A/C>	1,000,000	1.56
J P Morgan Nominees Australia Limited	880,000	1.38
Balthazar Barossa Pty Ltd <Bowen Superfund A/C>	880,000	1.38
Australia-Asia International Wine Textile And Foods Importing And Exporting Pty Ltd	811,800	1.27
Stirling Investments (Sa) Pty Ltd <Stirling Invest Unit #3 A/C>	660,000	1.03
Mr David Wayne Rasheed <The Lake Family S/Fund A/C>	500,000	0.78
First Investment Partners Pty Ltd	500,000	0.78
Mr Michael David Row	455,644	0.71
Citicorp Nominees Pty Limited	455,000	0.71
Mutual Trust Pty Ltd	450,000	0.70
Total	32,267,385	50.49

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding as at 31 January 2018 are listed below:

Holding	Shares	Options
1-1,000	29,303	1,000
1,001-5,000	485,351	494,335
5,001-10,000	2,145,882	1,734,121
10,001-100,000	24,345,067	20,332,295
100,001 and over	44,238,029	41,350,655
Total	71,243,632	63,912,406

Substantial holders

Substantial holders of ordinary shares in the Company as at 31 January 2018 are listed below:

	Ordinary shares	
Holding	Number held	Percentage
Duxton Vineyards Water Pty Ltd <Duxton Water A/C>	23,188,636	32.55
Duxton Vineyards Pty Ltd <Duxton Vineyards A/C>	10,049,353	14.11

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2017

Substantial holders of options in the Company as at 31 January 2018 are listed below:

	Options	
Holding	Number held	Percentage
Presali Australia Holdings Pty Ltd <Presali Australia A/C>	4,400,000	6.88
Seppeltsfield Pty Ltd <Seppeltsfield Estate A/C>	4,400,000	6.88

Holders of each class of equity securities

Number of holders in each class of equity securities as at 31 January 2018 are listed below:

Holding	Number
Ordinary shares	71,243,632
Options	63,912,406

Voting rights

Ordinary shares: On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote

Options: No voting rights

Voluntary escrow

The table below shows a breakdown of the vendor shares subject to voluntary escrow as at 31 January 2018:

Escrow period	Total
No escrow	71,243,632