DUXTON
WATER LTD
ACN 611 976 517

2019 DECEMBER
ANNUAL REPORT

CORPORATE **DIRECTORY**

Non-Executive Chairman
Edouard Peter

Non-Exectuive Director
Stephen Duerden

Independent Non-Executive Directors
Dirk Wiedmann
Peter Michell
Dennis Mutton

Company Secretary
Katelyn Adams

Principal and Registered Office
7 Pomona Road
Stirling SA 5152
Telephone: (08) 8130 9500
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Legal Advisors
Cowell Clarke
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Adelaide SA 5000

Share Registry
Computershare

Auditors
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Stock Exchange Listing
Australian Securities Exchange
Share Code: D20

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CHAIRMAN'S **LETTER**
TO **SHAREHOLDERS**

Wednesday 26 February 2020

Dear Shareholders,

We are pleased to present to you the annual report for Duxton Water Limited ("the Company") (ASX: D2O) for the year ended 31 December 2019.

Duxton Water is in the business of partnering with farmers, both large and small to help with their water supply needs. We support a number of agricultural industries including dairy, viticulture, citrus, broadacre, olives, almonds and dried fruit.

Through the establishment of Duxton Water Limited, shareholders have been able to obtain exposure to an alternative asset class in Australian water entitlements. During 2019, the Company has continued to acquire and manage a portfolio of water assets primarily focused in the southern Murray Darling Basin. With the increased volume of water entitlements held, the Company has been able to expand its offering to its farming partners. This has been done through the provision of further entitlement leases as well as the provision of both spot allocation and forward contract allocation sales. 100% of the Company's water assets are active in the delivery of water to irrigators. The broader maturity of the Australia water market has delivered irrigators the ability to capital and risk manage this critical input into their operations. This has been particularly important as irrigators manage the impact of the critically dry period experienced over the last 3 years.

There were no significant changes in the nature of the activities of the Company through 2019.

Duxton Water provides a range of water solutions

100% of the Company's water assets are active in the delivery of water to irrigators

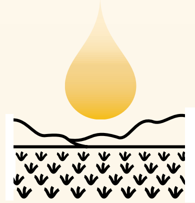
• WE PROVIDE WATER SECURITY •

Our leases enable farmers to make alternative capital decisions

Duxton Water's commitment to deliver water supply solutions to farmers

Establishing a portfolio which is diversified within the Murray Darling Basin

To provide valuable water supply solutions through leases, forwards and allocations



Which allows farmers to risk manage their water input to produce optimal agricultural commodities

This enables D20 to provide investors with visible cash yields and long term growth

Duxton Water as at 31 December 2019

The Company paid dividends totaling 5.3 cents per share (franked to 100%) through 2019. On a fair market value basis, the Company's portfolio of water assets has grown from $194.4 million (2018) to $334.6 million (2019) with its entitlement portfolio increasing from 61.1GL to 83.0GL.

During 2019, the Company generated an EPS of 6.4 cents per share (2018: 8.5 cents per share). While the broader portfolio saw fair value net uplift in 2019 of $59.3 million (2018: $24.5 million), this fair value adjustment cannot be recognised in the Financial Statements due to water assets being classified as intangible and held in the Statement of Financial Position at cost less any accumulated impairment. At 31 December 2019, the Company's portfolio of water assets was impaired to the value of $3.84 million (2018: $0.188 million), related to lower pricing within some of the Company's general security holdings. This required an impairment expense of $3.647 million (2018: $0.155 million) to be recognised in the 2019 Statement of Profit or Loss. Whilst the increased impairment delivers a negative impact to the 2019 Statement of Profit or Loss, a future increase in these general security assets will reverse the accumulated impairment expense and positively impact future statutory profits. Adjusting the EPS to remove the impact of the 2019 non-cash impairment and associated tax provision, the Company's EPS for 2019 would have been 8.7 cents per share (2018: 8.7 cents per share).

Due to Australia's highly variable climate, a critical factor in managing the Company's water portfolio is ensuring a balance of different types of water entitlements across many different regions. This ultimately allows the portfolio to deliver returns across various climactic conditions. Demand for multi-year leases continues to grow as irrigators look to secure their future water requirements against variable future weather conditions. We are pleased to have continued to grow the leased component of our portfolio, with over 66% of the portfolio directly leased at 31 December 2019 (39% at 31 December 2018), providing water supply to over 70 family and corporate farming business. The remaining unleased portion of the portfolio is used to deliver other water supply products to irrigators such as spot allocation and forward contracted allocation supply.

Since its IPO in September 2016

Duxton Water has

generated **total NAV return** of **80.51%**[1]

increased NAV from $1.07 → **$1.76**

paid **$11.56 million** **in total dividends**

invested over **$241.15million** in Australian water assets (cost). **Now valued at** **$334.56million**

1. Inclusive of dividends and franking credits based on Net Asset Value

PORTFOLIO GROWTH

	(total assets)		(entitlements held)		(capital growth)*	
	2019	2018	2019	2018	2019	2018
	334.6m	194.4m	83.0GL	61.1GL	59.3m	24.5m

** Annual unrealised gross capital gain across the portfolio*

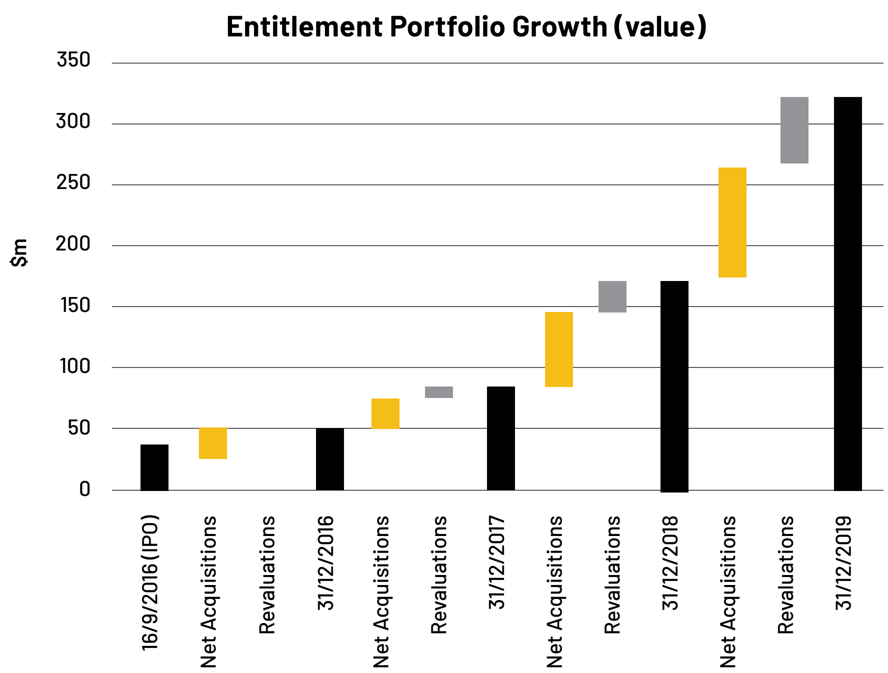
	PROFIT (EBT)		EARNINGS PER SHARE		DIVIDENDS PAID	
	2019	2018	2019	2018	2019	2018
	10.6m	10.4m	6.4 cents	8.5 cents	5.3 cents	4.9 cents

Portfolio of Australian Water Assets

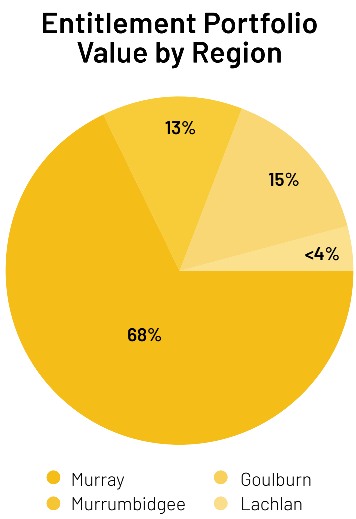
Through 2019 we saw significant increase in the valuation of water entitlements across Australia and particularly across high security entitlements in the agricultural hub within the southern Murray-Darling Basin. The value uplift seen we believe is reflective of long-term drivers rather than the drought currently being experienced. Irrigators over the last 10 years have significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion of their land to higher value commodities. At the same time, we have seen significant steps taken to return water to the environment with Government purchase (buyback) of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact of stronger demand and a reduced available water supply has consequently driven the increase in high security entitlement prices. The gain observed over the past 24 to 36 months, we believe has closed a level of the mispricing between entitlement values and those structural market changes. Irrigators themselves have been the greatest beneficiaries from this capital appreciation as they collectively own the majority of water entitlements on issue in the market.

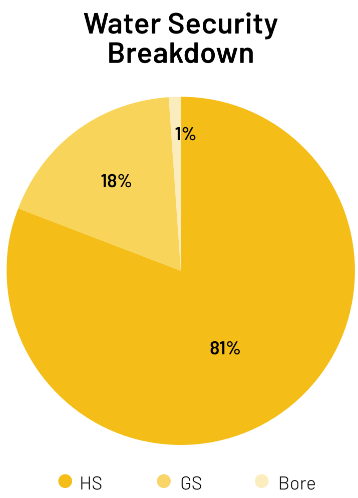
Demand and supply dynamics of the market are not static. Farmers will perpetually seek to improve their profitability and marginal return per megalitre. This enables them to compete more effectively for the available resource. This drive for efficiency of water use and effective conversion to economic output builds resilience within their businesses and enables them to better navigate an environment of changing climate and economic uncertainty. Inevitably, there will be industries and businesses that despite their best efforts, are unable to compete in this changing environment. Structural changes have and will always be a part of the Australian agricultural landscape.

During 2019, the Company increased its water entitlement holding by 21.9GL taking its total holdings at 31 December 2019 to 83.0GL. The Company actively manages the composition of its water portfolio and takes a targeted approach to acquisitions and portfolio rebalancing. This enables the portfolio to remain diversified in terms of water entitlement class and geographical region. This provides flexibility to allow the Company to deliver leases to the widest range of agricultural businesses possible. Active management also allows the Company to position the portfolio ahead of systematic trends or expected seasonal conditions.



The graphs below provide an insight into the portfolio composition at the end of the year and the table shows the change in volume of water held by entitlement type.





Entitlement Type Held	31/12/2018 (ML)	ML Change	31/12/2019 (ML)
Vic 1A Greater Goulburn HRWS	3,934.80	6,043.90	9,978.70
Vic 1A Greater Goulburn LRWS	75.30	19.10	94.40
Vic 1B Greater Goulburn	128.50	229.40	357.90
Vic 3 Greater Goulburn	120.00	251.00	371.00
Vic 5 Loddon HRWS	239.00	(239.00)	-
Vic 6 Murray (Dart to Barmah) HRWS	5,740.90	1,516.60	7,257.50
Vic 6B Murray (dart to Barmah) HRWS	96.50	171.00	267.50
Vic 7 Murray (Barmah to SA) HRWS	4,380.30	1,529.30	5,909.60
Vic 7 Murray Murray (Barmah to SA) LRWS	19.20	12.00	31.20
NSW Murray 10 HS	-	3,010.00	3,010.00
NSW Murray 10 GS	13,612.00	879.00	14,491.00
NSW Murray 11 HS	7,601.15	60.00	7,661.15
NSW Murray 11GS	6,219.20	921.01	7,140.21
NSW Murray 11 Supp	83.00	-	83.00
NSW Murrumbidgee 13 HS	2,171.00	1,301.00	3,472.00
NSW Murrumbidgee 13 GS	5,241.33	2,581.00	7,822.33
NSW Lachlan GS - Jemalong Irriation	2,660.00	-	2,660.00
NSW Lachlan GS	5,110.00	1,400.00	6,510.00
NSW Lower Lachlan Ground Water	788.00	-	788.00
SA Murray HS	2,388.41	1,419.30	3,807.71
SA Mallee Prescribed Wells Area - Parilla Red Zone	500.00	-	500.00
SA Mallee Prescribed Wells Area - Parilla Green Zone	-	831.86	831.86
Total	**61,108.59**	**21,936.47**	**83,045.06**

Leases

At 31 December 2019, 66% of the portfolio is leased through to over 70 family and corporate farming businesses. Through these leases, the Company's water supports a wide variety of agricultural commodities including dairy, viticulture, citrus, broadacre, olives, almonds and dried fruit.

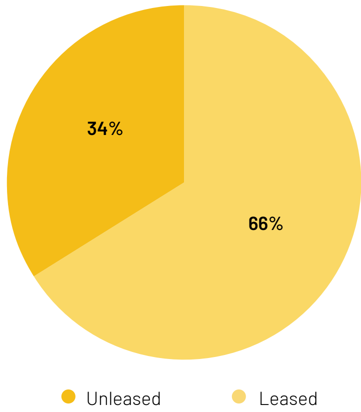
Increasing the leased portion of the porfolio provides the Company with greater visibility to forward-looking income. Lease income increased from $2.804 million in 2018 to $5.762 million in 2019 with the commencement of a number of new leases at 1 July 2019 (beginning of the Company's second half). The Company's current lease book at 31 December 2019 will deliver an annualised lease income of $8.719 million (see note 10 of the financial statements) for the 2020 year.

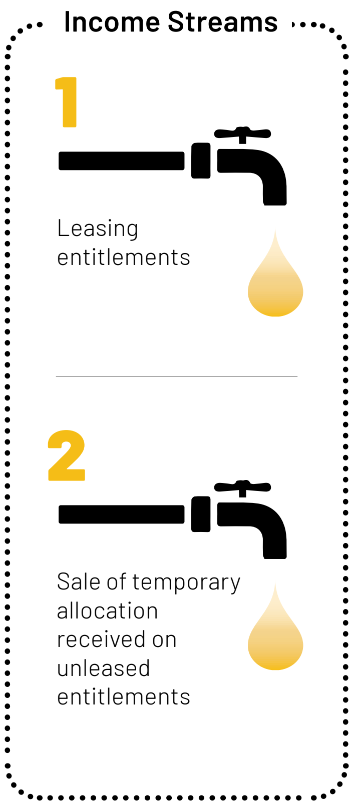
The Company expects this to increase as further leases are negotiated and commence through 2020. At 31 December 2019, the current weighted average lease expiry (WALE) for the Company's existing leases was 3.3 years. Including renewal options, the Company's WALE at 31 December 2019 is 5.5 years.

Water entitlement leases provide Duxton Water with a reliable, visible income stream and are an increasingly attractive long-term solution for irrigators. Leases provide our farming partners with allocation and water security that ownership of the entitlement offers. For the Company's tenants, leasing as opposed to owning entitlement, frees up their balance sheets, enabling them to focus capital into their land and production assets.

The Company sees strong future leasing demand and will continue to build a balanced lease book with a focus on diversity in terms of lease length, geography and counterparty and industry exposure. The Company maintains it's long-term target of having between 70 to 80% of the portfolio leased.

Water Portfolio Diversification





Dividends

2018	4.9 cents per share **not fully franked**
2019	5.3 cents per share **fully franked**
2020	5.7* cents per share **fully franked**

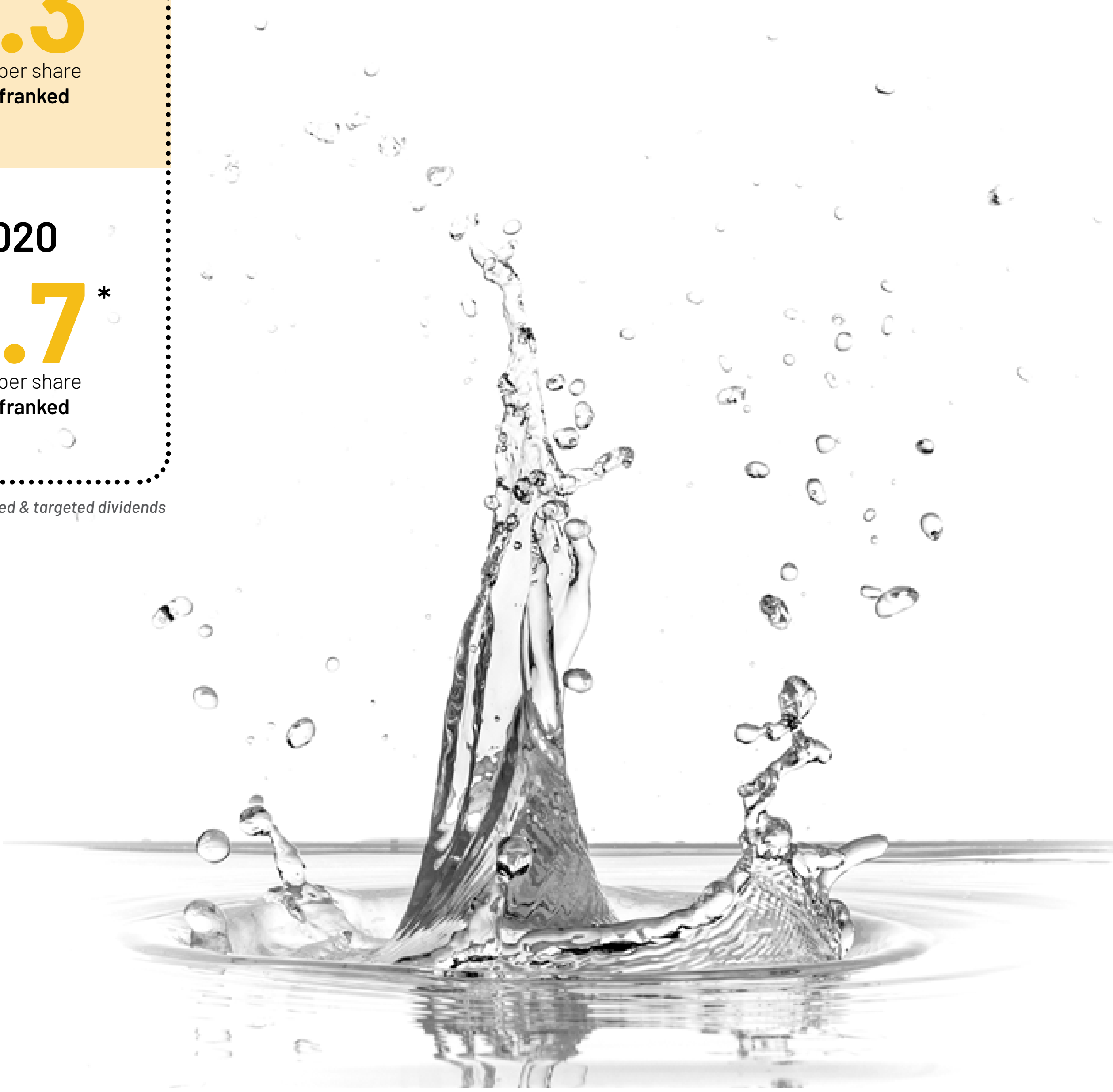
** Announced & targeted dividends*

Dividends

The Board has maintained its commitment to shareholders in the delivery of a bi-annual dividend, franked to the greatest extent possible.

In respect of the financial year ended 31 December 2019, a final dividend of 2.6 cents per share franked to 100% was paid to the holders of fully paid ordinary shares on 27 March 2019. An interim dividend of 2.7 cents per share franked to 100% was paid to the holders of fully paid ordinary shares on 18 September 2019.

Furthermore, on 10 February 2020, the Company announced a fully franked final dividend of 2.8 cents, to be paid on 30 March 2020. With greater visibility due to increased forward-looking lease revenue, the Company is pleased to reaffirm it is targeting a 2.9 cent fully franked dividend to be paid in September 2020 and a fully franked final dividend of 3.0 cents, expected to be paid in March 2021.



Net Asset Value

During 2019, the Company's NAV per share increased from $1.37 to $1.76 (up 28.4% from the prior year).

On top of operational returns over the past 12 months, the Company's well positioned water asset portfolio achieved a $59.3 million gross uplift based on independent valuation.

During the same 12-month period, there has been in excess of ~$4 billion of appreciation in value of water entitlements across the southern Murray Darling Basin region. Irrigators across the country have been the biggest beneficiaries of increasing water entitlement values, owning the vast majority of the consumptive pool of permanent water entitlements on issue in this region.

Water asset revaluation uplift is reflected as part of the fair market value comparison information within this report. That being said, from a statutory reporting point of view, due to the nature of water assets (i.e. intangible assets), the Company's water portfolio is measured at cost less any accumulated impairment.

Whilst the Company now holds a fair value revaluation uplift across the portfolio of water assets of $97.12 million, this is not recognised within the Company's statutory accounts. However, for the period ended 31 December 2019, a $3.647 million impairment expense has been recognised in the Statement of Profit or Loss. This is a pre-tax, non-cash impairment figure that has a direct negative impact on the statutory profit result. If the impaired assets revert back towards cost, the impairment is reversed, which will have a positive impact to the statutory Statement of Profit or Loss.

Capital Raise and Buyback

During 2019, the Company raised a total of ~$18.6 million (before costs), from the successful Institutional Share Placement in April 2019 and respective Share Purchase Plan of May 2019. New capital was raised at the 31 March 2019 NAV price of $1.48 per share with a total of 12,587,376 new shares being issued.

The Institutional Share Placement and subsequent Share Purchase Plan were well supported by both new and existing Shareholders.

12-month performance*	NAV return	Share Return
Capital Growth	28.43%	-4.64%
Cash Return (inc. franking)	5.52%	5.01%
Total	**33.95%**	**0.38%**

** Based on opening share price of $1.51 @ 31/12/18 and closing share price of $1.44 @ 31/12/19*

AT
APRIL 2019
$15 million raised
@$1.48/share
INSTITUTIONAL SHARE PLACEMENT

IN
MAY 2019
$3.6 million raised
@$1.48/share
SHARE PURCHASE PLAN

BETWEEN
SEP – DEC 2019
1,569,385 shares purchased
at an average price of
$1.432/share
SHARE BUYBACK

AT
DECEMBER 2019
119,880,298
TOTAL SHARES ON ISSUE

While we have been pleased to see the share price track NAV through the early part of 2019, the share price traded at a discount to NAV per share for the second half of 2019. At its peak, the share price traded at a 22% discount to NAV. The Board took the view that given the discount to NAV, a buyback of company shares was a prudent step and in the best interest of its shareholders.

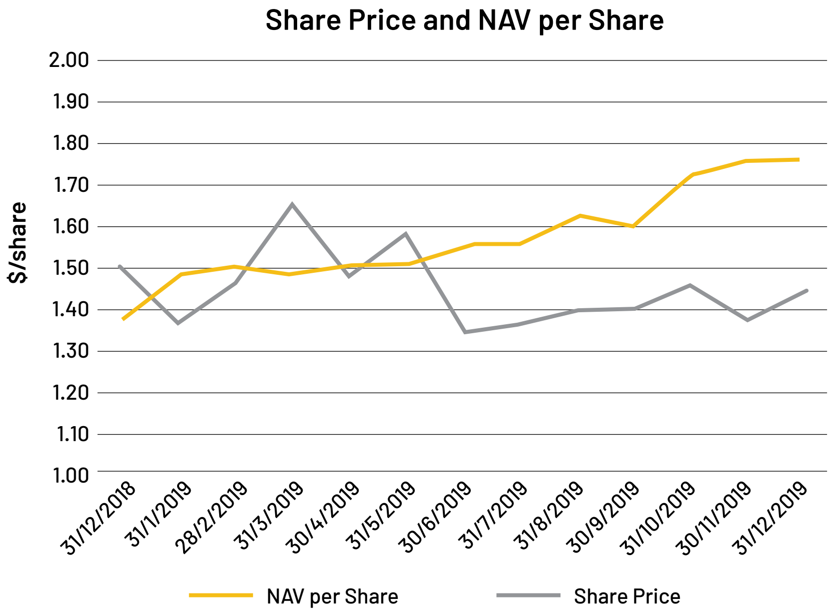
At 31 December 2019, the Company had bought back 1,569,385 shares at an average price of $1.432 per share.

The Company's closing share price at 31 December 2019 was $1.44 (2018: $1.51) representing a 18.3% discount to the 31 December 2019 NAV per share of $1.76. This equates to a closing market capitalisation of $172.6 million at 31 December 2019 (2018: $163.9 million).

At 31 December 2019, total shares on issue were 119,880,298.

Debt and Capital Deployment

While the Board maintains its intention to not hold significant long-term debt, sensible debt funding has been used through 2019 to continue to grow and develop the portfolio of water assets. The current debt position at 31 December 2019 is $94.2 million. The Company's deployment of the increased debt facility has been particularly effective allowing the business to grow while minimising share dilution during the periods where shares were trading at a discount to NAV.



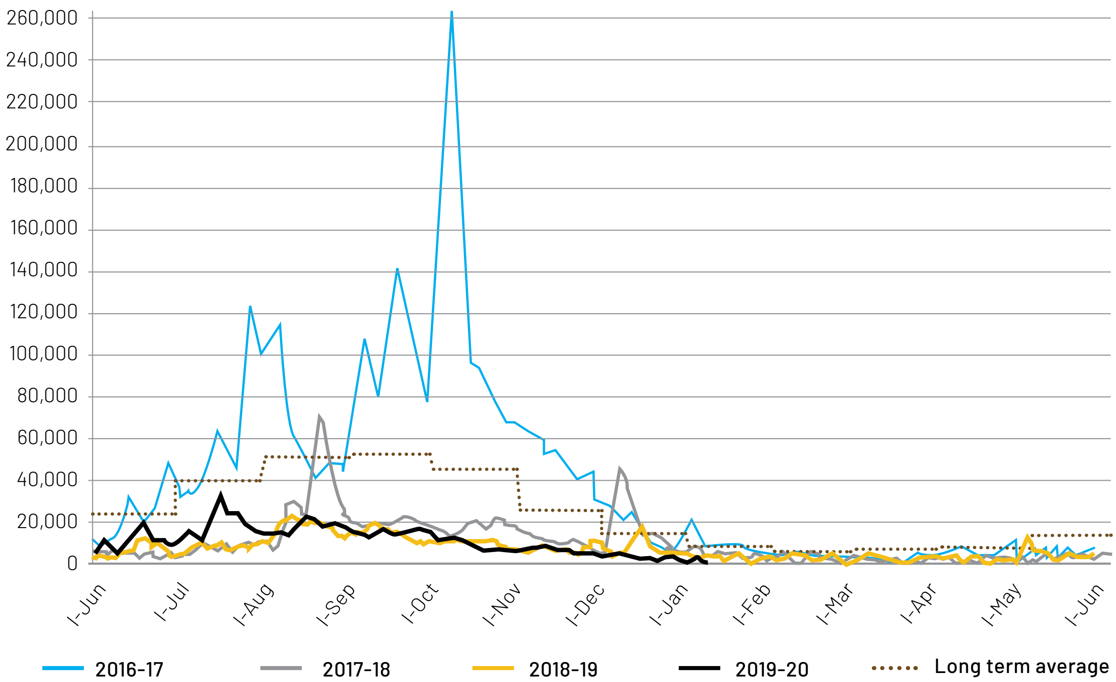
We see further opportunity for acquisition of entitlement in both the southern Murray-Darling Basin region, and in other regions around Australia. Growing the portfolio and furthering diversification will better equip the Company to deliver valued water solutions to both its existing and new customers in a strategic manner.

Market Trends

Rainfall across the Murray-Darling Basin averaged its lowest on record through 2019.

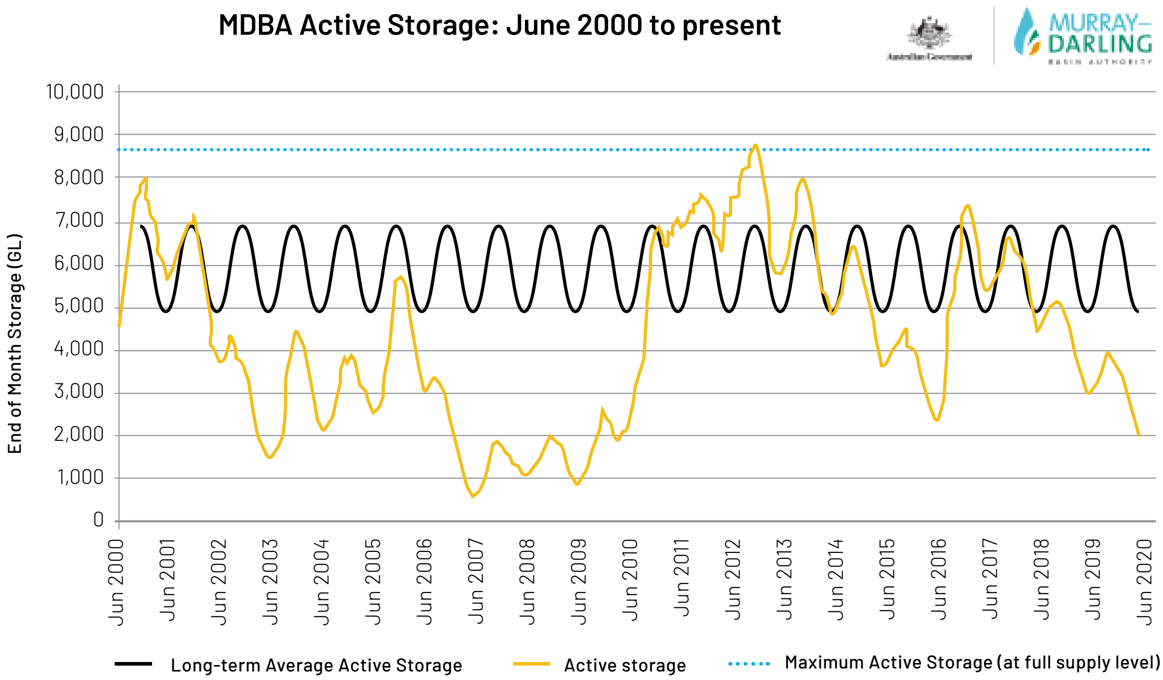
For the third consecutive year, the northern Basin did not receive significant inflow. Rainfall remained low, setting new records for the minimum one and three-year rainfall sequence.

Murray System Daily Inflows
(excl. Snowy Darling, inter-valley trade and environmental inflows) - 5 day rolling average



MDBA River Murray Weekly Report - https://www.mdba.gov.au/river-information/weekly-reports

MDBA Active Storage: June 2000 to present



MDBA River Murray Weekly Report - https://www.mdba.gov.au/river-information/weekly-reports

The BoM has reported that 2019 was Australia's warmest year on record. The national mean temperature was 1.52 °C above average, surpassing the record of 1.33 °C set in 2013.

The portfolio has been constructed with the Australian climate variability in mind and a mix of water entitlement types ensures we can offer water supply solutions through both dry and wet periods.

Outside of climate and allocation supply, the key drivers to the price of allocation are the reduction in overall supply due to the Government's buyback program, increase in efficiency (irrigators can do more with less water), and the shift in commodity production to higher margin crops.
We are seeing the impact of these structural shifts and trends in the water market through this dry period, and we expect to continue to see them exert influence throughout inevitable wetter periods in the future.

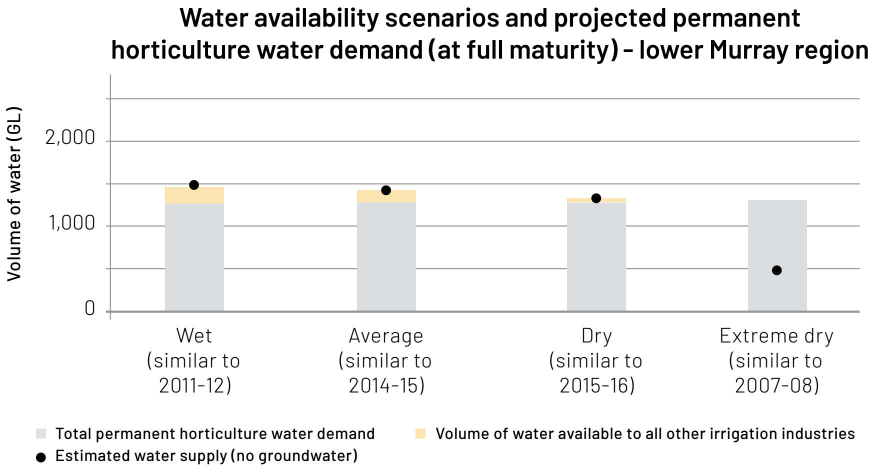
Market Outlook

The warm and dry conditions Australia has experienced towards the end of 2019 was due to weather drivers including a very strong positive Indian Ocean Dipole (IOD) and the negative Southern Annular Mode (SAM). While these drivers weakened towards the end of 2019, their effects are likely to linger into the 2020 calendar year, particularly with the very dry soil profile and low water storage levels.

At 31 January 2020, forward looking projections are for above average daytime and nighttime temperatures through to April 2020. With the IOD and SAM weakening over the 19/20 summer, rainfall outlook across the SMDB is looking somewhat neutral into 2020.

We continue to see new plantings of higher value permanent crops (fruit and nut trees), and a shift towards higher margin annual crops, such as cotton. Permanent cropping developments planted in the last 5 years continue to mature and every new hectare planted adds to the future allocation demand. A study by the water policy group Aither Pty Ltd, on behalf of the Victorian Government, estimates that existing permanent horticulture will demand approximately 1,400GL of irrigation water per annum at full maturity (55% increase from ABARES estimates). Horticultural demand accounts for all allocation against entitlements in the lower Murray region in average rainfall years and supply shortfalls will need to be met through carryover and the trade of water. Aither's analysis suggests that under an extreme dry scenario, the directly available consumptive surface water supply within the lower Murray may only meet approximately 40 percent of total existing permanent horticulture demand (at full maturity).

Upward pressure is placed on allocation prices as demand increases and supply decreases. Whilst we have seen strong growth in water entitlement values through 2019, we would not expect this to be replicated into 2020. However, the Company is of a view that it will be some years before the long-term, permanent demand is fully factored into the price of water entitlements by the market.



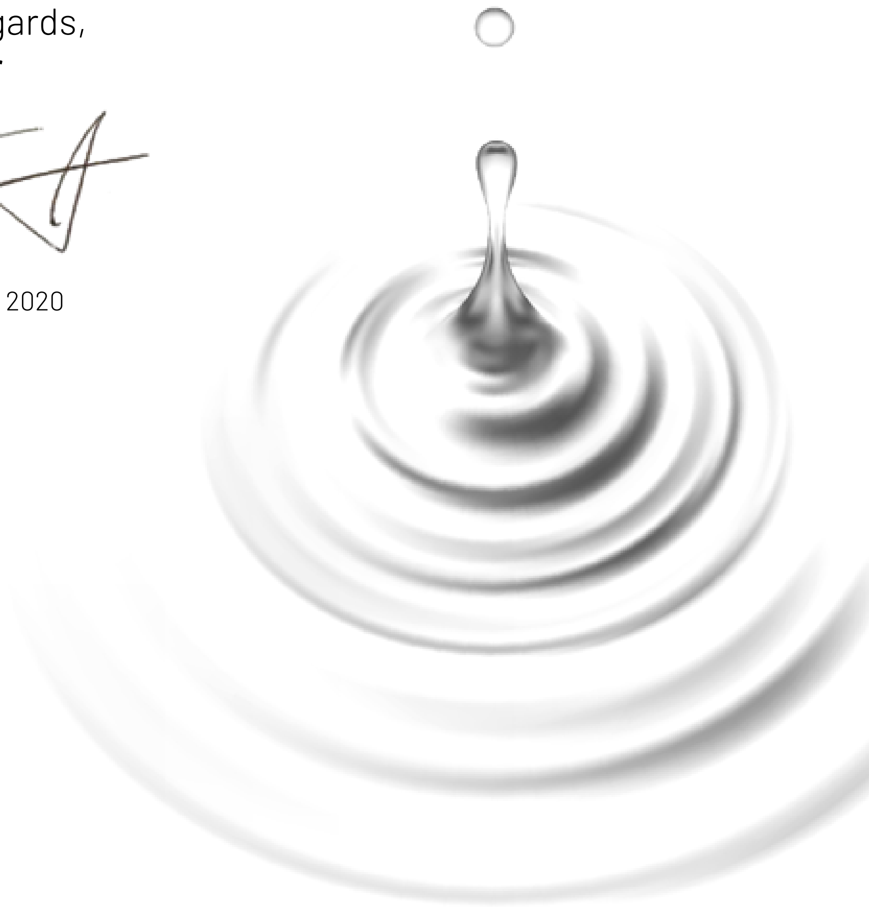
Water Supply and Demand in the southern Murray-Darling Basin – Victorian Department of Environment, Land, Water and Planning (DELWP) - https://waterregister.vic.gov.au/images/documents/Water-Supply-and-Demand-Report_Aither_FINAL.pdf

The Company welcomes and has actively participated in the ACCC Inquiry into the southern Murray Darling Basin water market. Whilst the review is a sperate engagement, the ACCC has had an existing role in monitoring and reporting on the market's development since 2012. It was pleasing to see a clear and balanced articulation of both their support for the market and areas of potential improvement by numerus stakeholders, including farmers, industry representatives and Government bodies. Analysis of conditions through the millennial drought estimated that due to the effective operation of the Australian water market, an additional ~$1 billion of economic activity was maintained. What became clear from a number of submissions to the ACCC, was the acknowledgement of the structural demand and supply changes over the last 10 years (since the millennial drought) and the markets ongoing importance in providing farmers with the tools and flexibility to adequately plan for future irrigation needs and mitigate the effects and impact of climate change.

The Board and I thank you for your continued interest and investment in Duxton Water. ”

Kind Regards,
Ed Peter

26 February 2020



DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors of Duxton Water Limited submit here with their Directors' Report, the financial report of Duxton Water Limited ("the Company") for the year ended 31 December 2019, and the Auditors' Report. 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 Mrs Katelyn Adams.

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

There has been no change in the principal activities of the Company. The Company has continued to acquire and manage a portfolio of Australian water entitlements primarily focused in the southern Murray Darling Basin. Income was derived through the provision of water supply solutions to predominantly primary producers through a combination of long-term lease arrangements and sale of temporary water allocations, to support Australian agricultural production.

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

Review of operations

During 2019, the Company raised $18.6 million via a successful Institutional Share Placement ($15.0 million) and Retail Share Purchase Plan Offer ($3.6 million). These funds along with an increased debt facility were used to grow the actively managed portfolio of water assets to a fair market value of $334.6 million at 31 December 2019 (2018: $194.4 million). The Company's portfolio now spans across 21 different water zones and classes with 100% of the Company's water assets active in the delivery of water supply to irrigators.

Reaffirming the Board's intentions, the Company 'passed through' two dividends during the year, firstly a dividend of 2.6 cents per share (100% franked) was paid in March 2019 and a dividend of 2.7 cents per share was paid in September 2019 (100% franked).

The company also entered into new lease arrangements, with 66% of the permanent portfolio now leased to counterparties which range from family farming operations to larger corporate businesses.

Financial overview

The Company's net profit after tax for the year amounted to $7.425 million (2018: $7.265 million).

At 31 December 2019, the Company's total water assets on a fair market value basis were $334.6 million (2018: $194.4 million). Liabilities including non-current debt facility, current tax and provision for deferred capital gains tax (should the portfolio be disposed of), amounted to $124.150 million (2018: $50.425 million). Therefore, the net asset value of the Company on a fair market value basis at 31 December 2019 was $211.068 million or $1.761 per share (31 December 2018: $148.966 million or $1.372 per share).

At 31 December 2019, the Company's total assets from a statutory reporting perspective (requiring assets to be held at cost less accumulated impairment) are $247.041 million (31 December 2018: $168.907 million) which includes accumulated impairment of $3.834 million (31 December 2018: $0.187 million), resulting in a statutory net asset value at 31 December 2019 of $142.681 million or $1.190 per share (31 December 2018: $125.027 million or $1.152 per share).

Key metrics	2019	2018	2017	2016
Profit (loss) attributable to owners of the company	$7.425m	$7.265m	$2.066m	($0.232m)
Basic earnings per share	$0.064	$0.085	$0.032	($0.015)
Dividends paid	$6.098m	$3.990m	$1.471m	-
Dividends per share	$0.053	$0.049	$0.023	-
Share price (at 31 December)	$1.44	$1.51	$1.12	$1.00
Return on capital employed	$0.054	$0.067	$0.038	($0.008)

DURING
2019
~$18.6m
raised in
new capital

AT
31 DEC 2019
actively managed portfolio of water assets grew to a fair market value of
$334.6 million

Company's portfolio spans across
~21
different
water zones

FROM
2018 - 2019
dividend per share increased from
4.9 to 5.3 cents

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, temporary water allocations related to those entitlements and separately acquired temporary water allocations are valued by an independent expert.

The independent expert employs a market valuation approach to determine a Fair Market Value 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. The Fair Market Value is not in accordance with the recognition and measurement requirements of the Australian Accounting Standards in relation to the Company's water assets. Therefore, increases in the Fair Market Value of water assets are not reported in the statutory accounts.

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 cost less any accumulated impairment, 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.

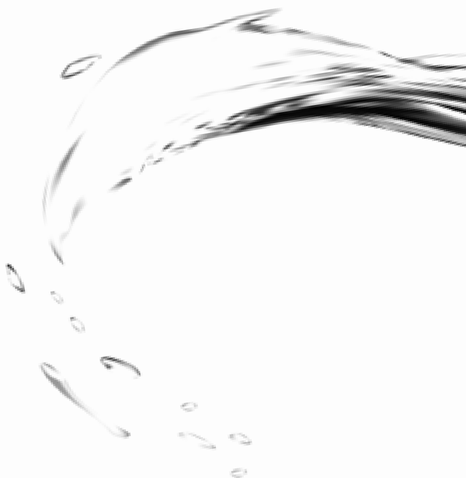
Presented below is a summary of the Company's NAV on a Fair Market Value basis compared to the basis of preparation described in Note 2 of the financial statements.

31 December 2019	Per company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
Assets			
Permanent water entitlments	231,695	326,831	95,136
Temporary water entitlements	5,745	7,729	1,984
Net current and deferred tax asset	(538)	(29,611)	(29,073)
Net other current assets	318	658	340
Net non-current liabilities	(94,539)	(94,539)	-
Total net assets	**142,681**	**211,068**	**68,387**
Net asset value per share	**$1.190**	**$1.761**	**$0.571**

31 December 2018	Per company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
Assets			
Permanent water entitlments	139,763	172,952	33,189
Temporary water entitlements	20,466	21,474	1,009
Net current and deferred tax asset	(1,333)	(11,592)	(10,259)
Net other assets	4,965	4,965	-
Net non-current liabilities	(38,833)	(38,833)	-
Total net assets	**125,027**	**148,966**	**23,938**
Net asset value per share	**$1.152**	**$1.372**	**$0.220**

* *Fair Market Value is evaluated on a monthly basis by the Company's independent valuer "Aither Pty Ltd". It is a non IFRS measure that is not reviewed or audited by the Company's auditor.*

Further detail by reported segment is disclosed in Note 18 of the financial statements.



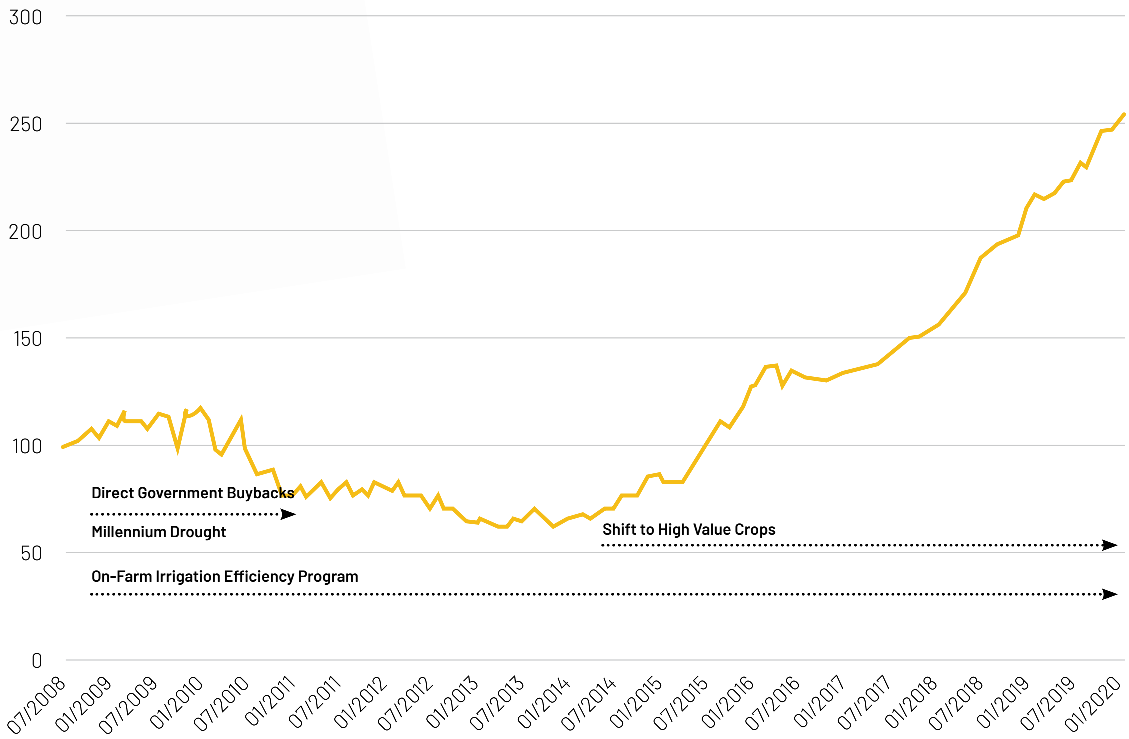
Market overview

Dry and hot conditions persisted throughout 2019. For the third year in a row, there has been significantly below average rainfall across the Murray Darling Basin, which has delivered the region its driest 36 month period on record; surpassing the previous record set during the federation drought (1900-1903) with over 100mm less average rainfall across the basin. Whilst there has been rain across parts of Queensland and northern and coastal NSW regions through January and February 2020, this has not delivered any meaningful rainfall inflow to the southern Murray Darling catchments. Storages continue to be drawn down to meet irrigation, system and environmental requirements through the back end of summer. Soil moisture in many areas, whilst improved, remains below average. The impact of this has seen low catchment yield from any rainfall received in the southern catchments. The Bureau of Meteorology (BOM) are currently predicting low stream flow through autumn based on current catchment conditions and neutral weather drivers.

These persistent dry conditions have had a significant impact on the allocation market which resulted in lower allocations being issued and increased demand from both annual and permanent crop irrigators. This has resulted in a significant increase in allocation pricing due to reduced supply. Pricing started the season at ~$600/ML and increased through to November to ~$950-1000/ML. Allocation pricing has eased since November to between $600 -$700/ML.

Entitlement values continued to increase, as evidenced in Aither's increasing Entitlement Index, which over the course of the year, increased by over 25%. This index tracks the change in the weighted capital value of a group of major water entitlement types across the southern Murray-Darling Basin. The Company has benefited from the capital gain which has seen a $59.3 million appreciation in the held water portfolio. The value uplift seen is reflective of long-term drivers rather than the drought currently being experienced. Irrigators have over the last 10 years significantly enhanced their marginal return per megalitre through both more efficient use of water and conversion to higher value commodities. At the same time, significant steps have been taken to return water to the environment through Government purchases (buyback) of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact of stronger demand and a reducing available water supply has consequently driven an increase in water prices. The gain experienced over the past 24 to 36 months has closed a level of the mispricing between entitlement values and those structural market changes mentioned above. Irrigators themselves have been the greatest beneficiaries from this capital appreciation as they collectively own the majority of water entitlements on issue in the market.

Entitlement Pricing – Aither Entitlment Index



Copyright – Aither Pty Ltd

Future developments

The BOM's outlook is for hot and dry conditions to persist into autumn. With storages significantly lower due to the drawdown of water over the last three years, the 2020/2021 water year is beginning with lower than usual dam storage levels. The 2020/2021 water year allocation forecasts were released mid-February 2020 for both NSW and Victoria. With current storage levels and forecast weather conditions, NSW general security entitlement may experience their third year of low to no allocation. In Victoria, with a repeat of 2019/2020 conditions, Murray high reliability entitlements are expected to receive ~45% allocation with the Goulburn to receive ~60%. It would also be the case that lower levels of held carryover would be available as irrigators have depleted water reserves brought across from the 2018/2019 water year. With the global climate drivers, specifically the IOD and ENSO remaining broadly neutral, any change in forecast conditions will be driven by local factors.

Should conditions revert to the wetter part of the climatic cycle, or the current dry conditions continue, the Company's strategic portfolio mix of high and general security entitlements is well positioned to provide consistent returns to shareholders.

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 2019, a final dividend of 2.6 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 27 March 2019. An interim dividend of 2.7 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 18 September 2019.

Total dividends paid for the 2019 financial year were $6.098 million. This consisted of cash distributions of $5.695 million and shares issued under the DRP to the value of $0.403 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 $0.104 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, 4 board meetings and 5 audit and risk committee meetings were held.

Director	Board Meetings		Audit & Risk Committee Meetings	
	Meetings attended	Meetings held	Meetings attended	Meetings held
Mr Edouard Peter	4	4	-	-
Mr Stephen Duerden	4	4	5	5
Mr Dirk Wiedmann	4	4	-	-
Mr Peter Michell	4	4	4	5
Mr Dennis Mutton	4	4	5	5

Research and development

The Company did not undertake any research or development 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).

CHAIRMAN OF THE BOARD
EDOUARD PETER

Edouard Peter, is the 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. Prior to his time at Deutsche bank, Ed spent 10 years UBS as Head of Swiss Equites distribution, and prior to that, 4 years as deputy head of International Swiss equity distribution at Credit Suisse in Geneva Switzerland.

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.

QUALIFICATIONS
- Bachelor English Literature

OTHER DIRECTORSHIPS (ASX Listed)
- Duxton Broadacre Farms Ltd

Interest in Securities

Fully paid ordinary shares	11,334,221

Committees
None

NON-EXECUTIVE DIRECTOR
STEPHEN DUERDEN

Stephen Duerden is currently the CEO of Duxton Capital (Australia) Pty Ltd. He has 29 years experience in investment management with 14 of those being involved directly in the agricultural industry in Australia. Stephen joined Duxton in May 2009. Prior to this, he was the COO and Director for both the Complex Assets Investment 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 A$20 billion, and a member of the Private Equity Investment Committee overseeing the management of over $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 property development and management, the listing and administration of REITS, the investment and operation of a number of agricultural businesses as well as the operation and investment of more traditional asset portfolios. Stephen is currently a Director of a number of investment funds managed by the Duxton Group and holds board positions on a number of direct agricultural businesses in Australia.

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 Member of the Australian Institute of Company Directors, 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.

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

OTHER DIRECTORSHIPS (ASX Listed)
- Duxton Broadacre Farms Ltd

Interest in Securities

Fully paid ordinary shares 124,172

Committees

Member – Audit and Risk Management Committee

INDEPENDENT NON-EXECUTIVE DIRECTOR
DIRK WIEDMANN

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.

QUALIFICATIONS

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

OTHER DIRECTORSHIPS (ASX Listed)

- Nil

Interest in Securities

Fully paid ordinary shares	1,402,656

Committees

None

INDEPENDENT NON-EXECUTIVE DIRECTOR
PETER MICHELL

QUALIFICATIONS
- Bachelor of Management
- FAICD
- FGLF2000

OTHER DIRECTORSHIPS (ASX Listed)
- Nil

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.

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	1,482,204

Committees

Member – Audit and Risk Management Committee

INDEPENDENT NON-EXECUTIVE DIRECTOR
DENNIS MUTTON

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.

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

OTHER DIRECTORSHIPS*
- WPG Resources Ltd (resigned 27/03/2017)

Interest in Securities

Fully paid ordinary shares	42,636

Committees

Chair– Audit and Risk Management Committee

COMPANY SECRETARY
Katelyn Adams

Katelyn Adams has over 10 years of accounting and company secretarial experience, serving predominantly ASX listing companies. Katelyn has extensive knowledge in company secretarial duties, ASX Listing Rule requirements, IPO and capital raising process, as well as a strong technical accounting knowledge. Mrs Adams also provides corporate advisory services to a wide range of organisations. Katelyn is also the company secretary of Duxton Broadacre Farms Limited.

QUALIFICATIONS
- B Acc
- FCA

Remuneration report (audited) – Investment Manager

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. 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.

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:

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

"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 will 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 2019 amounted to $1.780 million (year ended 31 December 2018: $1.046 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 buybacks 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 2019 amounted to $5.060 million (year ended 31 December 2018: $2.310 million).

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

Details of movements in Directors Shareholdings for the period are set out in the following table:

Movements in Shares	1 Jan 2019	Exercise of Options	Other Changes*	31 Dec 2019
Mr Edouard Peter (1)	11,216,781	-	117,440	11,334,221
Mr Stephen Duerden (1)	113,128	-	11,044	124,172
Mr Dirk Wiedmann	1,392,521	-	10,135	1,402,656
Mr Peter Michell	1,432,836	-	49,368	1,482,204
Mr Dennis Mutton	31,949	-	10,687	42,636
Total	**14,187,215**	**-**	**198,674**	**14,385,889**

**Other changes represent shares that were purchased or sold during the year at an arm's length basis on the ASX. There were no equity instruments granted during the period as compensation.*

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 (Total Remunation)	2018 $	2019 $
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	38,678
Total	**105,000 (2)**	**108,678 (2)**

(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.

(2) Total Director Remuneration Fees received in cash

Options

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

END OF REMUNERATION REPORT

Rounding

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 Directors Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Shares under option

Nil

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 41.

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

Edouard Peter
Chairman

Dennis Mutton
Independent Non-Executive Director

Stirling, South Australia
26 February 2020

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 2019 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

Darren Ball

Partner

Adelaide

26 February 2020

STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Revenue and other income	4	96,450	28,213
Cost of sales		(71,703)	(12,695)
Gross profit		**24,747**	**15,518**
Management fees		(1,780)	(1,046)
Performance fees		(5,060)	(2,310)
Legal and professional fees		(106)	(54)
Other expenses	5	(1,271)	(956)
Impairment reversal/(impairment) of water entitlements	6	(3,647)	(155)
		(11,864)	**(4,521)**
Profit before net finance (cost)/income		**12,883**	**10,997**
Finance income		1	3
Finance expense		(2,277)	(608)
Net finance (cost)/income		**(2,276)**	**(605)**
Profit before tax		**10,607**	**10,392**
Income tax expense	7	(3,182)	(3,127)
Profit for the year attributable to shareholders of Duxton Water Limited		**7,425**	**7,265**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year attributable to shareholders of Duxton Water Limited		**7,425**	**7,265**
Earnings per share attributable to shareholders of Duxton Water Limited			
Basic earnings per share	16	0.064	0.085
Diluted earnings per share	16	0.064	0.085

The notes on page 45 to 69 are an integral part of these financial statements

STATEMENT OF **FINANCIAL POSITION**
AS AT 31 DECEMBER 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	751	2,665
Trade and other receivables	9	6,851	5,419
Water allocations	11	5,745	20,466
Other current assets		331	113
Total current assets		**13,678**	**28,663**
Non-current assets			
Water entitlements	12	231,695	139,763
Deferred taxation	7	1,668	481
Total non-current assets		**233,363**	**140,244**
Total assets		**247,041**	**168,907**
LIABILITIES			
Current liabilities			
Trade and other payables	13	5,431	2,541
Unearned revenue		2,183	692
Tax liability	7	2,206	1,814
Financial derivative liabilities		339	-
Total current liabilities		**10,159**	**5,047**
Non-current liabilities			
Interest-bearing liabilities	14	94,200	38,833
Total non-current liabilities		**94,200**	**38,833**
Total liabilities		**104,359**	**43,880**
Net assets		**142,682**	**125,027**
EQUITY			
Issued capital	15	137,717	121,389
Retained earnings		4,965	3,638
Total equity		**142,682**	**125,027**

The notes on page 45 to 69 are an integral part of these financial statements

STATEMENT OF **CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Issued capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018		**77,015**	**363**	**77,378**
Profit for the year		-	7,265	7,265
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	7,265	7,265
Transactions with owners of the company:				
Shares issued	15	44,920	-	44,920
Share issue costs – net of taxes	15	(546)	-	(546)
Distribution of dividends	15	-	(3,990)	(3,990)
Balance at 31 December 2018		**121,389**	**3,638**	**125,027**
Balance at 1 January 2019		**121,389**	**3,638**	**125,027**
Profit for the year		-	7,425	7,425
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		-	7,425	7,425
Transactions with owners of the company:				
Shares issued	15	16,784	-	16,784
Share issue costs – net of taxes	15	(456)	-	(456)
Distribution of dividends	15	-	(6,098)	(6,098)
Balance at 31 December 2019		**137,717**	**4,965**	**142,682**

The notes on page 45 to 69 are an integral part of these financial statements

STATEMENT OF **CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers		92,959	22,234
Payments to suppliers		(62,496)	(34,591)
Interest received		1	3
Interest paid		(1,898)	(570)
Income tax paid		(3,781)	(1,304)
Net cash generated from operating activities	17	**24,785**	**(14,228)**
Cash flows from investing activities			
Purchase of water entitlements	12	(97,645)	(68,208)
Disposal of water entitlements		4,858	5,909
Deposits used (paid) for the purchase of water entitlements		687	(595)
Net cash used in investing activities		**(92,100)**	**(62,894)**
Cash flows from financing activities			
Proceeds from issue of shares	15	18,629	43,853
Payment of share buyback	15	(2,248)	-
Transaction costs related to issues of shares	15	(652)	(853)
Proceeds from borrowings	14	55,367	36,833
Payment of dividends	15	(5,695)	(2,924)
Net cash generated from financing activities		**65,401**	**76,909**
Net increase in cash and cash equivalents		**(1,914)**	**(213)**
Cash and cash equivalents at beginning of the year		2,665	2,878
Cash and cash equivalents at end of year	8	751	2,665

The notes on page 45 to 69 are an integral part of these financial statements

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 D2O. 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 26 February 2020.

2 BASIS OF PREPARATION

Basis of accounting

The financial statements have been prepared under the historical cost convention except for financial derivative liabilities which are at fair value. 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 financial statements have been prepared by applying the going concern basis of accounting. They are based on historical costs and do not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

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 balance date, there are no Standards and Interpretations that were issued but not yet effective.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in significant accounting policies

The Company has adopted AASB 16 Leases from 1 January 2019.
The details of the impact of these changes are set out below. A number of new accounting standards are effective from 1 January 2019, but they have no impact on the Company's financial statements.

a) AASB 16 Leases

AASB 16 Leases sets out principles for the recognition, measurement, presentation and disclosure of operational leases on the Statement of Financial Position under a single on-balance sheet accounting model. This standard replaces AASB 117 Leases.

The Company (as lessor) generates leasing revenue through the provision of long-term leasing arrangements of permanent water entitlements to various counterparties. As lessor, the process of accounting for theses leases under AASB 16 will remain substantially unchanged from AASB 117.

Under AASB 16 the Company will continue to classify all leases as either operating or finance leases using similar principles as defined in AASB 117 Leases. AASB 16 does not have any impact on the Company's financial statements for leasing arrangements where the company acts as lessor.

The Company can (as lessee) lease permanent water entitlements from various counterparties through the provision of long-term leasing arrangements. AASB 16 would ordinarily require the present value of the future lease payments to be recorded on the Company's Statement of Financial Position, however given the nature of permanent water entitlements (i.e. intangible assets) the Company has elected to not apply AASB 16 to these intangible assets.

The adoption of AASB 16 Leases did not have a material impact in the Company's financial statements.

Revenue and Other Income

Sale of temporary water allocations

The Company's revenue under AASB 15 is derived from the sale of temporary water allocations.

Revenue derived from the sale of temporary water allocations is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer which is when the performance obligations under the contract are completed.

Customers obtain control of temporary water allocations upon settlement of the sales contract. Settlement occurs when all contractual conditions precedent have been met.

Lease of water entitlements

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

Interest income

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

Sale of permanent 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).

Impairment of Financial Assets

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables, including contract assets, are presented separately in the statement of profit or loss and OCI.

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.

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.

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 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.

Financial instruments

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Companyp becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

c) Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

d) Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

e) Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

f) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

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.

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 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.

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.

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.

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

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.

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.

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).

Earnings per share

a) 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.

b) 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.

4 REVENUE AND OTHER INCOME

	2019 $'000	2018 $'000
Lease income from water entitlements	5,762	2,804
Sale of temporary water allocations	87,894	23,542
Profit on sale from disposal of water entitlements	2,792	1,867
Other income	2	-
	96,450	**28,213**

5 OTHER EXPENSES

	2019 $'000	2018 $'000
Administration and marketing expenses	392	341
ASX Listing fees	47	58
Auditors remuneration – KPMG – Audit of financial statements*	66	39
Auditors remuneration – KPMG – Other assurance services**	-	-
Brokerage, bank fees and other expenses	82	24
Company secretary	65	72
Directors' and officers' insurance	104	61
Government water charges	346	204
Non-executive Directors' fees	109	105
Share registry costs	60	52
	1,271	**956**

**Auditors remuneration – KPMG – Audit of financial statements = $65,760*
*** Auditors remuneration – KPMG – Other assurance services = $0*

6 IMPAIRMENT OF WATER ENTITLEMENTS

	2019 $'000	2018 $'000
Impairment/(impairment reversal) of water entitlements	3,647	155
	3,647	**155**

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).

The Company employs an independent expert to determine the fair value of entitlements. 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 (2018: Level 3). 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.

For the year ended 31 December 2019 the Company booked an impairment expense of $3.647 million against the general security portion of the portfolio. Details of information to which reportable segment the impairment relates to, is disclosed in Note 18.

Impairment arises due to factors as outlined in the Directors Report on page 24.

The impairment/(impairment reversal) relates to the following entitlement types held:

	2019 $'000	2018 $'000
Murrumbidgee Zone 13 GS	1,375	8
Murray Zone 10 GS	1,430	-
Murray Zone 11 HR	(25)	25
Murray Zone 11 GS	1,018	-
Murray Zone 11 SW	1	-
Macquarie Zone 2A GS	-	(21)
Lachlan Lower Groundwater Bore	(152)	152
Other	-	(9)
	3,647	**155**

Price change sensitivity
If the fair market price of the impaired assets listed above changed by 1%, this would result in a change to the statutory impairment expense in the Statement of Profit or Loss of $0.493 million (2018: $0.015 million).

7 TAXATION

	2019 $'000	2018 $'000

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

	2019 $'000	2018 $'000
Current tax expense	4,364	3,150
Deferred tax expense (benefit)	(1,182)	(23)
Total income tax expense	**3,182**	**3,127**

b) Recognised in the statement of changes in equity

	2019 $'000	2018 $'000
Current tax expense (benefit) – share issue expenses	(191)	(152)
Deferred tax expense (benefit) – share issue expenses	(5)	(82)
Income tax recognised directly in equity	**(196)**	**(234)**

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

	2019 $'000	2018 $'000
Profit before tax	10,607	10,392
Income tax expense at 30% (2018: 30%)	3,182	3,118
Increase/(decrease) in income tax expense due to: Movement in accrued expenses	-	9
Total income tax expense recognised in profit or loss	**3,182**	**3,127**

	2019 $'000	2018 $'000

d) Current Tax Liability

	2019 $'000	2018 $'000
Current tax expense recognised through profit or loss	4,364	3,150
Current tax benefit recognised in the statement of changes in equity	(191)	(152)
Income tax instalments paid	(1,967)	(1,184)
Current tax liability	**2,206**	**1,814**

e) Deferred Tax Asset

	2019 $'000	Transactions via P&L	Transactions via Equity	2018 $'000
Deferred tax assets (liabilities) in relation to:				
Share issue and listing costs	416	(205)	196	425
Water entitlements	1,150	1,094	-	56
Financial derivatives	102	102	-	-
Other expenses	-	-	-	-
	1,668	**991**	**196**	**481**

f) Dividend Franking Account

	2019 $'000	2018 $'000
Total franking account balance at 30%	1,301	134

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

	2019 $'000	2018 $'000
Cash at bank	751	2,665
	751	**2,665**

9 TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade receivables	6,446	4,256
Deposits paid	315	1,002
Other receivables	90	161
	6,851	**5,419**

Trade receivables are net of impairment of $nil. (2018:$nil)

10 LEASES AS LESSOR

Duxton Water leases out some of the water entitlements that it owns. At 31 December 2019 the future minimum lease payments under non-cancellable leases receivable was:

	2019 $'000	2018 $'000
Less than one year	8,719	2,804
Between one and five years	19,627	9,585
More than five years	-	238
	28,346	**12,627**

During 2019, lease income of $5.762 million was included in revenue (2018: $2.804 million).

11 WATER ALLOCATIONS

	2019 $'000	2018 $'000
Water allocations	5,745	20,466
	5,745	**20,466**

See accounting policy note 2.

In 2019, temporary water allocations of $71.703 million (2018: $12.695 million) were recognised as an expense in cost of sales. At 31 December 2019, no items of inventory were carried at net realisable value.

12 WATER ENTITLEMENTS

Permanent water entitlements - at cost	$'000
Balance at 1 January 2018	75,784
Additions	68,208
Disposals	(4,042)
Balance at 31 December 2018	139,950
Balance at 1 January 2019	139,950
Additions	97,645
Disposals	(2,066)
Balance at 31 December 2019	235,529

Accumulated impairment	$'000
Balance at 1 January 2018	32
Reversal of impairment losses recognised in profit or loss	155
Balance at 31 December 2018	187
Balance at 1 January 2019	187
Impairment loss recognised in profit or loss	3,647
Balance at 31 December 2019	3,834
Net book value 2019	231,695
Net book value 2018	139,763

13 TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Trade payables	44	18
Accrued expenses	5,386	2,522
Other payables	1	1
	5,431	**2,541**

14 INTEREST-BEARING LIABILITIES

	2019 $'000	2018 $'000
Bank loans – secured	94,200	38,833
	94,200	**38,833**

In September 2019, the Board approved a proposal to increase the debt facility from $60 million to $90 million and subsequently a further increase from $90 million to $100 million was approved in December 2019.

The debt is secured by a security interest and charge over all of the present and future rights, property and undertakings of Duxton Water Ltd. As per the debt agreement, the debt facility is secured by mortgages on approximately 65,852 ML of permanent water entitlements at 31 December 2019.

The interest payable on this facility is calculated as BBSY plus 0.82% p.a + Facility Fee of 0.82% and repayment is due in full by 31 January 2022.
Covenants of NAB credit facility:
- Maximum Net Debt (Drawn Primary Debt less Cash at Bank) to Water Portfolio Market Value (both entitlement and allocation market value) is to be no greater than 30%, and to be measured against monthly Independent Sworn Water Holding Valuation.
- Right of review trigger if minimum Interest Cover Ratio of 2.50x is not maintained and to be measured annually against audited accounts.

15 EQUITY

a) Ordinary shares

	No. Shares	$'000
Opening balance at 1 January 2018	71,213,632	77,015
Shares issued during the year (dividend reinvestment plan)	821,868	1,067
Shares issued during the year (options exercised)	18,244,780	20,069
Shares issued during the year (institutional entitlement offer)	7,501,693	9,752
Shares issued during the year (retail entitlement offer)	10,794,044	14,032
Share issue costs – net of taxes	-	(546)
Closing balance at 31 December 2018	**108,576,017**	**121,389**
Opening balance at 1 January 2019	108,576,017	121,389
Shares issued during the year (dividend reinvestment plan)	286,290	403
Shares issued during the year (institutional placement)	10,135,136	15,000
Shares issued during the year (retail share purchase plan)	2,452,240	3,629
Share buyback	(1,569,385)	(2,248)
Share issue costs – net of taxes	-	(456)
Closing balance at 31 December 2019	**119,880,298**	**137,717**

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.

b) Dividends

Total dividends paid for the 2019 financial year were $6.098 million. This consisted of cash distributions of $5.695 million and shares issued under the DRP to the value of $0.403 million.

16 EARNINGS PER SHARE

	2019	2018
Earnings/(loss) $'000	7,425	7,265
Earnings/(loss) used in the calculation of basic EPS $,000	7,425	7,265
Weighted average number of ordinary shares (basic)	116,816,340	85,342,909
Weighted average number of ordinary shares (diluted)	116,816,340	85,342,909
Basic earnings per share from continuing operations (dollars)	0.064	0.085
Diluted earnings per share from continuing operations (dollars)	0.064	0.085

17 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2019 $'000	2018 $'000
Profit after tax	7,425	7,265
Adjustments for non-cash items included in profit:	-	-
Finance costs	339	
Impairment / (impairment reversal) of water entitlements	3,647	155
Profit on disposal of water entitlements	(2,792)	(1,867)
Changes in other items:		
Trade receivables	(2,190)	(4,127)
Net GST paid (received)	(71)	(123)
Prepaid expenses	(218)	(10)
Creditors	26	(11)
Unearned revenue	1,491	16
Accrued expenses	2,864	1,927
Income taxes	392	1,848
Deferred tax	(991)	(24)
Water allocations	14,721	(19,350)
Other	142	73
Net cash generated from operating activities	**24,785**	**(14,228)**

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:

- 286,290 shares ($0.403 million) were issued under the Company's Dividend Reinvestment Plan during 2019.

18 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.

For the year ended 31 December 2019

	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	8,554	87,896	-	96,450
Cost of goods sold	-	(71,703)	-	(71,703)
Total segment gross profit	**8,554**	**16,193**	**-**	**24,747**
Finance income	-	-	1	1
Expenses	(3,993)	(78)	(7,793)	(11,864)
Finance costs	-	-	(2,277)	(2,277)
Tax expense	-	-	(3,182)	(3,182)
Net profit after tax	**4,561**	**16,115**	**(13,251)**	**7,425**

	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Balance Sheet						
Permanent water entitlements at fair value	221,473	42,162	48,222	14,972	-	326,829
- Less fair market value adjustment[2]	(67,872)	(7,086)	(7,002)	(5,506)	-	(87,466)
- Less accumulated impairment	(2,449)	(1,385)	-	-	-	(3,834)
Permanent water entitlements at cost	151,152	33,691	41,220	9,466	-	235,529
Temporary water allocations at fair value	5,636	991	749	353	-	7,729
- Less fair market value adjustment[3]	(1,365)	(63)	(335)	(221)	-	(1,984)
- Less accumulated impairment	-	-	-	-	-	-
Temporary water allocations at cost	4,271	928	414	132	-	5,745
Total segment assets as disclosed in the financial statements[4]	152,974	33,234	41,634	9,598	9,601	247,041
Total segment liabilities as disclosed in the financial statements	-	-	-	-	(104,359)	(104,359)

For the year ended 31 December 2018

	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	4,671	23,542	-	28,213
Cost of goods sold	-	(12,695)	-	(12,695)
Total segment gross profit	4,671	10,847	-	15,518
Finance income	-	-	3	3
Expenses	(359)	(33)	(4,129)	(4,521)
Finance costs	-	-	(608)	(608)
Tax expense	-	-	(3,127)	(3,127)
Net Profit/(loss) after tax	**4,312**	**10,814**	**(7,861)**	**7,265**

	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Balance Sheet						
Permanent water entitlements at fair value	125,132	22,513	15,098	10,209	-	172,952
- Less fair market value adjustment[2]	(25,433)	(2,949)	(1,491)	(2,943)	-	(32,816)
- Less accumulated impairment	(26)	(8)	-	(153)	-	(187)
Permanent water entitlements at cost	99,674	19,556	13,606	7,114	-	139,950
Temporary water allocations at fair value	14,899	6,021	374	181	-	21,474
- Less fair market value adjustment[3]	(2,455)	(2,251)	3,848	(152)	-	(1,009)
- Less accumulated impairment	-	-	-	-	-	-
Temporary water allocations at cost	12,444	3,770	4,222	29	-	20,466
Total segment assets as disclosed in the financial statements[4]	112,093	23,317	17,829	6,990	8,678	168,907
Total segment liabilities as disclosed in the financial statements	-	-	-	-	(43,880)	(43,880)

1. "Other" comprises of the Lachlan and Parilla regions, which individually account for less than 10% of the Company's revenue, loss before taxation, total liabilities and total assets.

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.

19 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 $1.780 million (2018: $1.046 million) and performance fees paid or payable to its Investment Manager amounting to $5.060 million (2018: $2.310 million).

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.

Mr Edouard Peter has a direct interest of 370,000 shares in the Company and an indirect interest in 10,964,221 shares in the Company.

Mr Stephen Duerden has a direct interest of 41,353 shares in the Company and an indirect interest in 82,819 shares in the Company.

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.

20 RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties during the year ended 31 December 2019 (and the year ended 31 December 2018):

	2019 $'000	2018 $'000
Management fee – Duxton Capital (Australia) Pty Ltd	1,780	1,046
Administration fee – Duxton Capital (Australia) Pty Ltd	231	160
Performance fee – Duxton Capital (Australia) Pty Ltd	5,060	2,310
Revenue – Duxton Viticulture Pty Ltd	2,199	2,199
Revenue – Duxton Dairies (Cobram) (Previously Hathor Dairies Pty Ltd)	92	92
Revenue – Duxton Broadacre Farms Ltd	187	187

Transactions between related parties are on commercial terms and conditions.

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

	2019 $'000	2018 $'000
Amount due to (from) Duxton Capital (Australia) Pty Ltd	5,256	2,685
Amount due to (from) Duxton Viticulture Pty Ltd	1	-
Amount due to (from) Duxton Dairies (Cobram)	-	(23)
Amount due to (from) Duxton Broadacre Farms Ltd	-	(49)

21 FINANCIAL INSTRUMENTS – RISK MANAGEMENT AND FAIR VALUE AASB 13

The Company's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable, interest bearing borrowings and interest rate swaps. The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

Financial Assets	Note	2019 $'000	2018 $'000
Cash and cash equivalents	8	751	2,665
Trade and other receivables	9	6,536	4,417
Total financial assets		**7,287**	**3,044**

Financial Liabilities			
Trade and other payables	13	5,431	2,541
Interest-bearing liabilities	14	94,200	38,833
Financial derivative liabilities		339	-
Total financial liabilities		**99,970**	**41,374**

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.

There is no significant concentration of credit risk as the Company transacts with a large number of customers.

Past due and impaired assets

No financial assets carried at amortised cost were past due or impaired at 31 December 2019.

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	13	5,431	5,431	5,431	-
Interest-bearing liabilities	14	94,200	99,410	1,303	98,107
		99,631	**104,841**	**6,734**	**98,107**

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 interest-bearing loan from NAB. Movements in interest rates are not expected to have a material impact on the Company's profit or equity.

Lessor risk

The company acknowledges there are risks associated with being a lessor. Risks can include situations where the Company does not receive its lease payments, or damage is incurred to the respected asset.
To ensure corrective measures have been taken to reduce or minimise these risks, the Company utilises mechanisms to reduce the risk associated with acting as lessor in asset leasing arrangements. The Company undertakes due diligence procedures which include:

- Utilising a third-party assessor to perform background and credit checks of all lessees. This level of verification gives the Company confidence in the lessees ability to satisfy its lease payment obligations in a timely manner.
- Leasing arrangements require payment in advance. The Company does not transfer useable water associated with the lease until payment has been made in full.
- The Company maintains control of the underlying permanent water entitlement attributable to leasing arrangements.

Interest rate risk

The Company utilises a combination of floating-to-fixed interest swaps in conjunction with variable interest rates to ensure the Company can adequately risk manage the interest rate risk. Under these arrangements, the company agrees to exchange the floating rate interest amounts for fixed contract rates at negotiated principal amounts. The Company does not apply hedge accounting when accounting for the fair value movements of financial derivatives.

Fair value assessment of financial derivatives

The fair value of the Company's interest rate swaps are calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices. Interest rate swaps are classified as Level 2 fair value financial instruments. Fair values are not based on any significant unobservable inputs. During the year, fair value changes of $0.339 million was recognised in the Statement of Profit or Loss and Other Comprehensive Income. There were no transfer between fair value levels during the year.

At 31 December 2019, it is estimated that a general increase/(decrease) of 1% in interest rates would increase/(decrease) the Company's profit before tax by approximately $0.542 million (2018: $0.388 million).

Capital management risk

For the purpose of the Company's capital management profile, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management assessment is to maximise shareholder value.

The Company's policy is to uphold a strong capital base to maintain investor interest, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends paid to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) for 2019 was 3.18% (2018: 3.58%).

From time to time, the Company purchases its own shares on the market; the timing of these purchases depends on market prices. The objective of the Company's share buyback program is to provide value to existing shareholders by taking advantage of the gap between the Company's share price and the NAV per share all while providing market liquidity to existing shareholders.

22 CAPITAL COMMITMENT

At 31 December 2019, the Company had entered into contracts to acquire permanent water entitlements to the value of $3.100 million, and settled deposits relating to these contracts amounting to $0.315 million.

23 SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the reporting period ended 31 December 2019, 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 2019

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 2019.

c) the audited remuneration disclosures set out on pages 35 to 38 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

Dennis Mutton
Independent Non-Executive Director

Stirling, South Australia
26 February 2020

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 2019 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 2019;
- 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
- Director's 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.

Carrying value of Permanent Water Entitlements ($231.695m)

Refer to Notes 6 and 12

The key audit matter	How the matter was addressed in our audit
Permanent water entitlements are recognised 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 Statement of Financial Position and form the basis of the Company's future long term 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 external expert applied a market approach fair value valuation technique. This valuation technique used prices observed in the market for identical or comparable transactions to determine an adjusted observable selling price. This valuation was used by the Company to assess permanent water entitlements for impairment; and • the Company recognised an impairment of $3.647 million in the financial year ended 31 December 2019.	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 valuation experts to assess the Company's market approach fair value valuation technique of using prices of recent identical and comparable transactions to calculate an adjusted observable selling price to determine the recoverable amount of the permanent water entitlements, against industry practice; • we involved our valuation experts to independently develop adjusted observable selling prices and compared these to the Company's recoverable amount, and investigated differences to challenge the external expert's assumptions used in calculating the recoverable amount; • we compared the results of our valuation expert's independently developed adjusted observable selling prices to the recoverable amount applied in the Company's assessment of impairment and determination of impairment charge by entitlement type. We considered this impairment 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; and • 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.

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; and
- 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 the 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

Opinion

In our opinion, the Remuneration Report of Duxton Water Limited for the year ended 31 December 2019, 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 37 to 39 of the Directors' report for the year ended 31 December 2019.

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

KPMG

Darren Ball

Partner

Adelaide

26 February 2020

ASX **ADDITIONAL INFORMATION**
FOR THE YEAR ENDED 31 DECEMBER 2019

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 2020 (unless otherwise stated).

Twenty largest equity security holders

The names of the twenty largest holders of quoted equity securities as at 31 January 2020 are listed below:

	ORDINARY SHARES	
Name	**Number held**	**Percentage of issued shares**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,638,295	**8.87**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	10,583,480	**8.83**
PRESALI AUSTRALIA HOLDINGS PTY LTD	6,671,408	**5.57**
CITICORP NOMINEES PTY LIMITED	5,404,663	**4.51**
FRIDAY INVESTMENTS PTY LTD <GOLDBURG FAMILY A/C>	4,151,981	**3.46**
NATIONAL NOMINEES LIMITED	3,501,902	**2.92**
MICA WINES PTY LTD	1,808,487	**1.51**
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,436,995	**1.20**
BALTHAZAR BAROSSA PTY LTD <BOWEN SUPERFUND A/C>	1,400,814	**1.17**
BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE A/C>	1,380,807	**1.15**
DIWI CORPORATION PTY LTD	1,325,398	**1.11**
TRUE NORTH PROPERTY MANAGEMENT PTY LTD <SAVCHENKO A/C>	1,315,263	**1.10**
GEAT INCORPORATED <GEAT-PRESERVATION FUND A/C>	1,300,000	**1.08**
BOND STREET CUSTODIANS LIMITED <ATHOM4 - D70767 A/C>	1,000,000	**0.83**
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	932,698	**0.78**
STIRLING INVESTMENTS (SA) PTY LTD <STIRLING INVEST UNIT #3 A/C>	920,684	**0.77**
WKM HOLDINGS PTY LTD <THE RONWYNNE NO 2 A/C>	867,802	**0.72**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	866,301	**0.72**
ELATA INVESTMENT CO PTY LIMITED	842,700	**0.70**
INARI INVESTMENT CO PTY LIMITED	842,700	**0.70**
OMURA INVESTMENT CO PTY LIMITED	842,700	**0.70**
Total	**58,035,801**	**48.41**

Distribution of equity securities

Analysis of numbers of equity security holders by size of holding as at 31 January 2020 are listed below:

Holding	Shares
1-1,000	331,802
1,001-5,000	2,031,292
5,001-10,000	2,913,337
10,001-100,000	33,452,036
100,001 and over	81,151,791
Total	**119,880,298**

Substantial holders

Substantial holders of ordinary shares in the Company as at 31 January 2020 are listed below:

	ORDINARY SHARES	
Holding	**Number held**	**Percentage**
HSBC Custody Nominees (Australia) Limited	10,638,295	8.87
HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	10,583,480	8.83
Presali Australia Holdings Pty Ltd	6,671,408	5.57

Holders of each class of equity securities

Number of holders in each class of equity securities as at 31 January 2020 are listed below:

Holding	Number
Ordinary shares	119,880,298

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.

Voluntary escrow

The table below shows a breakdown of the vendor shares subject to voluntary escrow as at 31 January 2020:

Escrow period	Total
No escrow	119,880,298

DUXTON
WATER

DUXTON WATER

APPENDIX 4E

ASX PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

1 REPORTING PERIOD

Reporting period "Current period"	From 1 January 2019 to 31 December 2019
Previous corresponding period	From 1 January 2018 to 31 December 2018

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

				$,000
Revenue from ordinary activities	up	242%	to	96,450
Profit (loss) from ordinary activities after tax attributable to members	up	2%	to	7,425
Net profit (loss) for the period attributable to members	up	2%	to	7,425

	2019	2018
Net asset value per share	$1.190	$1.152
Net asset value per share at fair market value	$1.761	$1.372

During the year the Company paid two dividends to shareholders. An final dividend of 2.6 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 27 March 2019 and a interim dividend of 2.7 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 18 September 2019.

	Record date	Date payable	Amount per security	Franked amount per security
Current year				
Final dividend	13 March 2019	27 March 2019	$0.026	$0.026
Interim dividend	3 September 2019	18 September 2019	$0.027	$0.027
Previous year				
Interim dividend	14 March 2018	18 April 2018	$0.024	$0.014
Interim dividend	31 August 2018	14 September 2018	$0.025	$0.019

Commentary on results for the period

The Company's net profit after tax for the period amounted to $7.425 million (2018: $7.265 million).

At 31 December 2019, the Company's total water assets on a fair market value basis were $334.6 million (31 December 2018: $194.4 million). Liabilities including non-current debt facility, current tax provision for deferred capital gains tax (should the portfolio be disposed of), amounted to $124.1 million. Therefore the net asset value of the Company on a fair market value basis at 31 December 2019 was $211.068 million or $1.761 per share (31 December 2018: $148.966 million or $1.372 per share).

At 31 December 2019, the Company's total water assets from a statutory reporting perspective (requiring water assets to be held at cost less accumulated impairment) are $247.041 million (31 December 2018: $168.907 million) which includes accumulated impairment of $3.834 million (31 December 2018: $0.187 million), resulting in a statutory net asset value at 31 December 2019 of $142.681 million or $1.190 per share (31 December 2018: $125.027 million or $1.152 per share). Due to the statutory asset treatment of water assets, permanent water entitlements are held at historical cost of $235.529 million less accumulated impairment of $3.834

Duxton Water Ltd releases a monthly Net Asset Value (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.

31 December 2019	Per Company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
Assets			
Permanent water entitlements	231,695	326,831	95,136
Temporary water entitlements	5,745	7,729	1,984
Net current and deferred tax asset	(538)	(29,611)	(29,073)
Net other assets	318	658	340
Net non-current liabilities	(94,539)	(94,539)	-
Total net assets	**142,681**	**211,068**	**68,387**
Net asset value per share	**$1.190**	**$1.761**	**$0.571**

3 DIVIDENDS

31 December 2019	Amount per security	Franked amount per security at 30%	Amount per security of foreign source dividend cents
Final dividend(s)			
Current year	$0.026	$0.026	-
Previous year	-	-	-
Interim dividend(s)			
Current year	$0.027	$0.027	-
Previous year	$0.049	$0.033	-

On 10 February 2020, the Director's declared a final dividend of $0.028 per ordinary share franked to 100% with a record date of 16 March 2020 to be paid on 30 March 2020.

4 DIVIDEND REINVESTMENT PLAN

The Board has determined that the Dividend Reinvestment Plan (DRP) will continue to operate for the final dividend for the 2019 financial year (payable 30 March 2020). Participants in the DRP are entitled to a 3% discount to the share price (based on a 5-day VWAP prior to the record date, as determined in accordance with the DRP Rules). The last day for elections under the DRP is Thursday 17 March 2020.

5 NET TANGIBLE ASSETS PER SHARE

	31 December 2019	31 December 2018
Net tangible assets per ordinary share ($)	(0.86)	(0.38)
Net assets per ordinary share ($)	1.19	1.15

6 CONTROL GAINED OR LOST DURING THE PERIOD

Not applicable

7 ASSOCIATES AND JOINT VENTURES

There are no associates or joint venture entities.

8 AUDIT QUALIFICATION OR REVIEW

This report is based on the Financial Report for the period ended 31 December 2019. All the documents comprise the information required by Listing Rule 4.3A.