Appendix 4E

Duxton Water Limited

ASX Preliminary final report for the period ended 31 December 2016

Lodged with the ASX under Listing Rule 4.3A

ACN 611 976 517

Duxton Water Limited
Appendix 4E
Preliminary final report

Company details

Name of entity:	Duxton Water Ltd
ACN:	611 976 517
Reporting period:	From 20 April 2016 to 31 December 2016

Duxton Water Limited (Duxton Water/ Company) was incorporated on 20 April 2016, therefore there are no prior period comparatives.

1. Results for announcement to the market

	2016
	$'000
Revenue from ordinary activities	843
Loss from ordinary activities after tax attributable to members	(232)
Net loss for the period attributable to members	(232)

Dividends
There were no dividends paid, recommended or declared during the year

Commentary on results for the period

Financial overview
The Company's net loss after tax for the period amounted to ($0.232) million, after taking into account $0.185 million in listing costs. The net asset value of the Company as at 31 December 2016 amounted to $68.801 million or $1.076 per share.
Permanent water rights and entitlements are held at historical cost of $51.125 million less accumulated impairment losses of $0.771 million. The net asset book value of the water rights as at 31 December 2016 is $50.354 million.
Duxton Water release 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.
Presented below is a summary of the Company's NAV on the fair market value basis compared to the basis of preparation described in the financial statements. For a more detailed explanation, please refer to Note 16 for further information.

	Per Company Statement of Financial Position	Per fair market value*	Variance between Statutory value and fair market value
	$'000	$'000	$'000
Assets			
Permanent water entitlements	50,354	50,496	142
Temporary water entitlements	0	438	438
Net current and deferred taxation	669	0	(669)
Net current assets	17,778	17,778	0
Total net assets	**68,801**	**68,712**	**(89)**
Net asset value per share	**$1.076**	**$1.074**	**$(0.002)**

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

Duxton Water Limited
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Preliminary final report

Review of operations
Duxton Water Limited (Duxton Water or the Company) listed on the ASX on 16 September 2016. The Company successfully raised $41.7 million, well above the $25 million minimum subscription, giving it a book value of $68.801 million as at 31 December 2016.

Capital Deployment
Our first objective was to efficiently deploy the newly raised capital within a six-month timeframe. As at 31 December 2016, in combination with the purchase of water rights under option at listing. Duxton Water has invested in approximately $50.9 million of water entitlements, equating to 73.8% of the portfolio, with the remainder of the portfolio held in cash and net current assets. There were $3.1m worth of contracts entered into in January 2017 and Duxton Water has additionally entered into contracts, agreed terms for contracts, or has pending offers for contracts on an additional $14.7 million worth of water entitlements. We expect the remaining capital from the IPO raising to be deployed in Q1 2017.

The admission of Duxton Water into the ASX in September 2016 came at an opportune time. The Company deployed capital into water licences at a time of short term negative sentiment for water prices due to once in 70 year rainfall patterns, as prices came off from recent highs in February 2016 good buying opportunities arose.

The target portfolio comprises a mix of water entitlements in Victoria, New South Wales and South Australia. This includes the Murray, Murrumbidgee, Goulburn, Loddon, and Mallee region. As at 31 December 2016, the water security breakdown within the portfolio was 83% high security, 15% low /general security and 2% ground water, in line with the Company's coming year's strategy.

There still remains opportunities to deploy capital efficiently and the Company may consider raising additional capital in the near future to make the most of currently market conditions.

Revenue
Company policy is to have a mix of long term lease and spot market water allocation sales. As at 31 December, long-term leases equated to 68% of the overall portfolio. The existing leases entered into pre-listing generate quarterly income at a weighted average yield of 5.9%. A fourth lease was executed in Q4 of 2016 at a yield of 9%, which boosted the overall weighted average yield (annualised) for lease revenue to 6%. As at 31 December 2016, $0.145 million of allocation sales were recorded, with more forecast as the rains subside and summer heat and cropping demands return.

Net tangible assets

	Reporting period $
Total net tangible assets per ordinary security	0.288
Total net tangible and intangible assets per ordinary security	1.076

Audit qualification or review
This report is based on the Financial Report for the period ended 31 December 2016 which is in the process of being audited. All the documents comprise the information required by Listing Rule 4.3A.

Duxton Water Limited

Statement of Profit or Loss and Other Comprehensive Income (unaudited)

For the Period Ended 31 December 2016

	Note	2016
		$'000
Revenue	4	843
		843
Management fees		(169)
Listing costs		(185)
Legal and professional fees		(90)
Other Expenses	5	(217)
Impairment of water entitlements	6	(771)
		(1,432)
Loss before net finance income		**(589)**
Finance income		113
Finance expenses		(5)
Net finance income		**108**
Loss before taxation		(481)
Taxation benefit	7	249
Loss for the Period		**(232)**
Other comprehensive income		(232)
Total comprehensive loss for the Period		**(232)**
Basic (loss) per share (cents per share)	14	(0.801)
Diluted (loss) per share (cents per share)	14	(0.801)

The notes on page 8 to 22 are an integral part of these financial statements.

Duxton Water Limited

Statement of Financial Position (unaudited)

As at 31 December 2016

	Note	2016
		$'000
ASSETS		
Current assets		
Cash and cash equivalents	8	13,996
Term deposits	8	3,333
Trade and other receivables	9	1,042
Other current assets		43
Total current assets		**18,414**
Non-current assets		
Water entitlements	10	50,354
Deferred taxation	7	711
Total non-current assets		**51,065**
Total assets		**69,479**
LIABILITIES		
Current liabilities		
Trade and other payables	11	165
Unearned Revenue		471
Tax liability		42
Total current liabilities		**678**
Total liabilities		**678**
Net Assets		**68,801**
EQUITY		
Current liabilities		
Issued capital	12	69,033
Accumulated loss		(232)
Total Equity		**68,801**

The notes on pages 8 to 22 are an integral part of these financial statements.

Duxton Water Limited

Statement of Changes in Equity (unaudited)

For the Period Ended 31 December 2016

	Note	Issued Capital $'000	Accumulated loss $'000	Total equity $'000
At incorporation		-	-	-
Shares issued	12	70,362	-	70,362
Share issue costs	12	(1,329)	-	(1,329)
Comprehensive income				
Loss for the period		-	(232)	(232)
Other comprehensive income		-	-	-
Total comprehensive loss for the period		-	**(232)**	**(232)**
Balance at 31 December 2016		**69,033**	**(232)**	**68,801**

The notes on pages 8 to 22 are an integral part of these financial statements.

Duxton Water Limited

Statement of Cash Flows (unaudited)

For the Period Ended 31 December 2016

	Note	2016
		$'000
Cash flows from operating activities		
Receipts from customers		841
Payments to suppliers		(595)
Interest received		113
Interest paid		(5)
Net cash generated from operating activities	15	**354**
Cash flows from investing activities		
Purchase of water entitlements		(22,463)
Deposits paid for the purchase of water entitlements		(513)
Investment in term deposits		(3,333)
Net cash used in investing activities		**(26,309)**
Cash flows from financing activities		
Proceeds from issue of shares	12	41,700
Transaction costs related to issues of shares	12	(1,749)
Net cash generated from financing activities		**39,951**
Net increase in cash and cash equivalents		13,996
Cash and cash equivalents at incorporation		-
Cash and cash equivalents at end of period	8	**13,996**

The notes on page 8 to 22 are an integral part of these financial statements.

Duxton Water Limited

Notes to the financial statements (unaudited)

For the Period ended 31 December 2016

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1. REPORTING ENTITY

Duxton Water Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is located at 7 Pomona Road Stirling SA 5008.
The Company is a for-profit entity.

The unaudited financial statements were authorised for issue by the Directors on 28/02/2017.

2. BASIS OF PREPARATION

2.1 Financial period and comparatives

The Company was incorporated on 20 April 2016. These are the first financial statements prepared by the Company since its incorporation, and covers the period from incorporation on 20 April 2016 to 31 December 2016. As such, no comparative financial information is presented.

2.2 Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

2.3 Basis of Measurement

The financial statements are presented in Australian dollars and have been prepared on the historical cost basis.

2.4 Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency. Amounts disclosed in the financial statements are rounded to the nearest thousand dollars.

2.5 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier adoption is permitted; however, the Company has not applied the following new or amended standards in preparing these financial statements.

- *AASB 9 Financial Instruments*

AASB 9, published in July 2014, replaces the existing guidance in AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

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

- *AASB 15 Revenue from Contracts with Customers*

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue,* AASB 111 *Construction Contracts and* AASB Interpretation 13 *Customer Loyalty Programmes.*

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company does not expect the application of AASB 15 to have a significant impact on its financial statements

2. BASIS OF PREPARATION (continued)

- *AASB 16 Leases*

AASB 16 *Leases* removes the lease classification test and requires all leases including operating leases to be brought onto the balance sheet for lessees. The definition of lease is also amended and is now the new on/off balance sheet test for lessees.

AASB 16 is effective for annual reporting periods on or after 1 January 2019. Early adoption will be permitted for entities that also adopt AABS 15 *Revenue* from contracts with customers.
The Company is assessing the potential impact on its financial statements resulting from the application of AASB 16. The Company does not expect the application of AASB 15 to have a significant impact on its financial statements.

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with 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 described in note 3 (i) Water entitlements.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. 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.

(b) Revenue Recognition and other income

Revenue is measured at the fair value of the consideration received or receivable, net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of Temporary Water Allocations

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

Lease of water entitlements

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

Finance Income

Finance income comprises interest income on funds invested and interest charged on overdue accounts in accordance with the customer contract. Interest income is recognised as it accrues in the Statement of Profit or Loss, using the effective interest method.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sale of Non-Current Assets
The gain or loss on non-current asset sales is recognised as other income or expense the date in which control of the asset passes to the buyer, usually when an unconditional contract of sale is achieved.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(c) Goods and Services Tax
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 these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.
Cash flows are included in the Statement of Cash Flows on a net basis.

(d) Finance Expenses
Finance expenses comprise interest expense on borrowings and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in finance expenses.

Finance costs are expensed as incurred.

(e) Income Tax
Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or receivable that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(f) Financial Instruments

i. Non-derivative financial assets and financial liabilities – recognition and derecognition
The Company initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

The Company's non-derivative financial asset comprise of loans and receivables

ii. Non-derivative financial assets - measurement
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Loans and receivables comprise of trade and other receivables.

iii. Non-derivative financial liabilities - measurement
Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest rate method.

(g) Cash and cash equivalents
In the Statement of Cash Flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

(h) Share capital
Ordinary shares
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.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Water entitlements and allocations

Permanent water entitlements
Permanent water entitlements purchased are treated as an intangible asset 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.

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.

(j) Impairment

i. Non-derivative financial assets
Financial assets not classified at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

ii. Financial assets measured at amortised cost
The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

iii. Non-financial assets
At each reporting date, the Company reviews the carrying amounts of its non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated.

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent water entitlements are tested for impairment at the 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 Profit or Loss.

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and temporary water allocations, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For permanent water entitlements that have indefinite lives the recoverable amount is estimated at each reporting date.

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 valuation, or recent observable comparable trades on or prior to the reporting date, published on the public water register relevant to the water entitlement.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(m) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(n) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	2016 $'000
4. REVENUE	
Lease income from permanent water entitlement	698
Sale of temporary water allocation	145
	843
5. EXPENSES	
Administration and marketing expenses	62
Non-Executive Directors fees	21
Company secretary	21
Share registry costs	26
Director and officers' insurance	23
Auditors remuneration – KPMG – Audit of financial statements	40
Auditors remuneration – KPMG – Other assurance services	4
Brokerage, bank fees and other expenses	20
	217
6. IMPAIRMENT OF WATER ENTITLEMENTS	
Impairment of water entitlements	771
	771

The recoverable amount of each water entitlement (classified as Level 2 fair value hierarchy assets) was determined at the reporting date using a market approach, based on the pricing information of recent comparable trades on or prior to the reporting date recorded on the relevant water register to which each water entitlement relate. The calculation when determining the recoverable amount of the water entitlement was based on the price per ML of the three most recent trades reflected on the relevant water register, exceeding 10 ML in volume, not differing by more than 10% in value per ML from each other, and weighted based on the quantity of ML transacted.
Details of information to which reportable segment the impairment relates is disclosed in Note 16.

7. TAXATION	
(a) Recognised in the statement of comprehensive income	
Current tax expense	42
Deferred tax expense	(291)
Total income tax expense	**(249)**
(b) Recognised in the statement of changes in equity	
Deferred taxation – share issue expenses	(419)
Total income tax benefit	**(419)**
(c) Numerical reconciliation between tax expense through Profit or Loss and pre-tax accounting profit	
Loss before tax	(481)
Income tax using Company tax rate of 30%	(144)
Increase/(Decrease) in income tax expense due to:	
Capitalised share issue costs deducted	(105)
Income tax benefit on pre-tax net profit	**(249)**

	2016 $'000
7. TAXATION (continued)	
(d) Deferred Tax Asset	
The deferred tax balance consists of:	
Share issue and listing costs	475
Permanent water entitlements	231
Accrued expenses	5
	711
(e) Dividend Franking Account	
The Company has no franking credits available.	
8. CASH AND CASH EQUIVALENT	
Cash at Bank	10,641
Term deposits	6,688
	17,329
Less: Term deposit having maturity over 3 months	(3,333)
	13,996
9. TRADE AND OTHER RECEIVABLES	
Trade debtors	488
Deposit paid	513
Other receivables	41
	1,042
10. WATER ENTITLEMENTS	
Permanent water entitlements – at cost	
At Beginning of Period	-
Acquisitions	51,125
At End of Period	51,125
Accumulated Impairment	
At Beginning of Period	-
Impairment charge (Note 6)	771
At End of Period	**771**
Carrying value at the end of period	**50,354**
11. TRADE AND OTHER PAYABLES	
Trade Creditors	15
Other creditors and accruals	150
	165

	2016

12. EQUITY

Ordinary Shares	**No. Shares**	**$'000**
Shares issued as compensation for the water rights acquired	26,056,680	28,662
Shares issued during the period	27,908,726	41,700
Share issue costs – net of taxes	-	(1,329)
Closing balance at 31 December 2016	**63,965,406**	**69,033**

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

Information relating to options including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 13.

13. SHARE OPTIONS

Details of issued share options are as follows:

Expire date	**Exercise price**	**Balance – start of period**	**Granted during the period**	**Issued/ (Exercised) during the period**	**Cancelled/ lapsed during the period**	**Balance end of period**
31/05/2018	$1.10	-	63,965,406	-	-	63,965,406
		-	63,965,406	-	-	63,965,406

14. EARNINGS PER SHARE

Earnings/(Loss) $'000	(232)
Earnings/(Loss) used in the calculation of basic EPS $'000	(232)
Weighted average number of ordinary shares (basic)	28,952,166
Weighted average number of ordinary shares (diluted)*	28,952,166
Basic earnings per share from continuing operations (cents)	(0.801)
Diluted earnings per share from continuing operations (cents)	(0.801)

* The options do not contain a bonus element.

	2016 $'000
15. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES	
Loss after tax	(232)
Adjustments for:	
Finance costs	5
Impairment of water license	771
Cash from operations before changes in working capital	544
Changes in working capital:	
Increase in trade and other receivables	(530)
Net GST paid	(42)
Increase in creditors	165
Unearned revenue	471
Income taxes	(249)
Interest paid	(5)
Net cash generated from operating activities	**354**

Non-cash transaction
An independent valuation from CBRE Valuations Pty Ltd (CBRE) was obtained by the Company, to acquire permanent water entitlements from its related parties, as disclosed in Note 17, amounting to $28.662 million. This was settled through the issue of 26.056 million ordinary shares fully paid (see Note 12) and the issue of 26.056 million quoted options with an exercise price of $1.10 per share on or before 31 May 2018 (see Note 13).

CBRE used a Direct Comparison valuation methodology. The market evidence has been compared with the subject property in order to assess a market based valuation. Sales sourced from various brokerage firms (namely, Rural Co Water and Waterfind) as well as various water brokers trading within the Southern Connected Murray Darling Basin to determine current prevailing market conditions.

Given that the comparability of each of the analysed sales is likely to vary, a high degree of value judgement is required by the valuer. The valuer has considered a range of variables which may include; the depth of the market, the number of potential users, the delivery risk and cost, the various land uses to which the water source can be applied, the market maturity, the circumstances of the vendor or purchaser, and types of water sources (such as high risk or high reliability, or general security).

Duxton Water Limited

Notes to the financial statements (unaudited)

For the Period ended 31 December 2016

16. SEGMENT REPORTING

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker that are used to make strategic decisions. For the purposes of segment reporting the chief operating decision maker has been determined 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 pricing information of recent comparable trades on or prior to the reporting date recorded on the relevant water register to which each water entitlement relate. The calculation when determining the fair market value of the water entitlement was based on the price per ML of the three most recent trades reflected on the relevant water register, exceeding 10 ML in volume, not differing by more than 10% in value per ML from each other, and weighted based on the quantity of ML transacted.

No inter-segment sales occurred during the current financial period. No revenue was derived from external customers in countries other than the country of domicile. Revenues of $0.613million were derived from one Australian customer during the period. These revenues are attributable to the Murray segment.

	Murray $'000	**Murrumbidgee $'000**	**Other[1] $'000**	**Unallocated $'000**	**Total $'000**
Total segment revenue	**787**	**-**	**56**	**-**	**843**
Total segment profit before interest, income tax and impairment of permanent water entitlements	787	-	56	(661)	182
Impairment of permanent water entitlements	(374)	(153)	(244)	-	(771)
Net interest income	-	-	-	108	108
Taxes	-	-	-	249	249
Total comprehensive loss for the period as per the financial statements	-	-	-	(232)	(232)
Total segment liabilities	**(471)**	**-**	**-**	**(207)**	**(678)**
Total segment assets excluding permanent water entitlements	431	-	-	18,694	19,125
Permanent water entitlements at cost	37,684	6,485	6,956	-	51,125
- Less accumulated impairment	(374)	(153)	(244)	-	(771)
- Add fair market value increments[2]	37	-	105	-	142
Permanent water entitlements at fair market value	37,347	6,332	6,815	-	50,496
Temporary water allocations at fair market value[3]	346	1	91		438
Total segment assets[4]	**38,124**	**6,333**	**6,908**	**18,694**	**70,059**
Adjustments in accordance with Australian Accounting Standards[(2,3)]	(383)	(1)	(196)	-	(580)
Total segment assets as disclosed in the financial statements	**37,741**	**6,332**	**6,712**	**18,694**	**69,479**

[1] . "Other" comprise the Lachlan, Goulburn, Loddon and Mallee 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 Australia 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
[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.

17. RELATED PARTY DISCLOSURES

Key management personnel
The Company has appointed Duxton Capital (Australia) as its Investment Manager to manage its assets and implement its investment strategy. During the year the Company recognised management fees paid or payable to its Investment Manager amounting to $0.169 million.

Key management personnel of the Company are:
Mr Edouard Peter
Mr Stephen Duerden
Mr Dirk Weidmann
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 Pty Ltd and as such, may receive remuneration from the Investment Manager for services provided to the Investment Manager.

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

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

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

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

	2016 $'000
Transactions with other related parties	
The following transactions occurred with related parties:	
Management fee – Duxton Capital (Australia) Pty Ltd	169
Purchase of water rights – Duxton Vineyards Pty Ltd	3,702
Purchase of water rights – Duxton Vineyards Water Pty Ltd	24,960
Purchase of water rights – Merriment Rural Investments Pty Ltd	3,399
Purchase of water rights – Hathor Dairies Pty Ltd	2,718
Revenue – Duxton Viticulture Pty Ltd	613
Revenue – Merriment Rural Investments Pty Ltd	56
Revenue – Hathor Dairies Pty Ltd	28

Transactions between related parties are on commercial terms and conditions.

Balances owing by/(owed to) related parties
The following balances are outstanding between the Company and its related parties:

Amount due by Duxton Viticulture Pty Ltd	431
Amount due by Hathor Dairies Pty Ltd	1
Amount due by Merriment Rural Investments Pty Ltd	52

18. Financial instruments- risk management and fair value

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2016 $'000
Financial assets		
Cash and cash equivalents	8	13,996
Term deposits	8	3,333
Trade and other receivables	9	529
Total financial assets		17,858
Financial liabilities		
Trade and other payables	11	165
Total financial liabilities		165

Financial risk management framework

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

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

Specific financial risk exposures and management

The main risks the Company are expose 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.

18. Financial instruments- risk management and fair value (continued)

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 consolidated statements of financial position.

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

Past due and impaired assets

No financial assets carried at amortised cost were past due or impaired at 31 December 2016.

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 analyses 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.

	Note	Carrying Value $'000	Contractual cash flows $'000	6 months or less $'000	Over 6 months $'000
Financial liabilities					
Trade and other payable	11	165	165	165	-
		165	**165**	**165**	**-**

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 is not currently exposed in any material way to interest rate risk. The risk is limited to the re-pricing of short term deposits utilised for surplus funds. Such deposits generally re-price approximately every 30 days. Movements in interest rates will not have a material impact on the Company's profit or equity.

At 31 December 2016 the Company entered into contracts to acquire permanent water entitlements to the value of $4.680 million, and settled deposits relating to these contracts amounting to $0.513 million.

19. Events after the reporting period

No matter or circumstance has arisen since the end of the reporting period 31 December 2016, that has significantly affected or could significantly affect eh operations of the Company, the results of those operations or the state of affairs of the Group in future financial years.