

DUXTON WATER LTD

ACN 611 976 517

2020 JUNE HALF YEAR REPORT



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DUXTON WATER KEY HIGHLIGHTS
FIRST HALF 2020



The operations of the business remain strong and have seen little impact from COVID-19 and the decline of the global economy that has occurred over the last 6 months. The Board fully expects the Company to continue to generate strong annual returns and is looking forward to the second half where the Company has historically outperformed the first half.

1

OPERATIONAL PERFORMANCE

Operationally the Duxton Water portfolio remains resilient and is operating as expected. The portfolio delivered an operational gross profit for the half of $1.83 million, on the back of an increase in leasing revenue. **Increasing lease revenue delivers greater visibility to the Company's future revenue generating capabilities and provides a level of hedging against future water allocation pricing fluctuations.**

The Board remains confident of the Company's ability to continue to derive strong annual returns and is committed to providing visibility to future dividend targets. Historically, Duxton Water generates a stronger profit in the second half of the financial year due to the overlap of the Company's financial year (Jan-Dec) and the water year (Jul-Jun). New season allocations, the commencement of new long-term water leases and the settlement of forward allocation sale contracts going into the peak irrigation season all contribute to delivering a strong second-half return.

The Company did not accrue any performance fee for the half-year ended 30 June 2020. The Company's performance fee is structured with benchmark hurdles and a high-water mark. Therefore, based on the capital structure and debt drawn at 30 June 2020, the Company's net assets would need to increase by approximately $49 million to trigger a performance fee in 2020.

In accordance with Australian Accounting Standards, the water portfolio must be held at cost less accumulated impairment (non-cash impairment expense). As such, the Company has booked a statutory loss for the half-year period of $4.32 million, primarily due to the impairment expense on the water portfolio and subsequent fair value adjustments on the Company's interest rate swap arrangements. At 30 June 2020, embedded within the statutory position of the Company are accumulated non-cash impairment losses of $7.25 million on the water portfolio. **When the carrying value of these water assets reverts back toward cost, the impairment is reversed, positively impacting the Statement of Profit or Loss and statutory retained earnings of the company. From a financial reporting perspective, water assets are required to be carried at the lower of cost or fair value and consequently should the fair value of these assets be higher than cost, the increase is not recognised in the accounts. This does not reflect on the Company's ability to generate free cash flow.**

2 NET ASSET VALUE (NAV) PERFORMANCE

Since the beginning of 2020, the permanent entitlement market has fallen by ~6% and thus the Company's NAV fell to $1.58 after dividends and provisions for tax. Happily, the Company's non-statutory monthly NAV has increased from $1.58 per share to $1.62 per share at 31 July 2020. This stabilisation of pricing in the permanent portfolio shows how robust water is as an asset class, even in challenging COVID-19 times.

The Company's statutory NAV is prepared in accordance with Australian Accounting Standards which stipulate that water assets are to be carried at the lower of cost or fair value.

Therefore, any asset revaluation uplift is not able to be booked in the statutory accounts and is subsequently excluded from the statutory NAV of $1.12 per share.

At 30 June 2020, there is $76.40 million of unrealised capital gain excluded from these financial statements.

From a statutory perspective, should Duxton Water be able to recognise this $76.40 million of revaluation uplift, the NAV for Duxton Water at 30 June 2020 (net of tax provisions) would be in line with the Company's monthly NAV statement of $1.58 per share.

the Company's **statutory**

net asset value PER SHARE **A$1.12**

Add back:
unrealised capital gains
$.0.46

the Company's **non-statutory**

net asset value PER SHARE **A$1.58**

Add back:
tax provision for capital gain
$.0.18

Reported **(Pre-tax provision)**

net asset value PER SHARE **A$1.76**

3 DIVIDENDS

Duxton Water is committed to providing Shareholders with a bi-annual dividend.

During the half-year ended 30 June 2020, Duxton Water paid a 2.8 cent (fully franked) dividend on 30 March 2020.

The Company is pleased to provide the next five bi-annual dividend targets, providing Shareholders with long term viability to cash returns.

Interim 2020	Final 2020	Interim 2021	Final 2021	Interim 2022
$0.029	**$0.030**	**$0.031**	**$0.032**	**$0.033**

ALL FULLY FRANKED*

**Dividends targets to be paid in the following reporting period.*

4 ACCC INQUIRY

On 30 July 2020, the ACCC released their interim report into the Southern Murray Darling Basin Water Market.

The Directors of Duxton Water believe it is a thorough and well-balanced report that identified opportunities to improve governance, regulatory and operational frameworks that support Australian water markets.

The report also stated, "water trading has brought substantial benefits to water users across the basin" and that returning to a system where water was tied to land, "would be to the detriment of the Australian economy and would significantly diminish the value of water entitlements.".

Duxton Water will continue to be an active participant in the ACCC's review. The final report is due to be released in November 2020.

Refer to page 17 for more information.

Interim Report: https://www.accc.gov.au/focus-areas/inquiries-ongoing/murray-darling-basin-water-markets-inquiry/interim-report



DIRECTORS' **REPORT**
FOR THE HALF YEAR ENDED **30 JUNE 2020**

The Directors of Duxton Water Limited submit herewith their report, together with the financial report of Duxton Water Limited ("the Company") or ("Duxton Water") for the half year ended 30 June 2020 and the Independent Auditors Review Report thereon. In order to comply with provisions of the Corporations Acts 2001, the Director's Report as follows:

Directors

The names of the Directors of the Company that held office during and since the end of the interim period are:

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

The office of Company Secretary is held by Mrs Katelyn Adams.

Principal activities

The primary investment objective of Duxton Water is to build a portfolio of permanent water entitlements and utilise the portfolio to provide flexible water supply solutions to our Australian farming partners. The Company generates a return by offering Irrigators a range of supply solutions including long term entitlement leases, forward allocation contracts and spot allocation supply. 100% of the Company's water assets are active in the delivery of water to Irrigators.

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



Review of operations

OPERATIONAL PERFORMANCE

The underlying performance of the Duxton Water portfolio remains durable and robust. The Company is able to consistently deliver operational gross profits for Shareholders while hitting short-term and long-term strategic objectives. Duxton water aims to provide Shareholders with capital appreciation on a diversified portfolio of Australian water assets while paying bi-annual dividends in the short-term.

The portfolio delivered an operational gross profit for the half of $1.83 million, on the back of an increased leasing revenue. **Increasing lease revenue provides great visibility to the Company's future revenue generating capabilities and provides a level of hedging against future water pricing fluctuations.**

The Board remains confident of the Company's ability to continue to derive strong annual returns and is committed to providing visibility to future dividend targets. Historically, Duxton Water generates a stronger profit in the second half of the financial year due to the overlap of the Company's financial year (Jan-Dec) and the water year (Jul-Jun).

Embedded within the half-year Statement of Profit or Loss are non-cash impairment expenses of $3.42 million on the water portfolio and a non-cash $1.66 million finance expense relating to a fair value adjustment of the Company's interest rate swap arrangements. If these impaired water assets revert back towards cost, the impairment is reversed, positively impacting to the Statement of Profit or Loss and statutory retained earnings. Fair value adjustment reversals on the interest rate swap arrangements will also positively impact the Statement of Profit or Loss and statutory retained earnings of the Company.

At 30 June 2020, there is $76.40 million (or $0.46 per share) of unrealised capital gain excluded from these statutory financial statements due to the application of Australian Accounting Standards.

GROWING THE WATER PORTFOLIO

Over the past 6 months, Duxton Water has continued to grow and manage its permanent water entitlement portfolio and by continuing to lease water to its farming partners, matured its increasingly visible lease revenue stream to support shareholder returns. During this period, the Company acquired a further 754ML and sold 59ML of permanent water entitlements while completing new leasing arrangements with Australian Irrigators. **At 1 July 2020, these long-term water leases represent 64% of the permanent portfolio by value.**

At 31 December 2019, the Company held 83,045ML of permanent water entitlements and had a total water asset portfolio value (entitlement and allocation) of $334.56 million compared to it's cost base of $237.44 million. During the period, the Company's total permanent water entitlement holding increased to 83,740ML, with an aggregated total water asset portfolio value of $315.26 million compared to it's cost base of $238.85 million.

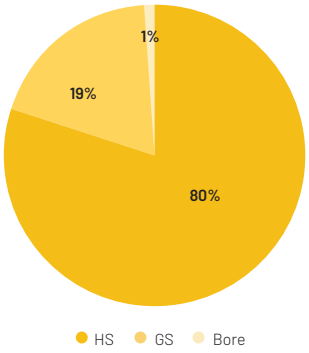
AT
30 JUN 2020
the company held
83,740ML
of Water Entitlement
&
Total Portfolio Value of
$315.3 million

OVER THE
PAST 6 MONTHS
695ML
permanent water entitlement
acquired (net)

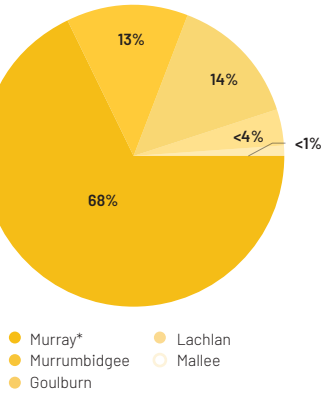
FROM
1 JULY 2020
64%
of permanent entitlement
leased to
Australian farming partners

FROM
1 JUL 2020
annualised leasing revenue
$9.5 million

Water Security Breakdown



Entitlement Portfolio Value by Region



**diversified across 3 states and 5 security classes*

Demand remains strong for water supply products and the Company continues to see opportunity in the market for further permanent water acquisition.

DEBT SUMMARY & INTEREST RATE SWAP IMPAIRMENTS

The board will continue to use sensible debt funding to grow and develop the portfolio of water assets. With the Company approaching its long-term goal of having 70-80% of the portfolio deployed into long-term leases, it was thought prudent to hedge part of the Company's debt to improve long term revenue visibility. Hedging instruments (interest rate swaps) have been used to hedge the Company against future interest rate movements. Due to the economic impacts of COVID-19, interest rates have continued to fall which has resulted in an overall benefit to the Company.

The Company is required to carry financial instruments (interest rate swap arrangements) at fair value. For the period ended 30 June 2020, fair value adjustments on the Company's interest rate swaps of $1.66 million has been recognised as a finance expense in the Company's Statement of Profit or Loss. Total fair value adjustment recognised on the Company's interest rate swap arrangements at 30 June 2020 is $2.00 million. The effective cost of borrowings (including swaps) on an annualised basis is 2.30%.

IMPAIRMENT OF GENERAL SECURITY ASSETS

Prior to 30 June 2020, permanent water impairment expenses were largely due to impairment testing on NSW general security (GS) entitlements. After 40 months of extended drier than average conditions across the southern Murray Darling Basin (sMDB), 2019 saw NSW GS prices fall as Irrigators sold to realise capital as these assets were yielding little to no allocation. However, through the first half of 2020, we have seen prices strengthen for lower NSW Murray and Murrumbidgee GS entitlements which has led to part or full reversal of impairment on these assets. Entitlement pricing for upper NSW Murray GS is now showing signs of a price recovery which may reverse either part or all of the Company's remaining entitlement impairment when the portfolio is tested for impairment on 31 December 2020. The Company views its investment in NSW GS entitlements as critical in balancing the Company's entitlement portfolio composition, and one that will support yield through the wetter part of the climatic cycle.

The Company has continued to build and develop a portfolio of water entitlements, diversified across regions, entitlement security class and revenue streams. See graphs above to the left for the Company's permanent water entitlement breakdown by security class and region.

Below is a breakdown by zone of permanent water entitlements held by the Company at 30 June 2020.

Entitlement Type	31/12/2019 (ML)	ML Change	30/06/2020 (ML)
Vic 1A Greater Goulburn HRWS	9,978.7	145.1	10,123.8
Vic 1A Greater Goulburn LRWS	94.4	-	94.4
Vic 1B Greater Goulburn	357.9	-	357.9
Vic 3 Greater Goulburn	371.0	-	371.0
Vic 6 Murray HRWS	7,257.5	435.0	7,692.5
Vic 6B Murray HRWS	267.5	10.0	277.5
Vic 7 Murray HRWS	5,909.6	-	5,909.6
Vic 7 Murray LRWS	31.2	(31.2)	-
NSW Murray 10 HS	3,010.0	-	3,010.0
NSW Murray 10 GS	14,491.0	-	14,491.0
NSW Murray 11 HS	7,661.1	(28.0)	7,633.1
NSW Murray 11 GS	7,140.2	-	7,140.2
NSW Murray 11 Supp	83.0	-	83.0
NSW Murrumbidgee 13 HS	3,472.0	152.0	3,624.0
NSW Murrumbidgee 13 GS	7,822.3	-	7,822.3
NSW Lachlan GS - Jemalong Irrigation	2,660.0	-	2,660.0
NSW Lachlan GS	6,510.0	-	6,510.0
NSW Lower Lachlan Ground Water	788.0	-	788.0
SA Murray HS	3,807.7	12.0	3,819.7
SA Mallee - Parilla Red	500.0	-	500.0
SA Mallee - Parilla Green	831.9	-	831.9
Total	**83,045.0**	**694.9**	**83,739.9**

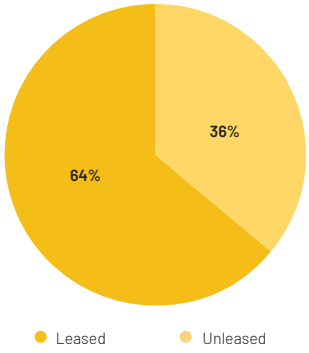
Irrigators are increasingly looking to outsource their water supply requirements and find a balanced approach that enables both risk management and capital flexibility to reinvest in their land and production assets.

Through long-term leasing arrangements Duxton Water is able to satisfy the water requirements of its farming partners, enabling them to better manage a key input into their business. Duxton Water supports farmers across the viticulture, nut, citrus, vegetable, olives, dried fruit, dairy, and broadacre cropping industries. 100% of the Company's water assets are active in the delivery of water to Irrigators.

Typically, entitlement leases run for the water year (1 July to 30 June) and as such, no new leases commenced in the period ended 30 June 2020. New lease arrangements commencing 1 July 2020 takes the leased portion of the portfolio to 64% at the beginning of the 20/21 water year.

The Board maintains the long-term target of having between 70%-80% of the portfolio deployed into long term lease arrangements and expects that further leases will be entered into in the second half of 2020. With the provision of these flexible water supply solutions to Irrigators, the Company is able to provide Shareholders with visibility to future earnings through this recurring revenue stream.

Water Portfolio Diversification



Financial overview

During the period ended 30 June 2020, the Company:

- Delivered an operational gross profit of $1.83 million
- Increased visible leasing revenue to $9.50 million from 1 July 2020
- Paid a final 2019 fully franked dividend of $0.028; and
- Provided Shareholders with targets for the next four dividend payments (and are pleased to provide the fifth dividend target within this report)

Pricing on the Company's permanent water portfolio has continued to stabilise in what has been a challenging time for the global economy, reaffirming that water as an asset class can continue to perform well even in times of uncertainty.

The NAV from a Fair Market Value perspective at 30 June 2020 was $1.58 which has since increased to $1.62 at 31 July 2020 on the back of stabilising permanent water prices and impairment reversal of $2.85 million on the temporary portfolio.

A material portion of the non-cash impairment expense booked on the temporary water portfolio at 30 June 2020 was related to pre-sold water under forward sale contracts. The Company was still required to book a non-cash impairment expense in the Statement of Profit or Loss on forward sold water.

At 30 June 2020, the Company is carrying $76.40 million (or $0.46 per share) of unrealised capital gain on the water portfolio. This is excluded from the statutory financial statements due to the application of Australian Accounting Standards.

The NAV of the Company in accordance with Australian Accounting Standards (which excludes unrealised gains) at 30 June 2020 is $1.12 per share (31 December 2019: $1.19 per share).

The statutory NAV position of the Company includes accumulated impairment losses of $7.25 million across the Company's water asset portfolio. At 31 July 2020, accumulated impairment losses on the temporary water portfolio of $2.85 million booked at 30 June 2020, has completely reversed.

Fair value adjustments on the Company's interest rate swap arrangements of $2.00 million have also been included in the statutory NAV. Similar to the non-cash impairment expenses on the water portfolio, these fair value adjustment reversals on the interest rate swap arrangements will positively impact the Statement of Profit or Loss and statutory retained earnings of the Company.

VALUATION EXPERT

The portfolio continues to be valued on a dry equivalent basis by Aither Pty Ltd. Aither 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 accounting treatment of water assets (intangible 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 losses. Temporary water allocations related to these entitlements are recognised in the Statement of Financial Position at zero cost initially. Purchased temporary water allocations are recognised at cost when acquired.

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

30 June 2020	Company Statement of Financial Position $'000	Fair Market Value* $'000 *(unreviewed)*	Variance $'000
Assets			
Permanent water entitlements	235,564	311,961	76,396
Temporary water entitlements	3,290	3,296	6
Net current and deferred tax asset	3,599	(19,921)	(23,520)
Net other current assets	(6,233)	(6,223)	-
Net non-current liabilities	(101,998)	(100,000)	1,998
Total net assets	**134,233**	**189,113**	**54,880**
Net asset value per share	**$1.12**	**$1.58**	**$0.46**

31 December 2019	Company Statement of Financial Position $'000	Fair Market Value* $'000 *(unaudited)*	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)	(26,611)	(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**

* Fair Market Value is prepared in accordance with the Company's monthly NAV statement. The water portfolio is evaluated on a monthly basis by the Company's independent valuer "Aither Pty Ltd". Fair Market Value is a non IFRS measure that is not reviewed or audited by the Company's auditor and excludes fair value gains or losses on interest rate swaps whereas these are included in the total non-current liabilities recognised in the Statement of Financial Position. The variance shown above of $1.988 million represents the fair value of the interest rate swaps at 30 June 2020.

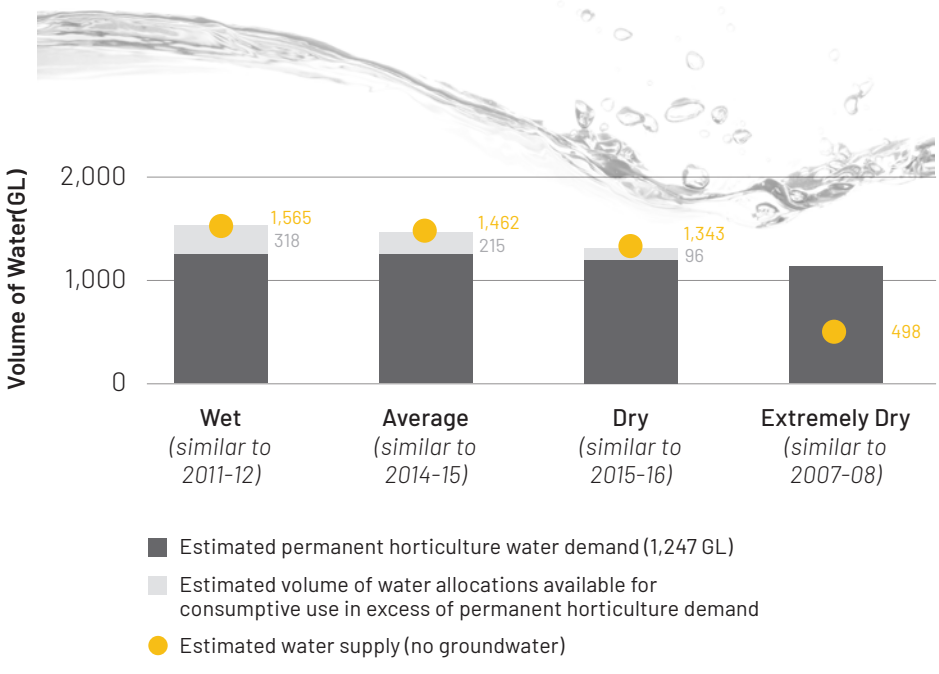
Further detail by reported segment is disclosed in Note 5 of the financial statements.

Market overview

Through the first half of 2020 the market has seen a retracement in permanent entitlement values of approximately 6.1% from their peak in January 2020. For context, since January 2014 water entitlement values have increased 254% which is reflective of long-term structural drivers rather than short-term climatic conditions. 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, there has been significant steps taken to return water to the environment with Government buyback purchases of between 20-22% of entitlements that were previously available to the consumptive pool. The combined impact has seen stronger demand for a reducing available water supply and subsequent increased asset prices. 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.

In June 2020, the Victorian Government released an updated assessment of water supply and demand for perennial horticulture in the sMDB. With greater collaboration between Governments and improved data capture capability since the original report in 2019, the analysis reaffirmed that water supply shortfall risk has increased in the lower Murray with the rapid expansion in permanent horticulture, such as nuts, citrus and viticulture in recent years.

With the maturity of current planted projects, the report estimates that permanent horticulture alone will demand approximately 85% of available water in the lower Murray Darling during average conditions and during an extremely dry period there will only be enough water to meet 40% of this annual water requirement. The shortfall will need to be met through carryover and trade of water from other river systems. The Company continues to observe increased demand for longer term water supply products such as entitlement leases and forward contracts.



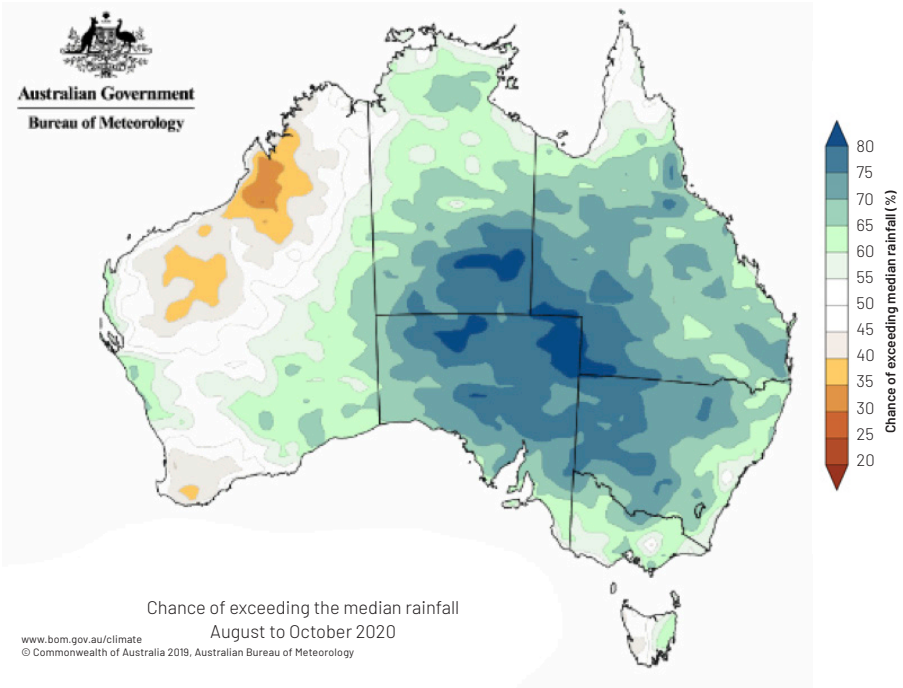
https://waterregister.vic.gov.au/images/documents/Water-supply-and-horticulture-demand-in-the-sMDB-2020-Update.pdf

Australia and the MDB have experienced drier-than-average conditions over the past 3 years. In order to materially replenish water storage levels, significant system resetting rainfalls would be required, similar to the very wet 16/17 water year.

Over the past three years the Pacific and Indian Ocean climate drivers have delivered neutral or negative rainfall outcomes across the MDB. Although modeling has indicated they may return to positive rainfall patterns, they are yet to substantially lock into the wetter part of their cycle. In addition, a positive phase of the Southern Annular Mode climate driver, has been prevalent at periods during the first half of 2020, drawing rainfall away from the MDB. Through April 2020, rainfall across the MDB was significantly above average, which delivered wet catchments and some inflow response. Unfortunately, this did not continue through May, June and July which all delivered well below average rainfall conditions.

While the Bureau of Meteorology (BOM) still has a level of confidence that conditions will be wetter than average through August to October, catchments are looking less likely to deliver the significant inflows required to reset storages.

The below graph shows the chance of exceeding median rainfall across Australia for August to October 2020.

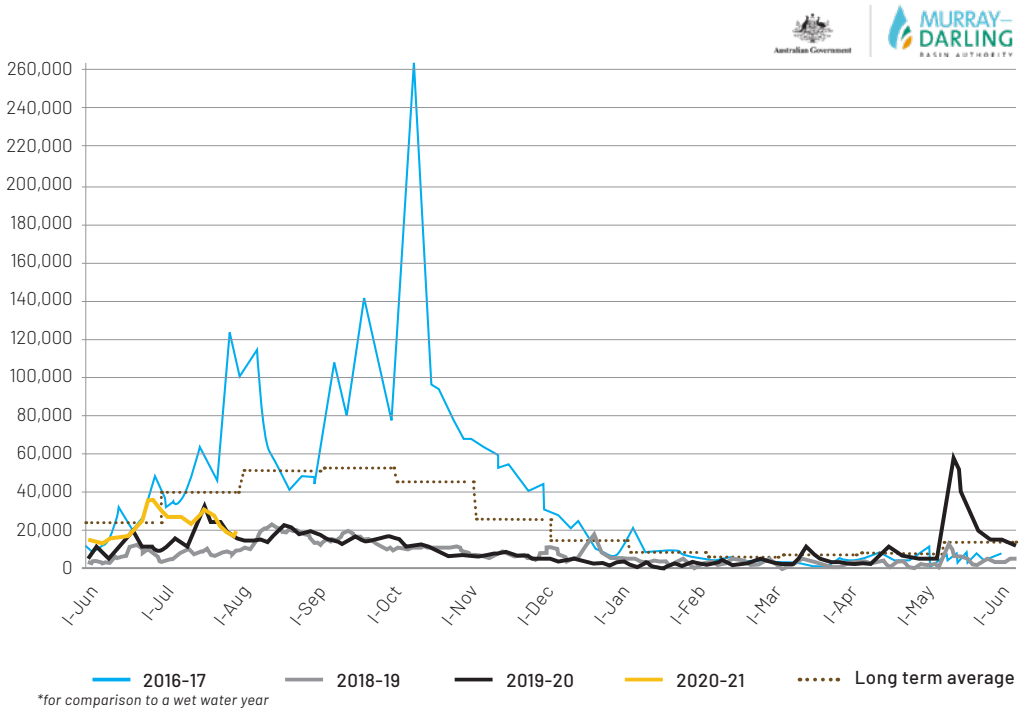


The combination of starting the 20/21 water year at low water storage levels and a lack of a strong wet climate drivers has led the Murray Darling Basin Authority (MDBA) and state-based resource managers to take a conservative approach to 20/21 allocation announcements. Whilst tributary flows in the north of Victoria and Murrumbidgee have been positive, the main upper Murray storages of Hume and Dartmouth have not benefited in the same way. At 29 July 2020, the combined Upper Murray storage was 51% compared to 50% at the same time in 2019.

The Company expects to see a combination of annual and perennial crop irrigation this year as well as a higher level of fragmentation across the basin as inter-valley trade limits are applied. The end of the 19/20 water year saw a number of irrigators proactively prepare for the 20/21 water year by securing forward contract allocation and purchasing allocation to carry over into the new water year. Whilst not enacted by all, this proactive approach assisted these irrigators with a risk management capability to climatic variability.

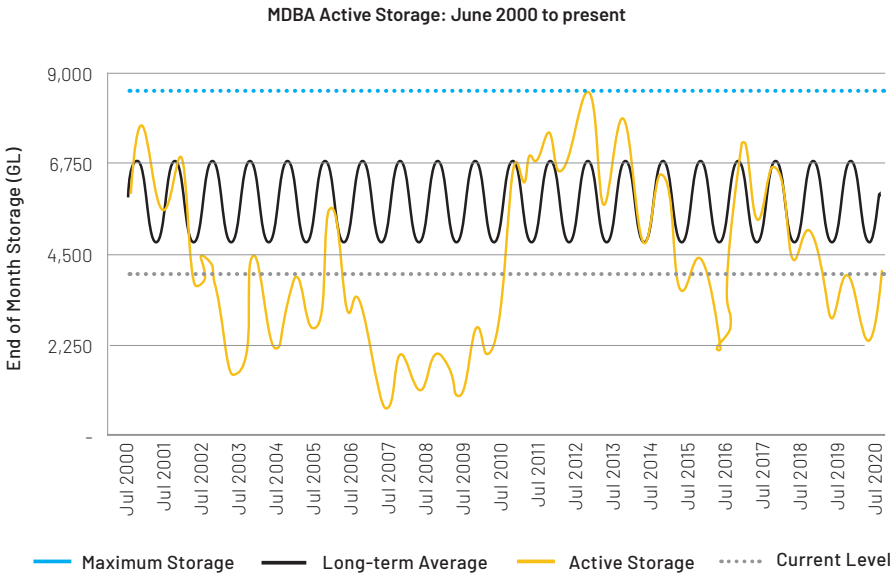
Active storage levels across the sMDB at 29 July 2020 were 47%, up from 43% at the same time in 2019. Inflows are critically impacted by rainfall consistency. Early rainfalls are required to increase soil moisture levels, allowing follow up rainfall to 'run-off' surfaces and into catchments. With sporadic rainfall events and higher than average daytime temperatures through the upper catchments, 2020 year to date has resulted in a low inflow yield. As a result of these lower than average inflows, storage levels remain significantly below average moving into Spring 2020.

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



*for comparison to a wet water year

https://www.mdba.gov.au/sites/default/files/weeklyreports/River-Murray-Operations-Weekly-Report-5-August-2020.pdf



https://www.mdba.gov.au/sites/default/files/weeklyreports/River-Murray-Operations-Weekly-Report-5-August-2020.pdf

The Company continues to support its farming partners with a variety of water risk management tools during current challenging weather conditions ahead of a hopeful transition to more normalised climatic conditions over the next 12 months.

Dividends

The Board has maintained its commitment to Shareholders to deliver a biannual dividend. A fully franked final dividend of 2.8 cents per share was paid on 30 March 2020. On 14 May 2020, due to the Company's visible lease income, the Company provided an extended dividend target for the next 4 dividend periods, through to the Final 2021 dividend. Duxton Water is pleased to reaffirm its intention to pay a consistent and growing dividend stream of:

- Interim 2020 dividend of 2.9 cents ($0.029);
- Final 2020 dividend of 3.0 cents ($0.030);
- Interim 2021 dividend of 3.1 cents ($0.031);
- Final 2021 dividend of 3.2 cents ($0.032); and
- Interim 2022 dividend of 3.3 cents ($0.033).

All Ordinaries Index

The Company is pleased to have been included in the All Ordinaries Index as announced by the S&P Dow Jones Indices, effective at the market open on 22 June 2020. This recognises the Company's development over the last four years since inception. Duxton Water is committed to continuing to grow the size of the company, enhancing Shareholder value while providing a consistent and visible dividend outlook.

ACCC Inquiry

On 30 July 2020, the ACCC released the interim report into the Southern Murray Darling Basin Water Market.

The ACCC has spent almost 12 months reviewing the markets operation and engaging with key stakeholders. The Commission has had an ongoing role in monitoring the Australian Water Markets, having issued reports on its operation since 2012. The Company has reviewed the report in-depth the Company believes it is a thorough and well-balanced report.

The ACCC has stated that:

"Water trading has brought substantial benefits to water users across the Basin. Water markets allow Irrigators to increase their water supplies, to earn income by selling their water rights when they are more valuable to someone else, to expand production, or to release capital for investment in their businesses. The benefit of water markets is demonstrated by the fact that, despite tough and volatile climatic conditions, the value of production from irrigated agriculture in the Southern Basin has trended upwards in real terms since 2010-11."

"Water investors, meanwhile, can help Irrigators free up capital by buying and leasing out water; they can increase water market liquidity; and they can help Irrigators manage water-supply risks, by providing water products such as leases and forward contracts.

The report has identified opportunities to improve governance, regulatory and operational frameworks that support Australian water markets. The Company believes that a focus in these areas will benefit all stakeholders and Duxton will actively engage in that process.

The interim report can be found at:
https://www.accc.gov.au/focus-areas/inquiries-ongoing/murray-darlingbasin-water-markets-inquiry/interim-report

COVID-19

The Investment Manager and Board of Duxton Water Ltd continue to monitor the on-going Covid-19 pandemic. The Investment Manager has put in place measures to ensure staff are able to continue to operate effectively whilst adhering to Government recommendations. This has enabled the day-to-day operations of the Company to continue with little impact and while the Board will continue to monitor and advise of any change, it does not currently foresee any significant operational impact to the business.

Rounding of amounts

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

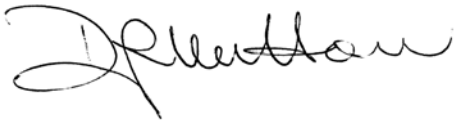
Auditor's independence declaration

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 18.

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



Edouard Peter
Chairman
Director



Dennis Mutton
Independent Non-Executive

Stirling, South Australia
31 August 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 review of Duxton Water Limited for the half-year ended 30 June 2020 there have been:

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

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

KPMG

Darren Ball
Partner

Adelaide

31 August 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.





STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Note	30 Jun 2020 $'000	30 Jun 2019 $'000
Revenue and other income	4	18,475	64,676
Cost of sales		(16,645)	(55,543)
Gross profit		**1,829**	**9,133**
Management fees		(960)	(795)
Performance fees		-	(475)
Legal and professional fees		(55)	(33)
Other expenses		(606)	(760)
Impairment reversal/(impairment) of water entitlements	6a	(561)	(2,367)
Impairment reversal/(impairment) of water allocations	6b	(2,855)	-
		(5,037)	**(4,430)**
Profit (loss) before net finance (cost)/income		**(3,207)**	**4,703**
Finance income		-	-
Finance expense[1]		(2,975)	(932)
Net finance (cost)/income		**(2,975)**	**(932)**
Profit (loss) before tax		**(6,182)**	**3,771**
Income tax (expense)/benefit		1,854	(1,235)
Profit (loss) for the half year attributable to shareholders of Duxton Water Limited		**(4,328)**	**2,536**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the half year attributable to shareholders of Duxton Water Limited		**(4,328)**	**2,536**
Earnings per share attributable to shareholders of Duxton Water Limited			
Basic earnings per share (dollars)		(0.036)	0.023
Diluted earnings per share (dollars)		(0.036)	0.023

[1]*Finance expense comprises of $1.316 million interest expense and $1.659 million non-cash fair value adjustments on interest rate swap arrangements.*

The condensed notes on page 25 to 33 are an integral part of these half year financial statements

STATEMENT OF **FINANCIAL POSITION**
AS AT 30 JUNE 2020

	Note	30 Jun 2020 $'000	31 Dec 2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents		2,043	751
Trade and other receivables		385	6,851
Water allocations	6b	3,290	5,745
Other current assets		126	331
Tax benefit		510	-
Total current assets		**6,354**	**13,678**
Non-current assets			
Water entitlements	6a	235,564	231,695
Deferred taxation		3,089	1,668
Total non-current assets		**238,653**	**233,363**
Total assets		**245,007**	**247,041**
LIABILITIES			
Current liabilities			
Trade and other payables		1,011	5,431
Unearned revenue		637	2,183
Tax liability		-	2,206
Interest-bearing liabilities	9	7,128	-
Financial derivative liabilities		-	339
Total current liabilities		**8,776**	**10,159**
Non-current liabilities			
Interest-bearing liabilities	9	100,000	94,200
Financial derivative liabilities	9	1,998	-
Total non-current liabilities		**101,998**	**94,200**
Total liabilities		**110,774**	**104,359**
Net assets		**134,233**	**142,682**
EQUITY			
Issued capital	7	136,932	137,717
Retained earnings/(accumulated losses)		(2,699)	4,965
Total equity		**134,233**	**142,682**

The condensed notes on page 25 to 33 are an integral part of these half year financial statements

STATEMENT OF **CHANGES IN EQUITY**
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Note	Issued capital	Retained earnings/ (accumulated losses)	Total equity
		$'000	$'000	$'000
Balance at 1 January 2019		**121,389**	**3,638**	**125,027**
Profit for the half year		-	2,536	2,536
Other comprehensive income for the half year, net of tax		-	-	-
Total comprehensive income for the half year		-	2,536	2,536
Transactions with owners of the Company:				
Shares issued		18,783	-	18,783
Share issue costs – net of taxes		(347)	-	(347)
Distribution of dividends		-	(2,823)	(2,823)
Balance at 30 June 2019		**139,825**	**3,351**	**143,176**
Balance at 1 January 2020		**137,716**	**4,965**	**142,682**
Loss for the half year		-	(4,328)	(4,328)
Other comprehensive income for the half year, net of tax		-	-	-
Total comprehensive income for the half year		-	(4,328)	(4,328)
Transactions with owners of the Company:				
Shares issued	7	291	-	291
Share buyback		(1,073)	-	(1,073)
Share issue costs – net of taxes		(3)	-	(3)
Payment of dividends		-	(3,336)	(3,336)
Balance at 30 June 2020		**136,932**	**(2,699)**	**134,233**

The condensed notes on page 25 to 33 are an integral part of these half year financial statements

STATEMENT OF **CASH FLOWS**
FOR THE HALF YEAR ENDED 30 JUNE 2020

	Note	30 Jun 2020 $'000	30 Jun 2019 $'000
Cash flows from operating activities			
Receipts from customers		23,003	63,406
Payments to suppliers		(23,556)	(47,210)
Interest paid		(1,325)	(925)
Income tax paid		(1,604)	(3,234)
Net cash (used in)/generated from operating activities		**(3,482)**	**12,037**
Cash flows from investing activities			
Purchase of water assets	6a	(4,540)	(47,833)
Deposits used for the purchase of water assets		299	-
Proceeds from sale of water assets		208	1,843
Net cash used in investing activities		**(4,033)**	**(45,990)**
Cash flows from financing activities			
Proceeds from issue of shares	7	-	18,630
Payment of share buyback		(1,073)	-
Transaction costs related to issues of shares		(3)	(645)
Proceeds from borrowings	8a	12,928	17,667
Payment of dividends		(3,045)	(2,669)
Net cash generated from financing activities		**8,807**	**32,983**
Net increase in cash and cash equivalents		1,292	(970)
Cash and cash equivalents at beginning of the period		751	2,665
Cash and cash equivalents at end of period		**2,043**	**1,695**

The condensed notes on page 25 to 33 are an integral part of these half year 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 D20. Its registered office and principal place of business is located at 7 Pomona Road Stirling SA 5152.

The Company is a for-profit entity.

The half year financial statements were authorised for issue by the Directors on 24 August 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.

At 30 June 2020 the Company has statutory net assets of $134.233 million (2018: $142.682 million). However, as at 30 June 2020 the Company has a net current asset deficiency of $2.42 million (2019: $3.86 million surplus), and incurred a loss after tax for the 6 months ended 30 June 2020 of $4.33 million (2019: $2.54 million profit).

The net current asset deficiency principally arises due to the inclusion of a short term borrowings facility of $7.13 million (2019:$Nil) which the Company obtained during the period. This facility expires on 31 January 2021.

Whilst the Company incurred a loss for this period, the Directors anticipate a return to profitable operations and the generation of cash inflows from its operations over the next 12 months sufficient to enable the Company to settle its debt maturing on 31 January 2021 and provide required working capital for the Company for at least the next 12 months.

In addition, Directors are confident of the availability of additional working capital through the sale of water entitlements and/or equity or debt fund raisings, should these measures be required.

Accordingly, the Directors have determined that it is appropriate to prepare the Company's financial statements on a going concern basis, which contemplates the continuation of business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business for the foreseeable future.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 half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard AASB 134 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

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.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the Company's financial statements as at and for the year ended 31 December 2019.

4 REVENUE AND OTHER INCOME

	30 Jun 2020 $'000	30 Jun 2019 $'000
Lease income from water entitlements	4,323	1,390
Sale of temporary water allocations	13,937	62,457
Profit on sale from disposal of water entitlements	190	829
Other income	25	-
	18,475	**64,676**

5 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 half year ended 30 June 2020

	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	4,622	13,938	25	18,585
Cost of goods sold	-	(16,755)	-	(16,755)
Total segment gross profit	4,622	(2,817)	25	1,830
Finance income	-	-	-	-
Expenses	(713)	(2,855)	(1,469)	(5,037)
Finance costs	-	-	(2,975)	(2,975)
Tax benefit (expense)	-	-	1,717	1,717
Net Profit/(loss) after tax	**3,909**	**(5,672)**	**(2,702)**	**(4,465)**

	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Balance Sheet						
Permanent water entitlements at fair value	213,302	41,680	43,447	13,532	-	311,961
- Less fair market value adjustment[2]	(57,062)	(4,979)	(1,504)	(4,061)	-	(67,606)
- Less accumulated impairment	(2,610)	(1,785)	-	(1)	-	(4,395)
Permanent water entitlements at cost	153,631	34,916	41,943	9,470	-	239,959
Temporary water allocations at fair value	1,978	962	311	46	-	3,296
- Less fair market value adjustment[3]	3,711	1,427	571	(6)	-	5,703
- Less accumulated impairment	(1,855)	(714)	(286)	-	-	(2,855)
Temporary water allocations at cost	3,833	1,675	596	40	-	6,144
Total segment assets as disclosed in the financial statements [4]	152,998	34,092	42,253	9,509	6,919	245,007
Total segment liabilities as disclosed in the financial statements	-	-	-	-	(110,774)	(110,774)

For the half year ended 30 June 2019

	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	2,219	62,458	-	64,676
Cost of goods sold	-	(55,543)	-	(56,543)
Total segment gross profit	2,219	6,914	-	9,133
Finance income	-	-	-	-
Expenses	(2,768)	(77)	(1,585)	(4,430)
Finance costs	-	-	(932)	(932)
Tax benefit (expense)	-	-	(1,235)	(1,235)
Net Profit/(loss) after tax	**(549)**	**6,837**	**(3,753)**	**2,536**

	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Balance Sheet						
Permanent water entitlements at fair value	164,470	36,748	34,490	11,863	-	247,572
- Less fair market value adjustment[2]	(46,239)	(4,152)	(3,091)	(3,985)	-	(57,467)
- Less accumulated impairment	(1,017)	(1,385)	-	(153)	-	(2,554)
Permanent water entitlements at cost	117,214	31,211	31,399	7,726	-	187,550
Temporary water allocations at fair value	5,865	2,311	1	241	-	8,418
- Less fair market value adjustment[3]	1,271	(1,228)	171	(241)	-	(27)
- Less accumulated impairment	-	-	-	-	-	-
Temporary water allocations at cost	7,135	1,083	172	-	-	8,391
Total segment assets as disclosed in the financial statements [4]	123,332	30,909	31,571	7,573	8,098	201,484
Total segment liabilities as disclosed in the financial statements	-	-	-	-	(58,308)	(58,308)

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 are measured at fair value. The measure of water entitlements does not comply with the recognition and measurement requirements of the Australian Accounting Standards.*

6 WATER ENTITLEMENTS AND ALLOCATIONS

a) Permanent water entitlements

Permanent water entitlements - at cost	$'000
Balance at 1 July 2019	184,550
Additions	49,030
Disposals	(1,051)
Balance at 31 December 2019	235,529
Balance at 1 January 2020	235,529
Additions	4,540
Disposals	(110)
Balance at 30 June 2020	239,959

Accumulated impairment	$'000
Balance at 1 July 2019	2,554
Impairment losses recognised in profit or loss	1,280
Balance at 31 December 2019	3,834
Balance at 1 January 2020	3,834
Impairment loss recognised in profit or loss	561
Balance at 30 June 2020	4,395

Total carrying amount – 30 June 2019	**184,996**
Total carrying amount – 30 June 2020	**235,564**

b) Temporary water allocations

	30 Jun 2020 $'000	31 Dec 2019 $'000
Temporary water allocations (cost)	6,145	5,745
Less impairment	(2,855)	-
Total carrying amount	**3,290**	**5,745**

The recoverable amount the cash generating unit to which each water entitlement belongs is determined at least annually, using a market based approach. Each cash generating unit constitutes 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 megalitre (ML).

The recoverable amount of each water entitlement is determined by an independent expert who 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. 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.

Details of information to which reportable segment the impairment relates to, is disclosed in Note 5.

7 ISSUED CAPITAL AND SHARE OPTIONS

Issued capital as at 30 June 2020 amounted to $136.932 million (119,375,450 ordinary shares). Issued capital as at 31 December 2019 amounted to $137.717 million (119,880,298 ordinary shares). During the half year to 30 June 2020:

- 227,624 ordinary shares ($0.291 million) were issued under the Company's Dividend Reinvestment Plan.
- 732,472 ordinary shares ($1.073 million) were bought back under the Company's Share Buyback agreement.

At 30 June 2020 the Company does not have any share options on issue (30 June 2019: nil).

8 DIVIDENDS PAID

Total dividends paid for the half year ended 30 June 2020 were $3.336 million. This consisted of cash distributions of $3.045 million and shares issued under the DRP to the value of $0.291 million.

9 INTEREST-BEARING LIABILITIES

	30 Jun 2020 $'000	31 Dec 2019 $'000
Bank loans – secured	107,128	94,200
	107,128	**94,200**
Current	7,128	-
Non-Current	100,000	94,200
	107,128	**94,200**

SUMMARY OF BORROWING ARRANGEMENTS

(i) Since 31 December 2019 the Company entered into a $12.0 million facility, repayable on 31 January 2021. The facility was drawn down to $7.1 million at 30 June 2020. The amount is reflected as current.

(ii) Since December 2019 the Company's financial covenant relating to its $100 million NAB debt facility was amended as follows:

- 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 35% (previously 30%), and to be measured against monthly Independent Sworn Water Holding Valuation. Other covenants remained unchanged.

(iii) Bank loans - secured: The variable interest payable on these debt facilities is calculated as BBSY plus 0.82% p.a + Facility Fee of 0.82%.

(iv) These facilities are secured by mortgages on the Company's permanent water rights.

(v) Interest is charged through a mixture of variable and fixed 5-10 year interest rate swap arrangements. Interest swap rates range from 2.85%-3.46%.

(vi) The Company's current debt facility is due for expiry on 31 January 2021 with the non-current portion of the debt facility due on 31 January 2022.

Fair Value of Financial instruments

FAIR VALUE HIERARCHY

AASB 13 requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs)

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 period, fair value changes of $1.659 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.

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 in the Company's annual report, are as follows:

	Note	30 Jun 2020 $'000	31 Dec 2019 $'000
Financial Assets			
Cash and cash equivalents		2,043	751
Trade and other receivables		385	6,536
Total financial assets		**2,428**	**7,287**
Financial Liabilities			
Trade and other payables		1,011	5,431
Interest-bearing liabilities		107,128	94,200
Financial derivative liabilities		1,998	339
Total financial liabilities		**110,137**	**99,970**

10 KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel and of the Investment Manager (Duxton Capital (Australia) Pty Ltd) are disclosed in the annual financial report.

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 by the Investment Manager.

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

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



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

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

Mr Edouard Peter has a direct interest of 378,100 shares in the Company and an indirect interest of 11,066,685 shares in the Company. Mr Edouard Peter's indirect interest is inclusive of shares owned by the Duxton Group. The Duxton group owns 334,441 shares in the company at 30 June 2020.

Mr Stephen Duerden has a direct interest of 41,353 shares in the Company and an indirect interest of 80,060 shares in the Company. Mr Stephen Duerden's indirect interest is inclusive of shares owned by the Duxton Group. The Duxton group owns 334,441 shares in the company at 30 June 2020.

11 RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties during the half year ended 30 June 2020 (and the half year ended 30 June 2019):

	30 Jun 2020 $'000	30 Jun 2019 $'000
Management fee – Duxton Capital (Australia) Pty Ltd	960	795
Administration fee – Duxton Capital (Australia) Pty Ltd	93	127
Performance fee – Duxton Capital (Australia) Pty Ltd	-	475
Revenue – Duxton Viticulture Pty Ltd	1,214	1,188
Revenue – Duxton Broadacre Farms Ltd	139	140
Revenue – Duxton Dairies (Cobram) Pty Ltd	46	46

Transactions between related parties are on commercial terms and conditions.

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

	30 Jun 2020 $'000	31 Dec 2019 $'000
Amount due to (from) Duxton Capital (Australia) Pty Ltd	181	5,256
Amount due to (from) Duxton Dairies (Cobram) Pty Ltd	(23)	-
Amount due to (from) Duxton Broadacre Farms Ltd	-	-
Amount due to (from) Duxton Viticulture Pty Ltd	-	1

12 SUBSEQUENT EVENTS

As a result of the evolving nature of the COVID-19 pandemic and the rapidly evolving government policies of restrictive measures put in place to contain it, as at the date of these financial statements, the Company is not in a position to reasonably estimate the financial effects of the COVID-19 pandemic on the future financial performance and financial position of the Company.

In addition to the above, at 31 July 2020, the Company's accumulated impairment on the temporary water portfolio ($2.8 million pre-tax) has completely reversed.

Other than the above, there have been no events subsequent to reporting date which would have amaterial impact on the Company's 30 June 2020 financial statements.

DIRECTOR'S **DECLARATION**
FOR THE HALF YEAR ENDED 30 JUNE 2020

In the opinion of the Directors of Duxton Water Limited ("the Company"):

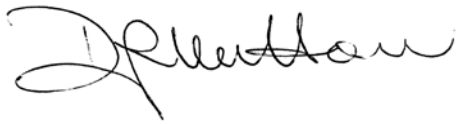
1. the condensed financial statements and notes set out on pages 27 to 37, are in accordance with the Corporations Act 2001 including:
   a. giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance of the 6 months period ended on that date; and
   b. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Edouard Peter
Chairman



Dennis Mutton
Independent Non-Executive Director

Stirling, South Australia
31 August 2020

Independent Auditor's Review Report

To the shareholders of Duxton Water Limited

Conclusion

We have reviewed the accompanying ***Half-year Financial Report*** of Duxton Water Limited (the Company).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of Duxton Water Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Half-year Financial Report*** comprises:

- statement of financial position as at 30 June 2020;
- statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the Half-year ended on that date;
- condensed notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information; and
- the Directors' Declaration.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001; and*
- such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Duxton Water Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Darren Ball
Partner

Adelaide

31 August 2020

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CORPORATE **DIRECTORY**

Non-Executive Chairman
Edouard Peter

Non-Executive 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
63 Pirie Street
Adelaide SA 5000

Share Registry
Computershare

Auditors
KPMG
151 Pirie Street
Adelaide SA 5000

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

Stock Exchange Listing
Australian Securities Exchange
Share Code: D2O


DUXTON
WATER

DUXTON
WATER

APPENDIX 4D
HALF-YEAR REPORT

1 REPORTING PERIOD

Reporting period "Current period" From 1 January 2020 to 30 June 2020
Previous corresponding period From 1 January 2019 to 30 June 2019

2 RESULTS FOR ANNOUNCEMENT TO THE MARKET

				$'000
Revenue from ordinary activities	down	72%	to	18,475
Profit (loss) from ordinary activities after tax attributable to members	down	271%	to	(4,328)
Net profit (loss) for the period attributable to members	down	271%	to	(4,328)

	30 Jun 2020	31 Dec 2019
Net asset value per share	$1.12	$1.19
Net asset value per share at fair market value	$1.58	$1.76

On 30 March 2020 the Company paid a $0.028 final dividend, franked to 100%.

	Record date	Date payable	Amount per security	Franked amount per security
Current period				
Final dividend	16 March 2020	30 March 2020	$0.028	$0.028

Commentary on results for the period

During the period ended 30 June 2020, the Company:
- Delivered an operational gross profit of $1.83 million
- Increased visible leasing revenue to $9.50 million from 1 July 2020
- Paid a final 2019 fully franked dividend of $0.028; and
- Provided Shareholders with targets for the next four dividend payments (and are pleased to provide the fifth dividend target within this report)

Pricing on the Company's permanent water portfolio has continued to stabilise in what has been a challenging time for the global economy, reaffirming that water as an asset class can continue to perform well even in times of uncertainty.

The NAV from a Fair Market Value perspective at 30 June 2020 was $1.58 which has since increased to $1.62 at 31 July 2020 on the back of stabilising permanent water prices and impairment reversal of $2.85 million on the temporary portfolio.

A material portion of the non-cash impairment expense booked on the temporary water portfolio at 30 June 2020 was related to pre-sold water under forward sale contracts. The Company was still required to book a non-cash impairment expense in the Statement of Profit or Loss on forward sold water.

At 30 June 2020, the Company is carrying $76.40 million (or $0.46 per share) of unrealised capital gain on the water portfolio. This is excluded from the statutory financial statements due to the application of Australian Accounting Standards.

The NAV of the Company in accordance with Australian Accounting Standards (which excludes unrealised gains) at 30 June 2020 is $1.12 per share (31 December 2019: $1.19 per share).

The statutory NAV position of the Company includes accumulated impairment losses of $7.25 million across the Company's water asset portfolio. At 31 July 2020, accumulated impairment losses on the temporary water portfolio of $2.85 million booked at 30 June 2020, has completely reversed.

30 June 2020	Per Company Statement of Financial Position $'000 *(reviewed)*	Per Fair Market Value $'000 *(unreviewed)*	Variance $'000
Assets			
Permanent water entitlements	235,564	311,961	76,396
Temporary water entitlements	3,290	3,296	6
Net current and deferred tax asset	3,599	(19,921)	(23,520)
Net other current liabilities	(6,223)	(6,223)	-
Net non-current liabilities	(101,998)	(100,000)	1,998
Total net assets	**134,233**	**189,113**	**54,880**
Net asset value per share	**$1.12**	**$1.58**	**$0.46**

3 NET TANGIBLE ASSETS PER SHARE

	30 June 2020	30 June 2019
Net tangible assets per ordinary share ($)	(0.85)	(0.34)
Net assets per ordinary share ($)	1.12	1.18

4 CONTROL GAINED OR LOST DURING THE PERIOD

Not applicable

5 DIVIDENDS

	Record date	Date payable	Amount per security	Franked amount per security
Current half-year	16/03/2020	30/03/2020	$0.028	$0.028
Previous half-year	13/03/2019	27/03/2019	$0.026	$0.026

6 DIVIDEND REINVESTMENT PLAN

The Company's DRP was in operation for the period relating to the 2019 final dividend (paid March 2020). Participants in the DRP were 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 for the dividend was 17 March 2020.

7 ASSOCIATES AND JOINT VENTURES

There are no associates or joint venture entities.

8 FOREIGN ENTITIES

Not applicable

OTHER INFORMATION

This report is based on the half-year financial statements which have been reviewed by KPMG.