DUXTON WATER LIMITED
DECEMBER 2022
ANNUAL REPORT

DUXTON WATER

PROUDLY SUPPORTING AUSTRALIAN IRRIGATORS AND FARMERS

ACN 611 976 517

FULL-YEAR
2022 SNAPSHOT

Duxton Water's Investment Manager is part of the broader Duxton group of companies that operates Australian agricultural businesses in **viticulture, dried fruit, nuts, broadacre, bees, dairy, apples** and **water**. In any given year, the Duxton businesses produce **15-20 different commodities** and **provide jobs** for over **500 people living** in **rural communities** every year.

12%	PORTFOLIO RETURN* (12 MONTHS)
$377M	WATER PORTFOLIO VALUE
$1.90 PER SHARE	NON-STATUTORY NET ASSET VALUE (POST-TAX)
$1.62	SHARE PRICE
83.6GL	TOTAL WATER OWNED
54%	LEASED %

(*) Total Portfolio Return is based on NAV movements and includes franked dividends for the 12 month period to 31 December 2022.

"We use our geographically diverse portfolio of **Australian Water Entitlements** to provide **irrigation water** to a wide range of Australian farming businesses.

Our **long-term water leases** allow **Australian farming businesses** to **access water** at a fraction of the cost of owning the same **water licences outright**."

CONTENTS

CHAIRMAN'S LETTER TO SHAREHOLDERS

On behalf of our Board, I am pleased to present the FY2022 Annual Financial Report for Duxton Water Limited ("D2O" or "the Company").

When we started this business in 2016, our aim was to partner with farmers, both large and small, to offer choice and flexibility when it comes to their water. I am proud to say that over the last six years, we have helped and supported hundreds of Australian farming businesses with their annual water requirements, and we will continue to do so for many years to come.

RESILIENCE

In 2022, the Murray Darling Basin ("MDB") experienced the most significant flooding event since 1956. We have continued to support our customers throughout this difficult year, and our thoughts go out to those who have been impacted by the most recent floods.

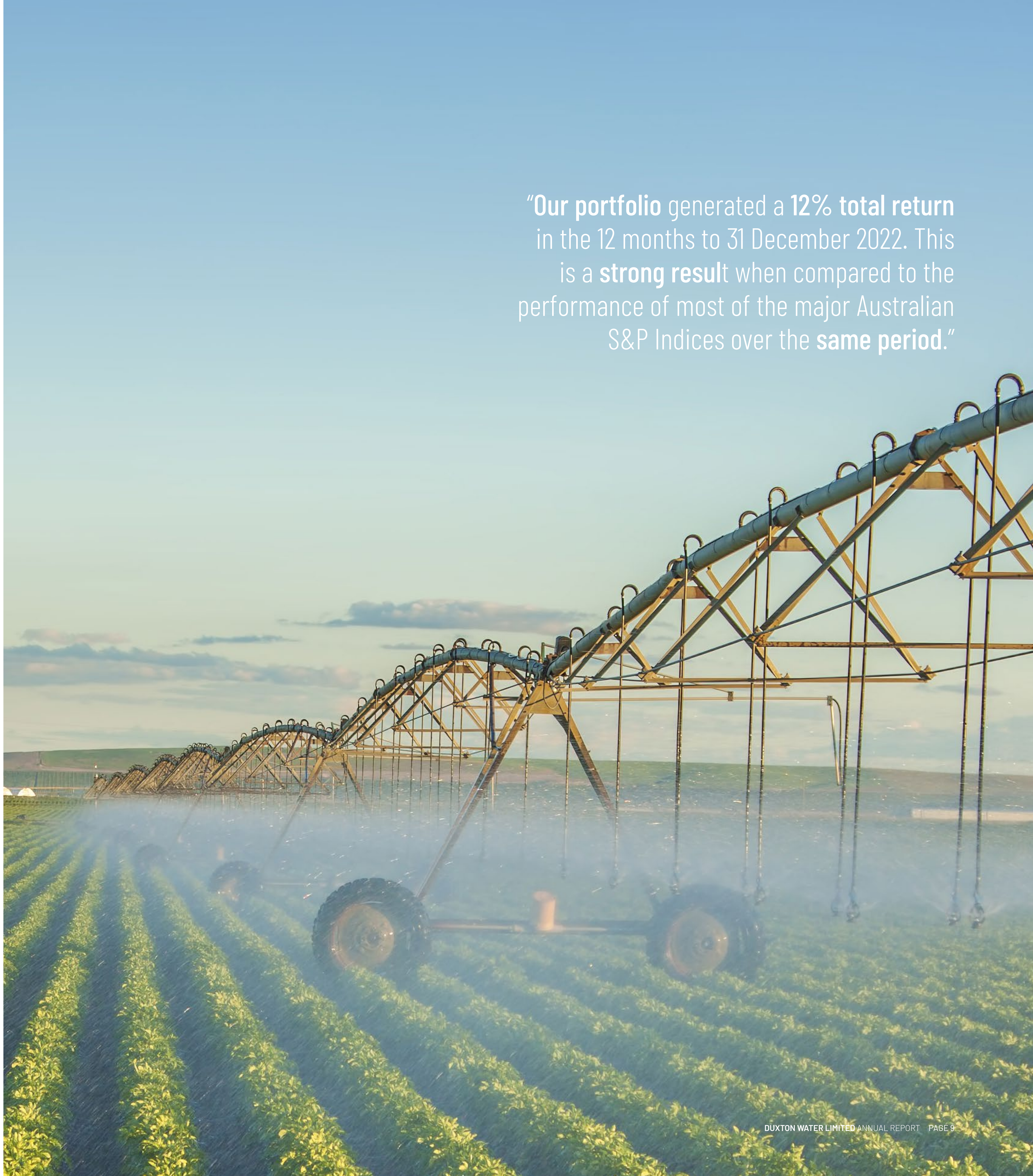
While some expected water entitlement values to fall on the back of the most recent conditions, the opposite has occurred. Water entitlements across the southern MDB experienced an average price increase of 7% in the 12 months to 31 December 2022 (FY2022).

We believe this continued growth in water entitlement prices to be largely reflective of the long-term demand and supply drivers that underpin Australia's water markets. That is, increased plantings of permanent horticulture, and a reducing supply of water available for agricultural use.

Looking back over the last six years, we have experienced some extraordinary events, including extreme dry and wet conditions, a global pandemic and Australia's steepest tightening of monetary policy of the last generation.

In all of this, our portfolio has generated an annualised total return of 13% on a Net Asset Value ("NAV") basis, including dividends paid to shareholders, since the Company's inception in 2016.

This shows the resilience of Australian water entitlements as an asset class.



"**Our portfolio** generated a **12% total return** in the 12 months to 31 December 2022. This is a **strong resul**t when compared to the performance of most of the major Australian S&P Indices over the same **same period**."

FINANCIAL PERFORMANCE

We are pleased to report that in FY2022, Duxton Water reported its highest ever Net Profit Before Tax of $14.01 million (FY2021: $12.20 million).

After experiencing some of the wettest conditions of the last 60 years, we have delivered another strong result for shareholders in FY2022. Our long-term view of delivering balanced returns across all parts of the climatic cycle has been tried and tested, with a positive outcome once again being realised for all shareholders.

This is the first year we haven't recognised any impairments on our portfolio at end of year. Included in the current year Statement of Profit or Loss are impairment reversals of $0.43 million. This consists of the write back of asset impairments booked against the water portfolio on 31 December 2021.

At 31 December 2022, we have unrealised capital gain reserves of $114.00 million embedded within the portfolio, up from $97.35 million at 31 December 2021. Due to the application of Australian accounting standards, this uplift is excluded from our statutory financial statements and statutory retained earnings position.

This year we generated an Earnings Per Share ("EPS") of 8.4 cents per share. This represents an 18% increase in EPS when compared to the previous year of 7.1 cents per share.

We paid out total dividends of 6.5 cents per share during the year (fully franked), which represents a dividend payout ratio of 76%. This takes our statutory retained earnings reserve to $10.34 million (or 8.8 cents per share) at 31 December 2022. This is up from $8.10 million (or 6.7 cents per share) at 31 December 2021.

Overall, our balance sheet remains in a very strong position. At 31 December 2022, we had net debt of $114.27 million compared to a total portfolio valuation of $377 million. This puts our gearing at 30%, which is well within our maximum net debt covenant of 40%.

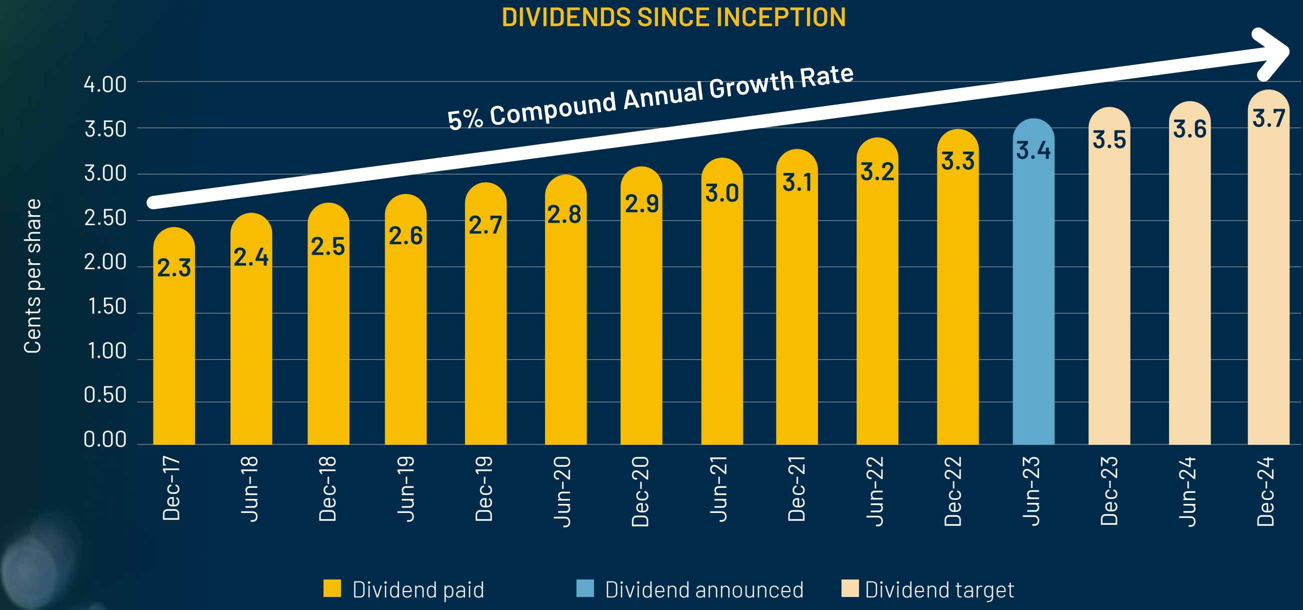
Over the last 12 months:	FY2022	FY2021	Difference
Share Price	$1.62	$1.53	+$0.09
Non-statutory NAV (post-tax)	$1.90	$1.78	+$0.12
Dividends Paid	6.5 cps	6.1 cps	+0.4 cps
Water Portfolio Valuation ($m)	$377m	$340m	+$37m
Water Owned (GL)	83.6GL	80.0GL	+3.6GL
Leased %	54%	72%	-18%

PORTFOLIO RETURNS

This year we are pleased to report that our portfolio generated a total return of 12% in the 12 months to 31 December 2022. This total return consisted of 7% NAV growth and 5% gross dividend yield. An exceptional result in a year that has been challenging and volatile for markets globally.

Our strategic portfolio allocation continues to bode well for shareholders. In particular, our exposure to general security (or low reliability) entitlements has proven to be a great hedge against the wet conditions we've seen over the last 2-3 years. Most of the major general security entitlement types have appreciated in value by 6-50% over the last 12 months and have yielded 100% allocation due to the wetter than average conditions.

We will continue to actively manage and position our portfolio to work within the climatic cycle. This will give us the best chance to continue to meet our business objectives and provide balanced returns to our shareholders over a longer term period.



DIVIDENDS

We were pleased to have delivered on both our dividend targets for FY2022. This comprised of two fully franked dividends being paid to shareholders throughout the year, totalling 6.5cps (FY2021: 6.1cps). Since paying our maiden dividend in November 2017, we have continued to increase our annual dividend year-on-year. Our dividend payout has seen a 5% Compound Annual Growth Rate since November 2017.

Given our continued strong performance, the Board is pleased to formally announce the Final 2022 dividend of 3.4 cents per share (fully franked) to be paid to shareholders on Friday 28 April 2023.

We have a demonstrated history of providing shareholders with balanced returns and dividends over the climatic cycle (i.e. both wet and dry years). Our ability to do this is largely driven by our strategic portfolio allocation and entitlement trading strategies that continue to generate value for our shareholders.

Finally, late last year we advised shareholders that following the 24-month dividend guidance provided to the end of FY24, we will return to a 12-month dividend guidance to better align with standard market practices.

We remain confident in the long-term strategy of our business and would like to reaffirm our intention to continue to provide shareholders with a bi-annual dividend, franked to the greatest extent possible.

CURRENT DIVIDEND GUIDANCE

Dividend Guidance	Cents Per Share
Final 2022	3.4 cps (Declared)
Interim 2023	3.5 cps (Target)
Final 2023	3.6 cps (Target)
Interim 2024	3.7 cps (Target)

DEBT

Over the last six years, we have strategically used debt at historically low interest rates to enhance shareholder returns and scale the portfolio. While we have always been active in the management of our debt facilities, the Board now recognises that we are in a different interest rate environment when compared to 12 months ago. Therefore, in the interim, we may look to offset any surplus cash against our debt facilities to reduce our current interest expenses.

In November 2022, we closed our 5-year fixed interest rate swap positions. This was done to crystallise the gain recorded on these swap arrangements since they were contracted in 2019 and 2020. The total gain made on closing these swap arrangements was $2.4 million. This was settled in cash to the Company in late 2022.

Had we let these swap arrangements continue until maturity (2.6 years average), the fair value of these swap arrangements would have reverted back to $0.

In summary, we received our interest saving on these swaps upfront in cash, as opposed to over the next 2.6 years. Further to this, we may also benefit from any future cash rate decreases should they occur, noting that any upcoming rate increases were likely priced into the mark-to-mark swap valuations when we closed them in November 2022.

At 31 December 2022, we have total net debt of $114.27 million, which represents an LVR of 30% against a total portfolio valuation of $377 million. We are sitting well within our current LVR bank covenant limit of 40%.

A summary of the Company's debt position at 31 December 2022 can be seen below:

D20 Debt Summary	FY2022	FY2021	Difference
Total Debt Drawn	$125m	$106m	**+$19m**
Total LVR	30%	27%	**+3%**
Total Fixed Debt	$15m	$55m	**-$40m**
Total Variable Debt	$110m	$51m	**+59m**
Effective Cost of Borrowings	3.04%	2.28%	**+0.76%**

It should be noted that given the homogenous nature of water entitlements, they can be easily sold and converted into cash to pay down debt, should the Board see this to be in the interests of shareholders. Cash generated from the sale of water entitlements is typically received 4-6 weeks after contracts have been executed.

Due to the Australian Accounting Standards, interest rate swaps are required to be held at fair value on the Statement of Financial Position. As such, a $4.3 million interest benefit was recorded in the Statement of Profit or Loss for the full year ended 31 December 2022. This comprised of a $2.4 million cash benefit and a $1.9 million non-cash benefit.

ON-MARKET BUYBACK

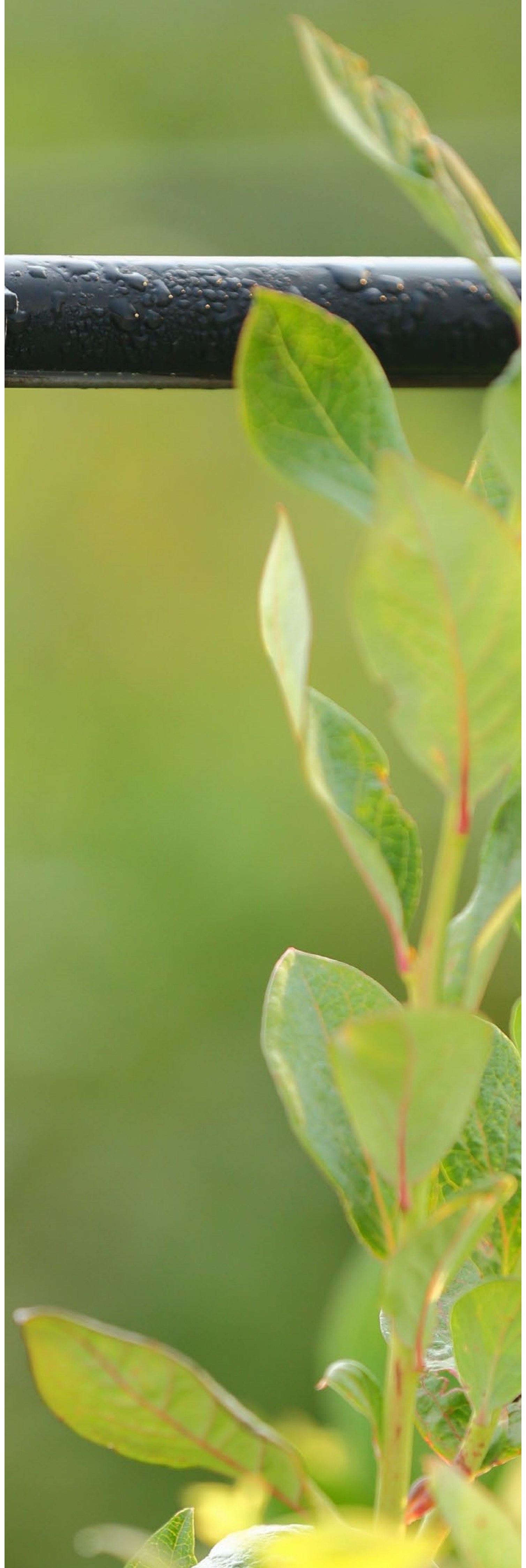
Duxton Water has bought back 2.8 million shares at an average price of $1.61 per share since November 2021. This represents approximately 2% of the Company's shares. The Board believes that buying back shares at the current discount to Net Asset Value is in the interests of all shareholders. **Purchasing shares at a discount to NAV acts as a proxy to buying water entitlements at the same discount (i.e. it's the lowest cost water we can buy).**

BOARD APPOINTMENT

On 1 April 2022, Mr Brendan Rinaldi was appointed to the Board and Audit & Risk Management Committee of D2O as an Independent Non-Executive Director.

Brendan is a Chartered Accountant with over 17 years of experience in accounting and finance. He commenced his career with PwC before moving to KordaMentha during the GFC. Brendan has spent the last ten years at ANZ, where he has held various senior leadership roles across risk, commercial lending, agribusiness and health sectors. Originally with an irrigation farming background, Brendan grew up in the Southern Riverina of NSW and still maintains close involvement in his family's farming operation.

We thank Brendan for the excellent contribution he has made to our Board since his appointment in April, and we look forward to Brendan continuing to add value for our Company and our shareholders in the future.



OUTLOOK

I have great confidence in the outlook for our business. We have a weather forecast that suggests more normal conditions aren't too far away, and I hope this brings much needed relief to the Australian farming community.

Our business is in a very strong position. We have a clear strategy in place to ensure we can continue to meet our business objectives, and deliver value for both our customers and our shareholders.

Finally, I would like to thank our Board and the broader management team, who have all contributed immensely towards such a strong result in what has been a challenging year. Thank you.

We look forward to continuing our strong momentum into FY2023 and discussing our results with you at our Annual General Meeting later this year.

Ed Peter - Chairman

PORTFOLIO MANAGERS' REPORT

Lachlan Campbell
Portfolio Manager

Lachlan Beech
Portfolio Manager

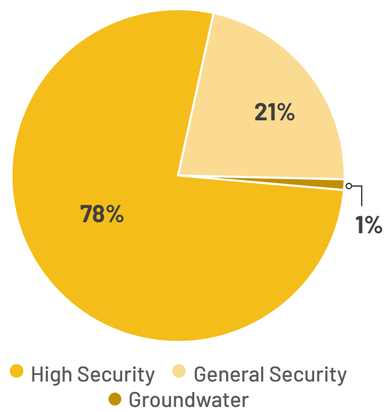
"We have continued to partner with farmers, both large and small, to help improve their choice and flexibility when it comes to preparing for the years ahead."

We have continued to support our customers where we can in a year that has seen significant flood events devastate many regional communities. We have continued to provide leases, forwards, spot sales, and carry over opportunities to our customers during these wetter conditions, so they can proactively plan ahead for upcoming seasons.

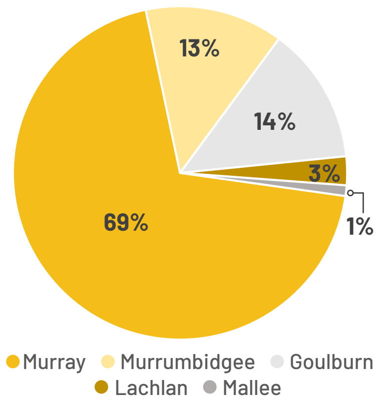
This year we made the decision to sell down a larger percentage of our unleased allocations before the end of the calendar year than we would normally have. This yielded a great result, as we sold most of our unleased allocations to support spring and early summer irrigation, where the spot price was higher than where it is today.

We've also been successful in building out the lease book, which now includes some of Australia's most prominent horticulture producers. Focusing on long-term water leases not only provides us with a stable and visible revenue stream, but also reduces our exposure to the spot allocation market.

WATER SECURITY BREAKDOWN



ENTITLEMENT VALUE BY REGION



PORTFOLIO OF AUSTRALIAN WATER ASSETS

Our portfolio valuations have held up remarkably well in what has been one of the wettest periods in the Murray-Darling Basin (MDB) since 1956. As of today, most major water entitlement types are trading at or close to all-time highs, which is an exceptional result given the events of the last 12-24 months. Our diversification strategy of owning a mixture of water entitlements that differ by class, type, and location has continued to provide benefits for both our customers and our shareholders.

In FY2022, the Duxton Water portfolio increased by $37 million. The portfolio was valued at $377 million at 31 December 2022, with a total of 83.6GL held, which is up from $340 million at 31 December 2021, with 80.0GL held.

There remained a significant demand for both high security and general security assets this year. Demand for high security entitlements has come from irrigators (both large and small) who are looking to improve their long-term water security. There has also been strong demand for general security entitlements as annual allocations on these second tier entitlements have reached 100% in the last two years.

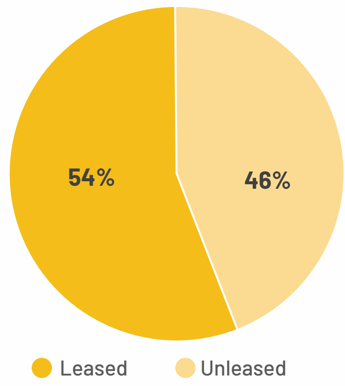
Entitlement Holding Type	31/12/2021 (ML)	ML Change (ML)	31/12/2022 (ML)
VIC 1A Goulburn HR	10,189	975	11,164
VIC 1A Goulburn LR	94	1,307	1,401
VIC 1B Boort HR	376	-	376
VIC 3 Goulburn HR	421	-	421
VIC 6 Murray HR	6,647	(830)	5,817
VIC 6 Murray LR	-	312	312
VIC 7 Murray HR	5,220	(4)	5,216
VIC 6B Murray HR	556	693	1,248
NSW Murray 10 HS	3,010	-	3,010
NSW Murray 10 GS	14,491	-	14,491
NSW Murray 11 HS	7,296	414	7,710
NSW Murray 11 GS	7,825	(600)	7,225
NSW Murray 11 Supp	83	-	83
NSW Murrumbidgee 13 HS	2,754	130	2,884
NSW Murrumbidgee 13 GS	7,822	1,000	8,822
NSW Lachlan Valley – GS	4,504	-	4,504
NSW Lachlan Valley – Jemalong Irrigation GS	2,660	-	2,660
SA Murray HS	4,673	227	4,900
SA Mallee Prescribed Wells Area – Parilla Red Zone	500	-	500
SA Mallee Prescribed Wells Area – Parilla Green Zone	846	-	846
Total	**79,967**	**3,624**	**83,591**

LEASES

Our key focus for leasing over the last year has been to seek new leasing partnerships to further diversify our lease book. Demand for leases in the second half of 2022 was lower than usual due to the extremely wet conditions and irrigators favouring the spot market. However, on the back of a drier outlook, we have seen a significant increase in demand for leases in early 2023.

We are pleased to advise that we have successfully locked in several new 5-10 year leases with new and existing counterparties. There is no one size fits all approach to water leasing, meaning these new leases are tailored to meet the short-term and long-term water needs for each individual business.

WATER PORTFOLIO DIVERSIFICATION



Our long-term water leases provide irrigators with a reliable supply of water each year. These leases are a useful risk mitigation tool for irrigators to take utilise when it comes to navigating Australia's unpredictable and harsh climate.

Leases allow farming businesses to invest capital into their land and production assets, rather than having their balance sheets tied up in water ownership. Typically, a permanent crop producer can generate a higher yield from owning land and production assets when compared to owning water entitlements outright. Therefore, our long-term water leases are a great value proposition for irrigators looking to expand their operations.

We will continue to engage with existing and new customers to lock in long-term leasing arrangements to further support our Weighted Average Lease Expiry and leasing revenue stream as leases roll off annually. We are actively working towards getting back to our long-term leasing target of 70-80%.

GOVERNMENT WATER BUYBACKS

The Federal Labor Government continues to publicly declare their intention to recommence on-market water buybacks. On-market water buybacks are a mechanism by which the Government voluntarily buys-back water licences from water holders and transfers these licences to the Commonwealth Water Holder. By doing so, water that was once available for agricultural use is then allocated to environmental use. This reduces the consumptive pool of water available for agriculture. At 31 December 2022, the Commonwealth Water Holder owns approximately 22% of water entitlements on issue (by volume) in the Murray Darling Basin. Total value of water entitlements on issue in the southern Murray Darling Basin is approximately $30 billion.

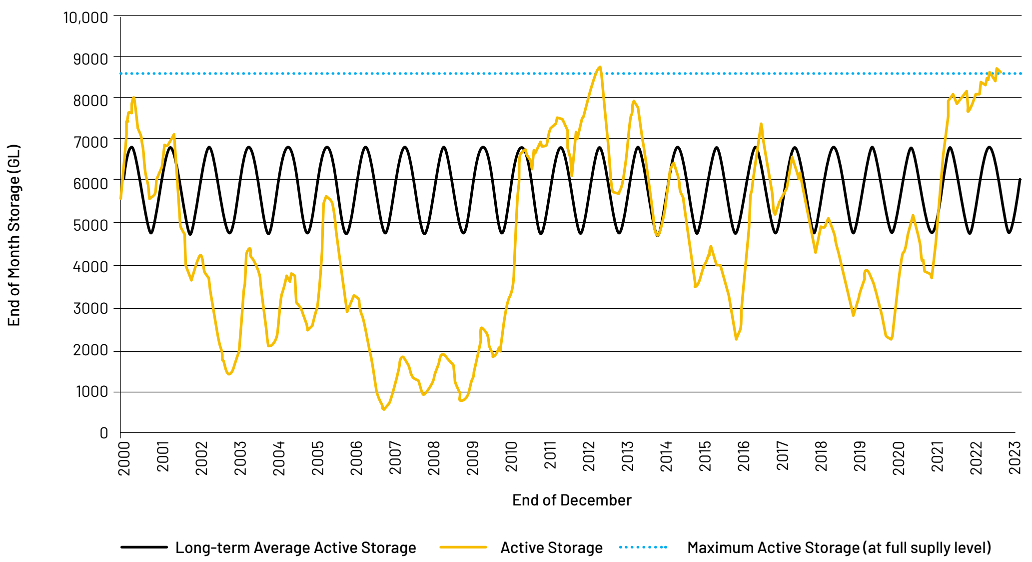
Following amendments made to the Murray Darling Basin Plan ("MDBP") in 2018, the overall target for water recovery was reduced by 605GL to 2,075GL. In addition to this target which has almost been met, there exists the enhanced environmental outcomes recovery target of 450GL per year which under the current MDBP, is to be achieved through efficiency measures by 30 June 2024. Since the commencement of the MDBP, only 2GL/450GL of water has been recovered under this initiative.

While the Government has not yet commenced any on-market water buybacks since taking office in 2022, Duxton Water would like to reaffirm that it does not foresee this having an adverse impact to the key operations of its business. Duxton Water will continue to provide its range of water supply products to Australian farming businesses, providing choice and flexibility when it comes to managing one of Australia's most precious natural resources.

SYSTEM INFLOWS

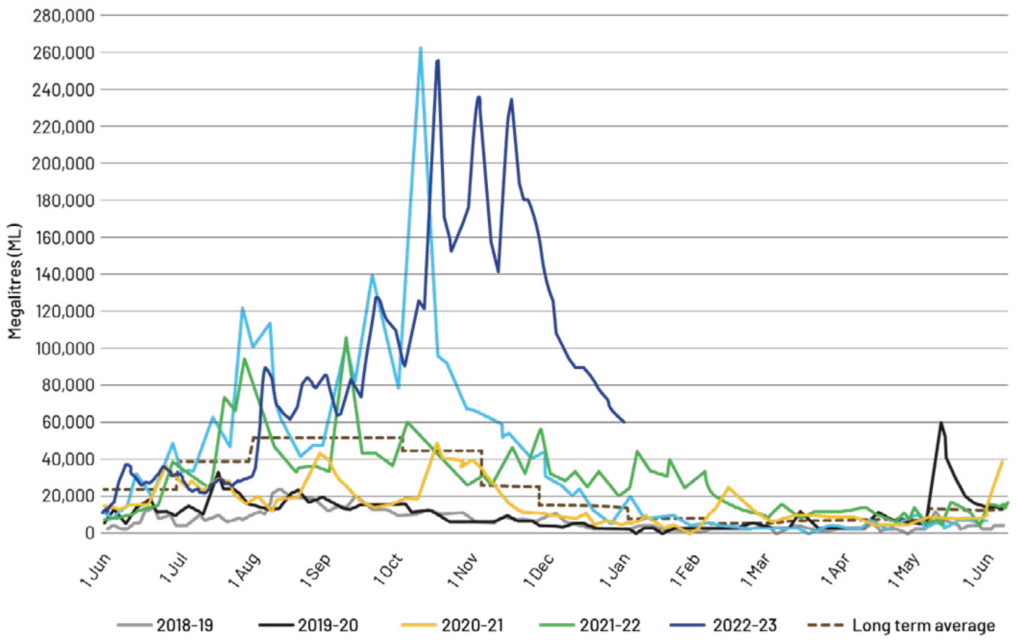
In 2022, we saw dam storages in the Murray Darling Basin ("MDB") reach 100% capacity for just the second time in 22 years. Further to this, we saw Dartmouth Dam physically spill for the fourth time since it was built in 1979. The last time Dartmouth Dam physically spilt prior to 2022 was in 1996, 26 years ago. This is a reflection of just how much rainfall we have seen over the last 2-3 years, which has ultimately led to the severe flood conditions of the last 12 months.

MDB AUTHORITY STORAGE: JUNE 2000 TO END DECEMBER 2022



Source: Murray Darling Basin Authroity active storage as of December 2022

DAILY INFLOWS TO THE MURRAY DARLING BASIN



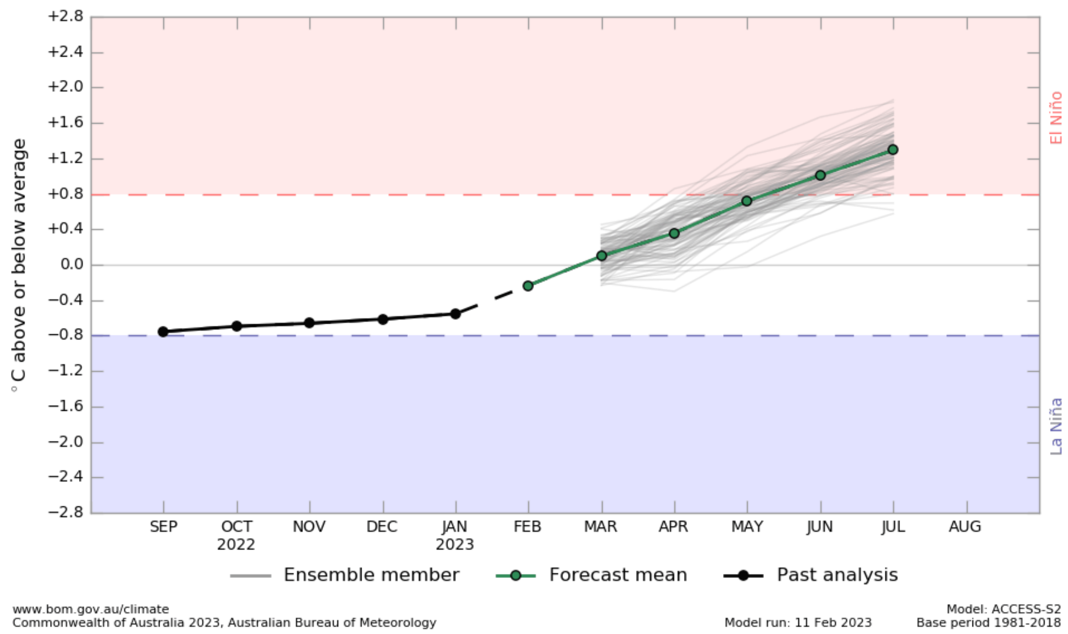
Source: Murray Darling Basin Authority

WEATHER OUTLOOK

The extreme wet conditions seen over the last 2-3 years are reflective of a rare alignment of climatic drivers that has only been seen twice in recorded history, causing severe floods across the country. A triple La Niña, coinciding with a Negative Indian Ocean Dipole, has only been seen once before in 1974, this being the catalyst for the 1974 Australian floods.

The current La Niña, which was announced in September 2022, is expected to end by the end of summer. The Bureau of Meteorology ("BOM") is now forecasting a possible shift to El Niño conditions by June 2023. El Niño typically brings drier than average conditions to the eastern half of Australia.

MONTHLY SEA SURFACE TEMPERATURE ANOMALIES FOR NINO3.4 REGION[1]



1. El Niño Southern Oscillation ("ENSO") outlooks from March onwards generally provide a higher degree of accuracy.

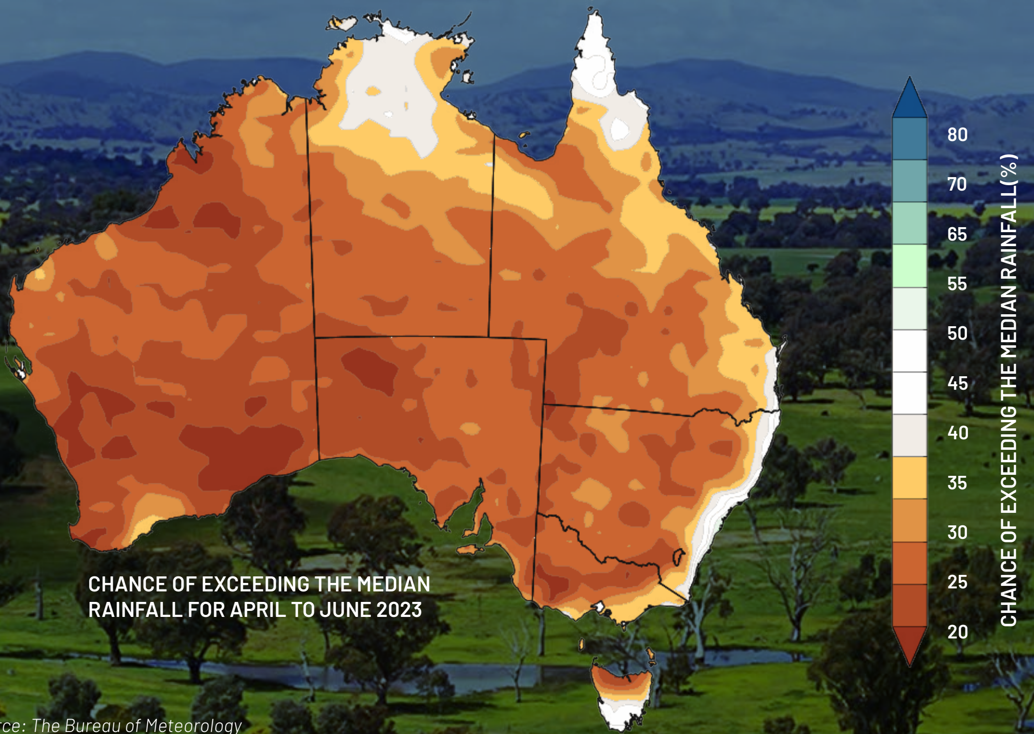
Source: The Bureau of Meteorology

WEATHER OUTLOOK

If we take a look at the history of Australia's multiple La Niña events, we have seen a double or triple La Niña take place nine times in recorded history. On six of these nine occasions, we have seen an El Niño declared within 12 months of the second or third La Niña ending.

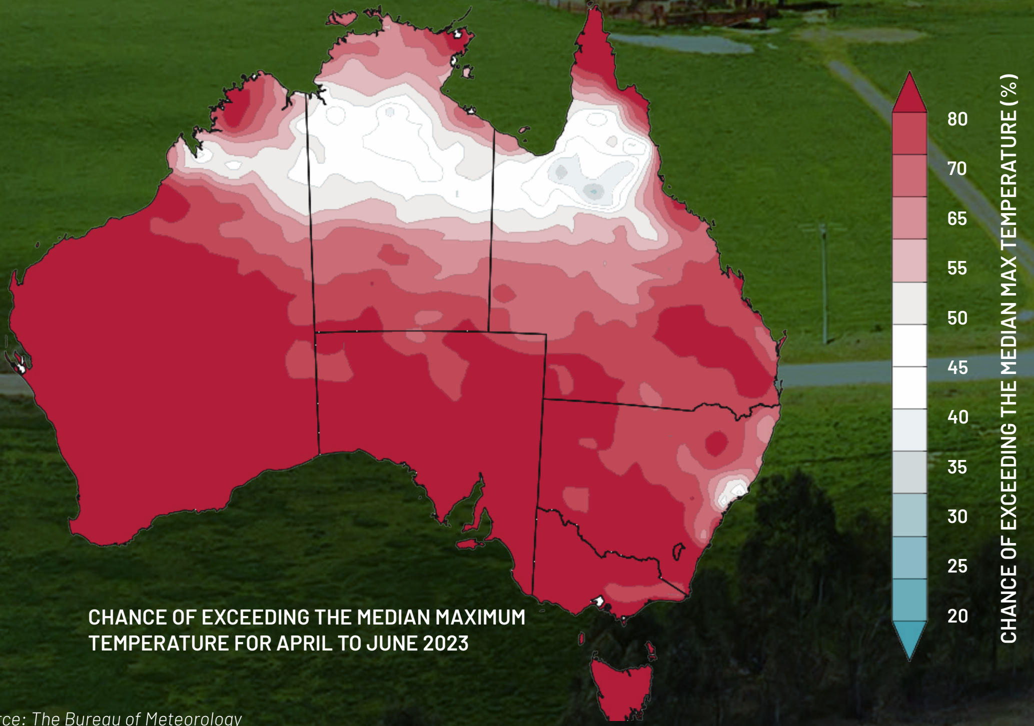
We will continue to actively manage our portfolio to ensure it has an optimal composition that suits the current climate and is structured in a way that enables us to be flexible in the delivery of water through to our customers and lessees.

The drier outlook suggest by the ENSO, is also supported by the BOM's expected long-term rain and temperature forecasts.



CHANCE OF EXCEEDING THE MEDIAN RAINFALL FOR APRIL TO JUNE 2023

Source: The Bureau of Meteorology



CHANCE OF EXCEEDING THE MEDIAN MAXIMUM TEMPERATURE FOR APRIL TO JUNE 2023

Source: The Bureau of Meteorology

THANK YOU

In addition to thanking our shareholders, we would also like to thank our customers and lessees for their business in FY2022. While we can appreciate the next few months won't be without its challenges as clean up from the floods begin, we sincerely look forward to working with and supporting your businesses in 2023 and beyond.

Lachlan Campbell
Portfolio Manager

Lachlan Beech
Portfolio Manager

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors of Duxton Water Limited submit here with their Directors' Report, the financial report of Duxton Water Limited ("the Company") for the year ended 31 December 2022, and the Auditors' Report. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

DIRECTORS

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

Mr Edouard Peter

Mr Stephen Duerden

Mr Dirk Wiedmann

Mr Dennis Mutton

Dr Vivienne Brand

Mr Brendan Rinaldi (appointed 1 April 2022)

The above named Directors held office during the whole of the financial year and since the end of the financial year unless otherwise stated.

The office of company secretary is held by Mrs Katelyn Adams.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

PRINCIPAL ACTIVITIES

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

OPERATIONAL PERFORMANCE

The Company delivered a profit before taxes of $14.01 million for the year ended 31 December 2022 (2021: $12.20 million).

This year's results are underpinned by the Company's leasing revenue stream, profits generated on rebalancing the permanent water portfolio, and favorable interest rate swap valuation movements.

The Board remains confident of the Company's ability to maintain strong annual returns and is committed to providing visibility to future dividend targets.

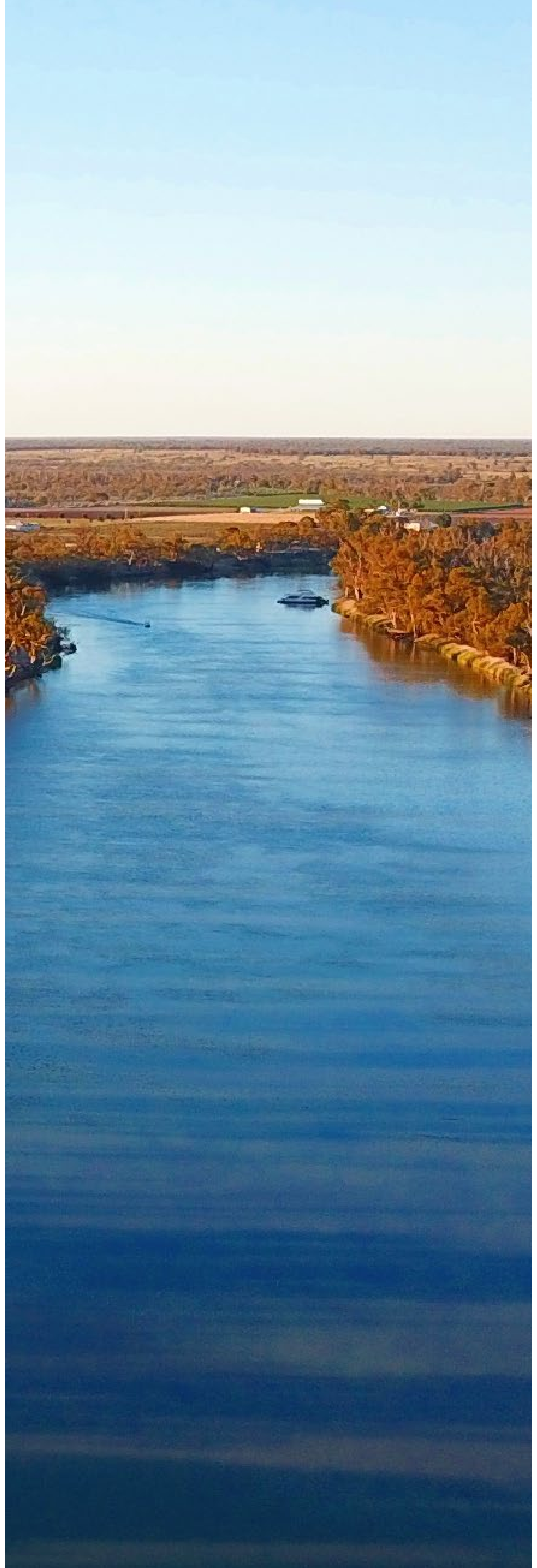
The Company has provided the following dividend announcement and targets:

- Final 2022 dividend of 3.4 cents (**Declared**)
- Interim 2023 dividend of 3.5 cents (**Target**)
- Final 2023 dividend of 3.6 cents (**Target**)
- Interim 2023 dividend of 3.7 cents (**Target**)

PORTFOLIO COMPOSITION

Over the past 12 months, Duxton Water has continued to strategically position its permanent water portfolio. Although no new capital was raised from shareholders in 2022, the Company actively managed its portfolio while unlocking statutory profit for shareholders that is otherwise quarantined due to the accounting treatment of permanent water assets.

In 2022, repositioning the permanent portfolio resulted in the Company unlocking $8.03 million (2020: $8.74 Million) of statutory profits through the sale of permanent water assets.



DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2022

DEBT SUMMARY & INTEREST RATE SWAPS

The Board has strategically used debt at historically low interest rates to enhance shareholder returns and scale the portfolio. The Company also hedged a portion of its debt using a number of interest rate swaps to mitigate exposure to interest rate movements.

The Board closely monitors interest rate markets to manage the Company's debt position and interest rate swap portfolio. As the Board sees prudent, any future surplus cash may be allocated against the debt facilities to reduce current interest expenses.

In November 2022, the Company closed it's 5-year fixed interest rate swap positions that were due to expire between 2024-2025. This was done to crystallise the gain recorded on these swap arrangements since they were contracted in 2019 and 2020. The total gain made on closing these swap arrangements was $2.4 million. This amount was settled in cash paid to the Company in late 2022.

The Company is required to carry financial instruments (interest rate swap arrangements) at fair value as per the Australian Accounting Standards. For the period ended 31 December 2022, non-cash fair value adjustments on the Company's interest rate swaps of $1.9 million has been recognised as a negative finance expense (income) in the Company's Statement of Profit or Loss. Total fair value recognised on the Company's balance sheet for interest rate swap arrangements at 31 December 2022 was $2.6 million. The Company's effective cost of borrowings on an annualised basis is 3.04%.

FOR THE YEAR ENDED 31 DECEMBER 2022:

Cash Finance Costs = $3.53 million
Realised Gain on Swaps = $2.41 million
Non-Cash Finance Costs = ($1.89) million
Total Finance Costs/(Income) = ($0.77) million
Average Debt Drawn = $115.97 million

Key Metrics	2022	2021	2020	2019	2018
Profit (loss) attributable to owners of the company	$10.007m	$8.541m	$8.696m	$7.425m	$7.265m
Basic earnings per share	$0.084	$0.071	$0.073	$0.064	$0.085
Dividends paid	$7.770m	$7.303m	$6.798m	$6.098m	$3.990m
Dividends per share	$0.065	$0.061	$0.057	$0.053	$0.049
Share price (at 31 December)	$1.62	$1.53	$1.41	$1.44	$1.51
Return on capital employed	$0.049	$0.047	$0.067	$0.054	$0.067

FINANCIAL OVERVIEW

During the period ended 31 December 2022, the Company:

- **Delivered a profit before tax of $14.01 million (2021: $12.20 million)**
- **Generated leasing revenue of $8.20 million (2021: $9.21 million)**
- **Paid two fully franked dividends totalling 6.5 cents per share**
- **Increased the portfolio of water assets to $377 million (2021: $340 million)**
- **Extended dividend targets out to the end of FY2024**

Pricing on the Company's permanent water portfolio has continued to perform strongly in what has been a challenging time for the global economy, reaffirming the resilience of water as an asset class.

The NAV from a Fair Market Value perspective at 31 December 2022 was $1.90 per share, which has increased from $1.78 per share at 31 December 2021. This increase in NAV is a reflection of the uplift in water asset values that has been observed throughout 2022.

At 31 December 2022, the Company is carrying $114.00 million (or $0.97 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 31 December 2022 is $1.23 per share (31 December 2021: $1.22 per share).

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 a Fair Market Value basis compared to the basis of preparation described in Note 2 of the financial statements.

31 December 2022	Per company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
ASSETS			
Permanent water entitlements	262,756	376,760	114,004
Temporary water entitlements	26	72	46
Net current and deferred tax asset	(2,089)	(36,592)	(34,503)
Net other current assets	6,561	6,561	-
Net non-current liabilities	(122,391)	(122,391)	-
TOTAL NET ASSETS	**144,863**	**224,410**	**79,546**
NET ASSET VALUE PER SHARE	**$1.227**	**$1.901**	**$0.674**

31 December 2021	Per company Statement of Financial Position $'000	Per Fair Market Value* $'000	Variance $'000
ASSETS			
Permanent water entitlements	241,111	338,366	97,255
Temporary water entitlements	238	1,189	951
Net current and deferred tax asset	242	(29,208)	(29,450)
Net other current assets	9,724	9,724	-
Net non-current liabilities	(106,000)	(106,000)	-
TOTAL NET ASSETS	**146,035**	**214,071**	**68,756**
NET ASSET VALUE PER SHARE	**$1.215**	**$1.782**	**$0.574**

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

DIVIDENDS

The Company paid two fully franked dividends totalling 6.5 cents during the year. A final dividend of 3.2 cents per share franked to 100% at 30% corporate income tax rate was paid to the shareholders on 29 April 2022. An interim dividend of 3.3 cents per share franked to 100% at 30% corporate income tax rate was paid to shareholders on 28 October 2022. Total dividends paid for FY2022 were $7.77 million. This consisted of cash distributions of $6.70 million and shares issued under the DRP to the value of $1.07 million.

PERFORMANCE FEE

The performance fee payable to the Investment Manager for the year ended 31 December 2022 amounts to $2.46 million, which has been included in the Statement of Profit or Loss and Other Comprehensive Income. This reflects the strong performance Duxton Water has generated for shareholders over the last three years.

The High Water Mark (HWM) for Duxton Water's performance fee was last set as the closing adjusted PNAV at 31 December 2019, representing the last time Duxton Water paid a performance fee to the Investment Manager. Taking the HWM into consideration, the performance fee is based on the portfolio investment return for the period 1 January 2020 to 31 December 2022, after surpassing the respective benchmark return hurdles.

During this period from 1 January 2020 to 31 December 2022, the Company's portfolio of water assets generated a total investment return of $46.0 million. This has been passed through to shareholders in the form of NAV appreciation and dividends. Total dividends paid to shareholders during this period total $21.9 million or 18.3 cents per share (26.14 cents per share including franking credits).

Ultimately, the performance fee is a reflection of the strong returns generated over the last 3 years. Through active management of the Company's portfolio of water assets, the Portfolio Management Team's ability to deploy capital in an efficient and meticulous manner, and utilising Duxton Capital's network of Australian agricultural contacts, the team is well placed to continue to meet the returns targets and investment objectives of the fund.

FUTURE DEVELOPMENTS

Water entitlement prices continued to appreciate in value throughout 2022, despite several parts of the country experiencing some of the wettest months on record. Across the Basin, entitlement values increased by an average of 7% in the 12 months to 31 December 2022. This is a testament to the robust nature of water as an asset class.

Rising entitlement values have been driven by irrigators looking to improve their long-term water security. In addition, juvenile permanent crops continue to mature across the Basin, contributing to further demand for the Basin's available water resources. This has caused a number of large permanent crop producers to be active in the market with the view to increasing their long-term water security.

The BOM's outlook is for the current La Niña event to end by the end of summer. La Niña and the negative IOD were the climate drivers behind the wetter-than-average conditions that have persisted over much of the Basin over the last 2-3 years.

The BOM is forecasting a possible shift to drier conditions by mid-2023. Models suggest a possible El Niño event developing over autumn-winter 2023 along with a positive IOD. El Niño typically brings drier than average conditions to eastern Australia, while a positive IOD also brings drier conditions over central and southern Australia.

Wet conditions allowed the system to reset and maintain dam storages and reservoirs at the highest levels of the last 10 years. This has presented an excellent opportunity for irrigators to prepare for upcoming seasons and ahead of dry years. The prospect of a drier outlook has increased demand for leases and forward contracts, with several contracts being executed towards the end of 2022, and multiple leases still negotiated.

The Duxton Water portfolio is well equipped to operate under wet, average, and dry conditions, given the diversified composition of the portfolio in both high and general security entitlements. The general security portion of the portfolio performed well in 2022 due to increased yield on entitlements, contributing to the overall portfolio uplift.

The Company will continue to focus on once again achieving its long-term leasing target of 70-80% and working alongside its farming customers to provide flexibility and security for their water supply ahead of the upcoming water years through its range of water products.

SUSTAINABILITY

Duxton Water is aware of the potential risks that climate change could present to the Company and its customers across Australian Agriculture. The development of the Australian water market is seen by many as a key tool in assisting Australian agricultural producers to manage climate variability. With the continued impacts of climate change, it is expected that we will see an increase in weather extremes and resource variability in the future.

The Company has sought not only to manage its own risk through the establishment of a geographically diverse and balanced water entitlement portfolio, but also to assist in the maturity and delivery of water supply products to its customers. This enables our customers to risk manage and mitigate the impacts of a changing climatic environment. The historic variable nature of Australia's climate means that Australian farmers have experience dealing with climate variability and therefore are better prepared than many to embrace new technology and evolve to meet the changes ahead.

Australia is a large and diverse landmass, and climate change will continue to have mixed impacts across the country. Australian farmers are rising to meet the challenge of sustainably managing their landscape, water and commodity selection to maintain and increase agricultural output. Duxton Water sees itself as playing an important role in assisting Australian agriculture producers to meet these future challenges.

The Company continues to monitor and review future impacts as new information and data become available. This informs the Company's approach as it develops its water asset portfolio. The Company expects water markets to continue to adjust as market participants consider these impacts and position for future change. The Board is conscious of its approach in seeking to build a sustainable business and monitors these evolving risks and challenges through its risk assessment framework.

ENVIRONMENTAL REGULATION

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

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.

INDEMNITIES AND INSURANCE OF OFFICERS

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

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

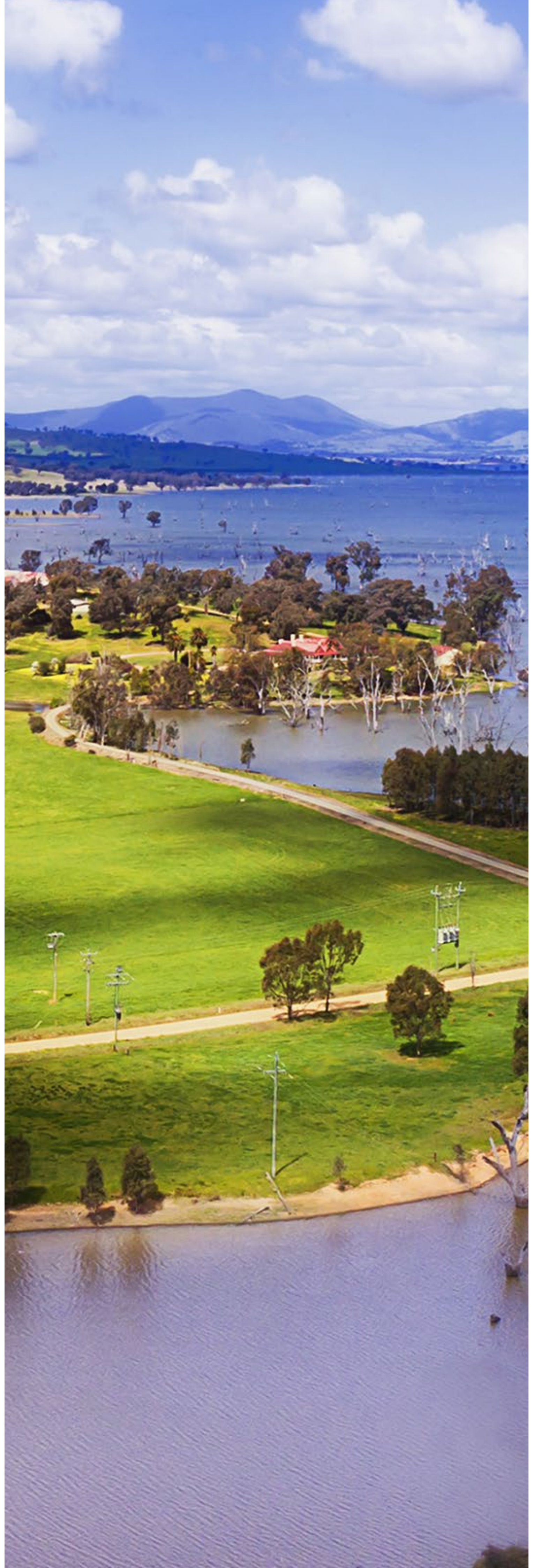
The Company has paid premiums amounting to $118,168 to insure against such liabilities. The insurance premiums relate to:

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

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

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

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



DIRECTORS' REPORT FOR YEAR ENDED 31 DECEMBER 2022

DIRECTORS' MEETINGS

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member). During the financial year, 4 board meetings and 6 audit and risk committee meetings were held.

Director	Board Meetings		Audit & Risk Committee Meetings	
	Meetings attended	Meetings held	Meetings attended	Meetings held
Mr Edouard Peter	4	4	-	-
Mr Stephen Duerden	4	4	6	6
Mr Dirk Wiedmann	4	4	-	-
Mr Dennis Mutton	4	4	6	6
Dr Vivienne Brand	4	4	6	6
Mr Brendan Rinaldi (appointed 1 April 2022)	3	4	5	6

RESEARCH AND DEVELOPMENT

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

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement and ASX Appendix 4G (Key to Disclosures – Corporate Governance Council Principles and Recommendations) are available in the Corporate Governance section of the Duxton Water website at www.duxtonwater.com.au. As at the date of the Corporate Governance Statement, the Company complies with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 4th Edition from 1 January 2020 (unless otherwise stated).

CHANGES IN STATE OF AFFAIRS

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

INFORMATION ON DIRECTORS & COMPANY SECRETARY

CHAIRMAN OF THE BOARD & EXECUTIVE DIRECTOR
EDOUARD PETER

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

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

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

INTEREST IN SECURITIES
Fully paid ordinary shares 7,954,879

QUALIFICATIONS
Bachelor English Literature

OTHER DIRECTORSHIPS (ASX LISTED)
Duxton Farms Ltd

NON-EXECUTIVE DIRECTOR
STEPHEN DUERDEN

Stephen Duerden is currently the CEO of Duxton Capital (Australia) Pty Ltd. Stephen has over 25 years of experience in investment management, the last 14 of which have been focused on agriculture operations and investments, and joined Duxton in May 2009, as the CEO of Duxton in Singapore. Before joining Duxton, Stephen was the COO and Director for both the Complex Assets Investments Team and the Singapore operation of Deutsche Bank Asset Management Asia. Prior to this Stephen worked with Deutsche in Australia where he was a member of the Australian Executive Committee responsible for the management of the Australian business, with assets under management of approximately AUD $20 billion, and a member of the Private Equity Investment Committee overseeing the management of over AUD $2.5 billion in Private Equity and Infrastructure assets. Stephen has had exposure to a broad range of financial products and services during his career. He has been involved in direct property development and management, the listing and administration of REITS, as well as the operation and investment of more traditional asset portfolios.

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

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

INTEREST IN SECURITIES
Fully paid ordinary shares 251,997

COMMITTEES
Member - Audit and Risk Committee

QUALIFICATIONS
Bachelor of Commerce Accounting (Finance and Systems), Graduate Diploma of Applied Finance, Member of Certified Practising Accountants, Fellow of Financial Services Institute of Australia

OTHER DIRECTORSHIPS (ASX LISTED)
Duxton Farms Ltd

INDEPENDENT NON-EXECUTIVE DIRECTOR & DEPUTY CHAIRMAN
DIRK WIEDMANN

Dirk Wiedmann has 30 years of experience in the finance industry. Over his career, Dirk has held senior global positions with several Banks, including UBS AG, Bank Julius Baer & Co Ltd and Rothschild Bank AG. Throughout his time in the industry, Mr Wiedmann has gained a vast range of experience covering international equities and derivatives, business sector market development, executive education and strategic marketing. Dirk has been invested in Australian agriculture business, including wine and dairy operations, since 1999.

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

Besides his Australian interests, Dirk acts as an independent director for MAN Investment Management Switzerland AG, advises a Family Office and is active in a Swiss Real Estate company.

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

INTEREST IN SECURITIES
Fully paid ordinary shares 1,500,095

COMMITTEES
Nil

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

OTHER DIRECTORSHIPS (ASX LISTED)
Nil

INDEPENDENT NON-EXECUTIVE DIRECTOR
DENNIS MUTTON

Dennis Mutton is an independent consultant in the fields of natural resource management, primary industries, regional growth initiatives, leadership development and government-business relationships. He also holds a range of board Directorships in government, business and not for profit organisations at State and National levels.

His full time work career included executive management roles in both the private and public sectors culminating in 15 years as CEO of a number of South Australian State Government agencies including the Department of Environment, Water and Natural Resources and the Department of Primary Industries and Regions. Dennis also held roles as Commissioner and Deputy President of the Murray Darling Basin Commission and Chair of the SA Natural Resources Management Council.

INTEREST IN SECURITIES
Fully paid ordinary shares 52,636

COMMITTEES
Chair – Audit and Risk Management Committee

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

OTHER DIRECTORSHIPS (ASX LISTED)
Nil

INFORMATION ON DIRECTORS & COMPANY SECRETARY

INDEPENDENT NON-EXECUTIVE DIRECTOR
VIVIENNE BRAND

Dr Vivienne Brand is a qualified lawyer who specialises in corporate law research, governance and ethics. She started her career with a leading commercial law firm, working in banking, finance and insolvency for a number of years, before a period working in house in BankSA's Treasury team. Vivienne has several decades of experience on a range of not for profit boards and management committees, including as a Chair of Governance. Vivienne holds a PhD in business ethics and has done significant research in relation to corporate whistleblowing and social licence to operate concepts.

Vivienne holds a Bachelor of Laws (Honours) from the University of Adelaide Australia, and a Master of Laws (Merit) from the University of London. She is also a Member of the Law Council of Australia's Business Law Division. Vivienne grew up in the Riverland on an irrigated fruit block and so has a personal understanding of, and interest in, the critical role access to water plays in supporting Australia's agriculture.

Vivienne is an Independent Non-Executive Director of the Company.

INTEREST IN SECURITIES
Fully paid ordinary shares 9,062

COMMITTEES
Member – Audit and Risk Management Committee

QUALIFICATIONS
Bachelor of Laws (Hons), GAICD, LLM(Lond), PhD

OTHER DIRECTORSHIPS (ASX LISTED)
Nil

INDEPENDENT NON-EXECUTIVE DIRECTOR
BRENDAN RINALDI

Brendan Rinaldi has 17 years experience in the finance industry and is an executive with ANZ Banking Group Ltd, leading its Corporate and Institutional Health business. Brendan has also held leadership roles in risk, agribusiness and commercial lending and was previously the State General Manager for Business Banking in South Australia, Northern Territory and Western Australia. Brendan is of a mixed farming and irrigation background in the Murray region of NSW.

His leadership roles in Agribusiness include the State Director for ANZ Corporate Agribusiness for Victoria and Tasmania, and the Head of Agribusiness in risk. Brendan is also a Governor of the American Chamber of Commerce. Brendan holds a Bachelor of Commerce from Latrobe University (Melbourne), is a Chartered Accountant, and also completed the ARITA Education Program (Advanced Insolvency Law).

INTEREST IN SECURITIES
Fully paid ordinary shares 10,000

COMMITTEES
Member – Audit and Risk Management Committee

QUALIFICATIONS
Bachelor of Commerce, Member of Chartered Accountants Australia and New Zealand

OTHER DIRECTORSHIPS (ASX LISTED)
Nil

COMPANY SECRETARY
KATELYN ADAMS

Katelyn Adams has over 15 years of accounting and board experience, servicing predominantly ASX listed companies. Katelyn is a Chartered Accountant and Partner of the Corporate Advisory division of HLB Mann Judd in Adelaide, as well as the Company Secretary of various listed and private companies.

Katelyn has extensive knowledge in corporate governance, ASX Listing Rule requirements, IPO and capital raising processes, as well as a strong technical accounting background.

Katelyn is a Non-Executive Director of Clean Seas Seafood Limited, and Company Secretary of Duxton Water Limited, Highfield Resources Limited and Petratherm Limited.

QUALIFICATIONS
Bachelor of Commerce, Member of Chartered Accountants Australia and New Zealand

REMUNERATION REPORT

REMUNERATION REPORT (AUDITED) – INVESTMENT MANAGER

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

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

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

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

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

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

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

"**Portfolio Net Asset Value" ("PNAV")** means the total assets of the Company including water assets which for the purpose of determining the Management Fee, will be valued at fair market value based upon independent valuation, or the weighted average price of the last three applicable trades on or prior to the relevant Valuation Day, received from at least one broker, excluding outliers). Outliers are defined as a trade with greater than 10% variance from the last transacted price and transactions that are less than 10ML. (unless there are no applicable transactions greater than 10ML) less; the total liabilities of the Company excluding provisions for tax payable and Performance Fee.

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

The Management Fee is to be paid to the Investment Manager regardless of the performance of the Company.

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

The management fee paid or payable to the Investment manager for the year ended 31 December 2022 amounted to $2,211,532 (year ended 31 December 2021: $1,914,375).

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

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

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

The Performance Fee will be calculated by reference to the audited accounts of the Company ("Audited Accounts") adjusted to reflect the value of water assets as determined by independent valuation, and the Company will pay the Performance Fee to the Investment Manager in arrears within 30 days from the completion of the Audited Accounts.

The Performance Fee will be payable if the Company outperforms either of the First Benchmark Hurdle or the Second Benchmark Hurdle (as defined below) during any Calculation Period. The formula for calculating the Performance Fee payable to the Investment Manager for any Calculation Period is as follows:

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

(b) If the Investment Return of the Company between the Start Date and the Calculation Date is greater than the First Benchmark Hurdle (8%) but less than the Second Benchmark Hurdle (12%) then the Performance Fee will be:

5% x ((Adjusted Ending PNAV - Opening PNAV - Capital Raisings) – First Benchmark Return Hurdle)

(c) If the Investment Return of the Company between the Start Date and the Calculation Date is greater than the Second Benchmark Hurdle (12%) then the Performance Fee will consist of two components as follows:

Component A = 5% x (Second Benchmark Return Hurdle - First Benchmark Return Hurdle)

Plus

Component B = 10% x ((Adjusted Ending PNAV – Opening PNAV – Capital Raisings) – Second Benchmark Return Hurdle)

Where:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The performance fee paid or payable to the Investment manager for the year ended 31 December 2022 amounted to $2,458,222 (year ended 31 December 2021: nil).

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

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

Movements in Shares	1 Jan 2022	Exercise of Options	Other Changes[1]	31 Dec 2022
Mr Edouard Peter [(1)]	11,577,171	-	(3,622,292)[2]	7,954,879
Mr Stephen Duerden [(1)]	235,876	-	16,121	251,997
Mr Dirk Wiedmann	1,467,101	-	32,994	1,500,095
Mr Dennis Mutton	42,636	-	10,000	52,636
Dr Vivienne Brand	9,062	-	-	9,062
Mr Brendan Rinaldi	-	-	10,000	10,000
Total	**13,331,846**	**-**	**(3,553,177)**	**9,778,669**

[1] *Other Changes represent shares that were purchased or sold during the year at an arm's length basis on the ASX. Shares held by a Director prior to their appointment date are also included as "Other Changes". There were no equity instruments granted during the period as compensation. Director shares held comprise of both direct and indirect holdings.*
[2] *This balance includes a non-cash family share transfer of 4,053,191.*

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

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

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

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

Non-executive Directors (Total Remuneration)	2022 $	2021 $
Mr Edouard Peter [(1)]	-	–
Mr Stephen Duerden [(1)]	-	–
Mr Dirk Wiedmann	35,000	35,000
Mr Dennis Mutton	45,000	45,000
Dr Vivienne Brand	40,000	40,585
Mr Brendan Rinaldi	30,000	-
Total	**150,000[(2)]**	**120,585[(2)]**

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

OPTIONS

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

– END OF REMUNERATION REPORT –

ROUNDING

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

SHARES UNDER OPTION

Nil

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

CORPORATE GOVERNANCE STATEMENT

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

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, KPMG, to provide the Directors of the Company with an Independence Declaration. This Lead Auditor's Independence Declaration is included on page 43.

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

Edouard Peter
Chairman

Dennis Mutton
Independent Non-Executive Director

Stirling, South Australia
27 February 2023

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

To the Directors of Duxton Water Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Duxton Water Limited for the financial year ended 31 December 2022 there have been:

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

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

KPMG

Darren Ball
Partner

Adelaide

27 February 2023

STATEMENT OF **PROFIT OR LOSS** AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	31 Dec 2022 $'000	31 Dec 2021 $'000
Revenue	4	11,955	20,533
Gain on entitlement sales		8,026	8,739
Cost of sales and leasing		(1,020)	(13,446)
Management fees		(2,212)	(1,914)
Performance fees		(2,458)	-
Legal and professional fees		(109)	(126)
Other expenses	5	(1,373)	(1,772)
Impairment reversal of permanent water entitlements	6	171	41
Impairment reversal / (Impairment) of temporary water allocations		255	(255)
Total expenses		**(6,746)**	**(17,472)**
Profit before net finance (cost)/income		**13,235**	**11,800**
Finance income		-	9
Finance expense		771	390
Net finance Income	7	**771**	**399**
Profit before tax		**14,006**	**12,199**
Income tax expense	8	(3,999)	(3,658)
Profit for the year attributable to shareholders of Duxton Water Limited		**10,007**	**8,541**
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the year attributable to shareholders of Duxton Water Limited		**10,007**	**8,541**
Earnings per share attributable to shareholders of Duxton Water Limited			
Basic Earnings per share	17	$ 0.084	$ 0.071
Diluted earning per share	17	$ 0.084	$ 0.071

The notes on pages 48 to 69 are an integral part of these financial statements

STATEMENT OF **FINANCIAL POSITION** AS AT 31 DECEMBER 2022

	Note	31 Dec 2022 $'000	31 Dec 2021 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	1,246	6,220
Trade and other receivables	10	9,568	6,784
Temporary water allocations	12	26	238
Other current assets		434	488
Total current assets		**11,274**	**13,730**
Non-current assets			
Permanent water entitlements	13	262,756	241,111
Deferred taxation	8	11	242
Financial derivative assets	22	2,609	718
Total non-current assets		**265,376**	**242,071**
Total assets		**276,650**	**255,801**
LIABILITIES			
Current liabilities			
Trade and other payables	14	3,275	944
Unearned Revenue		1,411	1,370
Tax liability	8	2,100	1,447
Total current liabilities		**6,786**	**3,761**
Non-current liabilities			
Interest-bearing liabilities	15	125,000	106,000
Total non-current liabilities		**125,000**	**106,000**
Total liabilities		**131,786**	**109,761**
Net assets		**144,864**	**146,040**
EQUITY			
Issued capital	16	134,526	137,939
Retained earnings		10,338	8,101
Total equity		**144,864**	**146,040**

The notes on pages 48 to 69 are an integral part of these financial statements

STATEMENT OF CHANGES IN **EQUITY**
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Issued capital $'000	Retained Earnings $'000	Total equity $'000
Balance at 1 January 2022		**137,939**	**8,101**	**146,040**
Profit for the year		-	10,007	10,007
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		**-**	**10,007**	**10,007**
Transactions with owners of the Company:				
Shares issued	16	1,072	-	1,072
Share buyback	16	(4,474)	-	(4,474)
Share issue costs - net of taxes	16	(11)	-	(11)
Distribution of dividends	16	-	(7,770)	(7,770)
Balance at 31 December 2022		**134,526**	**10,338**	**144,864**
Balance at 1 January 2021		**137,230**	**6,863**	**144,093**
Profit for the year		-	8,541	8,541
Other comprehensive income for the year, net of tax		-	-	-
Total comprehensive income for the year		**-**	**8,541**	**8,541**
Transactions with owners of the Company:				
Shares issued	16	876	-	876
Share buyback	16	(167)	-	(167)
Share issue costs - net of taxes	16	-	-	-
Distribution of dividends	16	-	(7,303)	(7,303)
Balance at 31 December 2021		**137,939**	**8,101**	**146,040**

The notes on pages 48 to 69 are an integral part of these financial statements

STATEMENT OF **CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	31 Dec 2022 $'000	31 Dec 2021 $'000
Cash flows from operating activities			
Receipts from customers		12,035	19,697
Payments to suppliers		(4,226)	(7,472)
Interest paid		(3,635)	(2,032)
Income tax paid		(2,898)	(2,384)
Net cash generated from/(used in) operating activities	18	**1,276**	**7,809**
Cash flows from investing activities			
Purchase of water entitlements		(27,446)	(9,917)
Disposal of water entitlements		10,966	15,286
Disposal of financial derivative assets		2,409	-
Movement in deposits		3	176
Net cash generated from/(used in) investing activities		**(14,068)**	**5,545**
Cash flows from financing activities			
Payment of share buyback	16	(4,474)	(167)
Transaction costs related to issues of shares	16	(11)	-
(Repayment of) / proceeds from borrowings	15	19,000	(3,300)
Payment of dividends	16	(6,697)	(6,427)
Net cash generated from/(used in) financing activities		**7,818**	**(9,894)**
Net increase in cash and cash equivalents		**(4,974)**	**3,460**
Cash and cash equivalents at beginning of the year		6,220	2,760
Cash and cash equivalents at end of year	9	1,246	6,220

The notes on pages 48 to 69 are an integral part of these financial statements

1. CORPORATE INFORMATION

Duxton Water Limited (the "Company") is a Company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under the symbol D2O. Its registered office and principal place of business is located at 7 Pomona Road Stirling SA 5152

The Company is a for-profit entity. The full-year financial statements were authorised for issue by the Directors on 27 February 2023.

2.BASIS OF PREPARATION

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention except for financial derivative liabilities which are at fair value.

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

The financial statements have been prepared by applying the going concern basis of accounting. They are based on historical costs and do not take into account changing money values, except for financial derivatives which are measured at Fair Value.

STATEMENT OF COMPLIANCE

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with Australian Accounting Standards Board ("AASBs") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

a) Permanent water entitlements

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

There have been no significant changes in accounting policies applied in 2022.

LEASES

The Company (as lessor) generates leasing revenue through the provision of long-term leasing arrangements (typically 3-10 years) of permanent water entitlements to various counterparties. As lessor, the process of accounting for these leases under AASB 16 remains unchanged from AASB 117. Under AASB 16 the Company classifies all leases as either operating or finance leases using similar principles as defined in AASB 117 Leases. AASB 16 does not have any impact on the Company's financial statements for leasing arrangements where the company acts as lessor.
The Company can (as lessee) lease permanent water entitlements from various counterparties through the provision of long-term leasing arrangements. AASB 16 would ordinarily require the present value of the future lease payments to be recorded on the Company's Statement of Financial Position, however given the nature of permanent water entitlements (i.e. intangible assets) the Company has elected to not apply AASB 16 to these intangible assets.

REVENUE AND OTHER INCOME

Sale of temporary water allocations

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

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

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

Lease of water entitlements

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

Interest income

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

Sale of permanent water entitlements

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

Impairment of Financial Assets

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime Expected Credit Losses ("ECLs").

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

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

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.
- The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

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

Credit-impaired financial assets

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

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade and other receivables, including contract assets, are presented separately in the Statement of Profit or Loss and Other Comprehensive Income.

Segment reporting

Operating segments are reported in a manner consistent with the internal reports which are provided to the chief operating decision maker. The chief operating decision maker, who is responsible for monitoring and assessing segment performance, has been identified as the board of Directors.

Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In this case, GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense. Receivables and payables are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the Statement of Cash Flows on a net basis.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax amounts. Current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Profit or Loss and Other Comprehensive Income because of items of income or expense that are taxable or deductible in other years or because of items that are never taxable or deductible.

The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis. Current and deferred tax is recognised in the profit and loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity, respectively.

Financial Instruments

a) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit or Loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

b) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value Through Other Comprehensive Income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

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

c) Subsequent measurement and gains and losses
Financial assets at amortised cost

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

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

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

e) Derecognition
Financial assets

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

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets.

In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the statement of profit or loss.

f) Offsetting

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

Water assets
a) Permanent water entitlements

Intangible assets with indefinite useful lives (permanent water entitlements) that are acquired separately are carried at cost less accumulated impairment losses.

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

b) Temporary water allocations

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

Impairment of tangible and intangible assets other than goodwill.

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

Permanent water entitlements

Permanent water entitlements are tested for impairment at a entitlement zone level by comparing each entitlement zone with its carrying amount annually. Whenever there is an indication that an impairment exists, any excess of the carrying amount over the recoverable amount is recognised as an impairment loss in the Statement of Profit or Loss. The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine if there is any indication of impairment.

If such an indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

The Company determines the fair value of its permanent water entitlements based upon independent valuations. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income and are only reversed to the extent of previously recognised impairment.

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

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

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

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

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

4. REVENUE

	31 Dec 2022 $'000	31 Dec 2021 $'000
Lease income from water entitlements	8,195	9,213
Sale of temporary water allocations	3,718	11,224
Other income	42	96
Total	**11,955**	**20,533**

5. OTHER EXPENSES

	31 Dec 2022 $'000	31 Dec 2021 $'000
Administration and marketing expenses	460	379
ASX listing fees	53	53
Auditors remuneration – KPMG – Audit of financial statements*	57	53
Bad debt expense	12	678
Brokerage, bank fees and other expenses	25	4
Company secretary	78	67
Directors' and officers' insurance	118	118
Government water charges	366	241
Non-executive Directors fees	150	135
Share registry costs	54	44
Total	**1,373**	**1,772**

*Auditors remuneration - KPMG - Audit of financial statements = $56,733.

6. IMPAIRMENT REVERSAL OF WATER ENTITLEMENTS

	31 Dec 2022 $'000	31 Dec 2021 $'000
Impairment reversal of water entitlements	171	41
Total	**171**	**41**

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

The Company contracts an independent expert to determine the fair value of entitlements. The independent expert employs a market valuation approach which draws on publicly available water trade data from the relevant state water registers as well as analysis of trade data obtained from market intermediaries to calculate a dollar per ML volume weighted average price for each entitlement and allocation type. Water entitlements are classified as Level 3 fair value hierarchy assets (2021: Level 3).

The determination of fair value is subject to unobservable judgement applied by the independent expert in selecting transactions sourced from state water registers and intermediary transaction data as input in calculating a dollar per ML volume weighted average price.

For the year ended 31 December 2022, the Company recognised a net impairment reversal of $0.171 million against the high security portion of the portfolio. Details of information to which reportable segment the impairment reversal relates to is disclosed in Note 19.

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

	31 Dec 2022 $'000	31 Dec 2021 $'000
Murrumbidgee Zone 13 GS	-	(212)
Murray Zone 10 HS	(171)	171
Total	**(171)**	**(41)**

Price change sensitivity
If the fair market price of the impaired assets listed above changed by 1%, this would result in no change to the statutory impairment expense in the Statement of Profit or Loss (2021: $0.209 million).

7. NET FINANCE INCOME

	31 Dec 2022 $'000	31 Dec 2021 $'000
Interest paid on debt	(3,529)	(2,319)
Non-cash gain from interest rate swaps	1,891	2,710
Realised gain from interest rate swaps	2,409	-
Cash interest income	-	9
Net finance Income	**771**	**399**

8. TAXATION

(a) Recognised in the statement of profit or loss and other comprehensive income	31 Dec 2022 $'000	31 Dec 2021 $'000
Current tax expense	3,764	3,026
Deferred tax expense	235	632
Total income tax expense	**3,999**	**3,658**
Profit from continuing operations before income tax	14,006	12,199
Tax at the Australian tax rate of 30%	4,202	3,658
Adjustments for current tax of prior periods	(203)	-
Income tax benefit attributable to ordinary activities	**3,999**	**3,658**

(b) Recognised in the statement of changes in equity	31 Dec 2022 $'000	31 Dec 2021 $'000
Deferred tax expense (benefit) – share issue expenses	(3)	-
Income tax recognised directly in equity	**(3)**	**-**

(c) Current Tax Liability	31 Dec 2022 $'000	31 Dec 2021 $'000
Current tax expense recognised through profit or loss	3,764	3,027
Income tax instalments paid	(1,125)	(1,580)
Prior year tax paid	(539)	-
Current tax liability	**2,100**	**1,447**

(d) Deferred Tax Asset	2022 $'000	Transactions via P&L	Transactions via Equity	2021 $'000
Deferred tax assets (liabilities) in relation to:				
Share issue and listing costs	43	(81)	(3)	127
Water entitlements	-	(127)	-	127
Provision for bad debt	207	4	-	203
Unearned revenue	551	551	-	-
Prepaid expenses	(50)	(50)	-	-
Accrued expenses	5	5	-	-
Unpaid superannuation	0	0	-	-
Deposits paid	38	38	-	-
Financial derivatives	(783)	(568)	-	(215)
Total	**11**	**(228)**	**(3)**	**242**

(e) Dividend Franking Account	31 Dec 2022 $'000	31 Dec 2021 $'000
Total franking account balance at 30%	1,766	1,986
Total	**1,766**	**1,986**

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

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

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

9. CASH AND CASH EQUIVALENTS

	31 Dec 2022 $'000	31 Dec 2021 $'000
Cash at bank	1,246	6,220
Total	**1,246**	**6,220**

10. TRADE AND OTHER RECEIVABLES

	31 Dec 2022 $'000	31 Dec 2021 $'000
Trade receivables	9,516	6,725
Deposits paid	-	3
Other receivables	52	56
Total	**9,568**	**6,784**

Trade receivables are net of provision for impairment of $0.69 million (2021: $0.68 million).

11. LEASES AS LESSOR

Duxton Water leases out some of the water entitlements that it owns. At 31 December 2022, the future minimum lease payments under non-cancellable leases receivable was:

	31 Dec 2022 $'000	31 Dec 2021 $'000
Less than one year	6,614	8,870
Between one and five years	11,515	8,932
More than five years	1,322	394
Total	**19,451**	**18,196**

During 2022, lease income of $8.20 million was included in revenue (2021: $9.21 million).

12. WATER ALLOCATIONS

	31 Dec 2022 $'000	31 Dec 2021 $'000
Water allocations	26	238
Total	**26**	**238**

See accounting policy note 2.

In 2022, temporary water allocations of $0.49 million (2021: $11.94 million) were recognised as an expense in cost of sales.

13. WATER ENTITLEMENTS

Permanent water entitlements – at cost	$'000
Balance at 1 January 2021	**240,031**
Additions	10,051
Disposals	(8,800)
Balance at 31 December 2021	**241,282**
Balance at 1 January 2022	**241,282**
Additions	27,753
Disposals	(6,279)
Balance at 31 December 2022	**262,756**

Accumulated impairment	$'000
Balance at 1 January 2021	**212**
Reversal of impairment losses recognised in profit or loss	(212)
Impairment loss recognised in profit or loss	171
Balance at 31 December 2021	**171**
Balance at 1 January 2022	**171**
Reversal of impairment losses recognised in profit or loss	(171)
Balance at 31 December 2022	**-**

14. TRADE AND OTHER PAYABLES

	31 Dec 2022 $'000	31 Dec 2021 $'000
Trade payables	367	164
Accrued expenses*	2,781	578
Other payables	127	202
Total	**3,275**	**944**

**In 2022, a performance fee of $2.46m was accrued (2021: Nil)*

15. INTEREST-BEARING LIABILITIES

	31 Dec 2022 $'000	31 Dec 2021 $'000
Bank loans - secured	125,000	106,000
Total	**125,000**	**106,000**

The Company's debt is secured by a security interest and charge over all of the present and future rights, property and undertakings of Duxton Water Ltd. As per the debt agreement, the debt facility is secured by mortgages on approximately 69 GL of permanent water entitlements at 31 December 2022.

SUMMARY OF BORROWING ARRANGEMENTS
At 31 December 2022 the Company has an outstanding debt facilities with NAB:

- Limit of $130 million due for expiry 31 March 2024 ($125 million drawn).

Terms of borrowing arrangements:
(i) The variable interest payable on debt facility A ($106m) is calculated as BBSY + Margin Fee of 0.65% p.a + Facility Fee of 0.65% p.a.

(ii) The variable interest payable on debt facility B ($24m) is calculated as BBSY + Margin Fee of 0.725% p.a + Facility Fee of 0.725% p.a.

(ii) The facility is secured by mortgages on the Company's permanent water rights.

(iii) Interest is charged through a mixture of variable and fixed 10 year interest rate swap arrangements. The fixed rates on these interest rate swap arrangements range from 1.60% to 1.67%.

(iv) The Company must maintain an interest coverage ratio (ICR) greater than 2.5.

Changes to covenants since 31 December 2021:
The company's maximum loan to valuation ratio was raised to 40% (2021: 35%).

16. EQUITY

a) Ordinary Shares	No. Shares	$'000
Opening balance at 1 January 2021	**119,597,578**	**137,230**
Shares issued during the year (dividend reinvestment plan)	629,648	876
Share buy-back	(114,757)	(167)
Closing balance at 31 December 2021	**120,112,469**	**137,939**
Opening balance at 1 January 2022	**120,112,469**	**137,939**
Shares issued during the year (dividend reinvestment plan)	690,606	1,072
Share buy-back	(2,764,896)	(4,474)
Share issue costs - net of taxes	-	(11)
Closing balance at 31 December 2022	**118,038,179**	**134,526**

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

b) Dividends
Total dividends paid for the 2022 financial year were $7.77 million (2021: $7.30 million). This consisted of cash distributions of $6.70 million and shares issued under the DRP to the value of $1.07 million (2021: $0.88 million).

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

17. EARNINGS PER SHARE

	2022	2021
Earnings $'000	10,007	8,541
Earnings used in the calculation of basic EPS $,000	10,007	8,541
Weighted average number of ordinary shares (basic)	119,579,236	119,816,536
Weighted average number of ordinary shares (diluted)	119,579,236	119,816,536
Basic earnings per share from continuing operations (dollars)	0.084	0.071
Diluted earnings per share from continuing operations (dollars)	0.084	0.071

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2022 $'000	2021 $'000
Profit after tax	10,007	8,541
Adjustments for non-cash items included in profit:		
(Increase)/decrease of financial derivatives at fair value	(1,891)	(2,710)
Impairment reversal of water entitlements	(426)	(214)
Profit on disposal of water entitlements	(8,026)	(8,739)
Profit on disposal of financial derivatives	(2,409)	-
Changes in other items:		
Trade & other receivables*	279	(199)
Prepaid expenses	54	(276)
Trade & other payables*	2,216	11
Unearned revenue	75	(356)
Income taxes	1,019	1,274
Deferred tax	235	633
Water allocations	486	9,671
Other	(342)	173
Net cash generated from operating activities	**1,276**	**7,809**

**Items exclude water receivables and payables*

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

- 690,606 shares ($1.07 million) were issued under the Company's Dividend Reinvestment Plan during 2022.

19. SEGMENT INFORMATION

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

The amounts provided to the Board of Directors with respect to profit or loss, liabilities and assets other than water entitlement assets is measured in a manner consistent with that of the financial statements, while permanent water entitlement assets and temporary water allocations are allocated to a segment based on the geographical region of the water entitlement assets and measured on a "Fair Market Value" basis.

"Fair Market Value" for purposes of valuing the Company's water entitlement and allocation portfolio that is reported to the Board of Directors, is based on the independent monthly valuation that is undertaken by an independent expert. As a result of the change in presentation of the statement of profit or loss and other comprehensive income, the segment report for the period and comparative period have been presented to reflect the changes disclosed in Note 2.

Segment revenue and results For the year ended 31 December 2022	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	8,195	3,718	42	11,955
Gain on entitlement sales	8,026	-	-	8,026
Total segment gross revenue and other income	**16,221**	**3,718**	**42**	**19,981**
Expenses	(287*)	(674**)	(5,785)	(6,746)
Finance costs	-	-	771	771
Tax expense	-	-	(3,999)	(3,999)
Net profit after tax	**15,934**	**3,044**	**(8,929)**	**10,007**

**Includes $0.171 million of impairment reversal on the Company's permanent water portfolio.*
***Includes $0.255 million of impairment reversal on the Company's temporary water portfolio.*

Balance Sheet	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Permanent water entitlements at fair value	261,672	49,335	50,932	14,821	-	376,760
- Less fair market value adjustment [(2)]	(89,090)	(13,677)	(3,183)	(8,054)	-	(114,004)
Permanent water entitlements at cost	**172,582**	**35,658**	**47,749**	**6,767**	**-**	**262,756**
Temporary water allocations at fair value	24	48	-	-	-	72
- Less fair market value adjustment [(3)]	(9)	(37)*	-	-	-	(46)
Temporary water allocations at cost	**15**	**11**	**-**	**-**	**-**	**26**
Total segment assets as disclosed in the financial statements [(4)]	182,134	35,669	47,749	6,746	4,352	276,650
Total segment liabilities as disclosed in the financial statements	(1,304)	-	(33)	(75)	(130,375)	(131,786)

For the year ended 31 December 2021	Permanent Water $'000	Temporary Water $'000	Unallocated $'000	Total $'000
Profit & Loss				
Reportable segment revenue	9,213	11,224	96	20,533
Gain on entitlement sales	8,739	-	-	8,739
Total segment gross revenue and other income	**17,993**	**11,223**	**96**	**29,272**
Finance income	-	-	9	9
Expenses	(37)	(13,622)	(3,033)	(16,692)
Finance costs	-	-	390	390
Tax expense	-	-	(3,658)	(3,658)
Net profit after tax	**17,915**	**(2,398)**	**(6,976)**	**8,541**

**Includes $0.04 million of impairment reversal on the Company's permanent water portfolio*

Balance Sheet	Murray $'000	Murrumbidgee $'000	Goulburn $'000	Other[1] $'000	Unallocated $'000	Total $'000
Permanent water entitlements at fair value	238,160	42,458	44,001	13,746	-	338,366
- Less fair market value adjustment [(2)]	(77,964)	(10,617)	(1,347)	(6,984)	-	(96,912)
- Less accumulated impairment	(171)	-	-	-	-	(171)
Permanent water entitlements at cost	**160,025**	**31,841**	**42,654**	**6,762**	**-**	**241,282**
Temporary water allocations at fair value	678	298	184	29	-	1,189
- Less fair market value adjustment [(3)]	(10)	(218)	(184)	(29)	-	(441)
- Less accumulated impairment	(255)	-	-	-	-	(255)
Temporary water allocations at cost	**413**	**80**	**-**	**-**	**-**	**493**
Total segment assets as disclosed in the financial statements [(4)]	160,183	35,464	42,675	9,773	7,723	255,796
Total segment liabilities as disclosed in the financial statements	(1,369)	-	-	-	(108,391)	(109,760)

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.

20. KEY MANAGEMENT PERSONNEL

The Company has appointed Duxton Capital (Australia) Pty Ltd as its Investment Manager to manage its assets and implement its investment strategy. Details of the basis of remuneration paid or payable to the Investment Manager is fully disclosed in the Remuneration Report of the Directors' Report. During the year the Company recognised management fees paid or payable to its Investment Manager amounting to $2,211,532 (2021: $1,914,375) and performance fees paid or payable to its Investment Manager amounting to $2,458,222 (2021: nil).

Key management personnel of the Company are:

Mr Edouard Peter

Mr Stephen Duerden

Mr Dirk Wiedmann

Mr Dennis Mutton

Dr Vivienne Brand

Mr Brendan Rinaldi (appointed 1 April 2022)

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 Holdings 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.

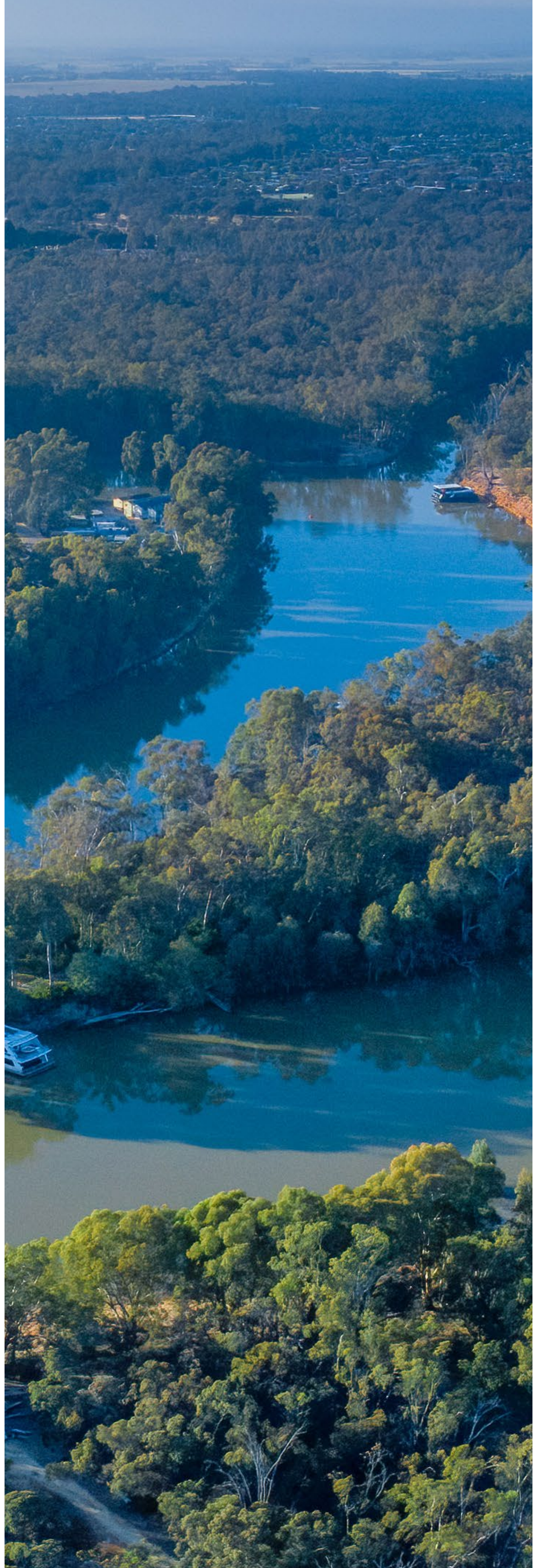
Mr Edouard Peter has a direct interest of 422,846 shares in the Company and an indirect interest in 7,532,033 shares in the Company.

Mr Stephen Duerden has a direct interest of 41,353 shares in the Company and an indirect interest in 210,644 shares in the Company.

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

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

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



NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

21. RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties during the year ended 31 December 2022 (and the year ended 31 December 2021):

	2022 $	2021 $
Management fee - Duxton Capital (Australia) Pty Ltd	2,211,532	1,914,375
Administration fee - Duxton Capital (Australia) Pty Ltd	284,554	260,567
Performance fee - Duxton Capital (Australia) Pty Ltd	2,458,222	-
Lease Revenue - Duxton Viticulture Pty Ltd	2,419,473	2,236,146
Lease Revenue - Duxton Dairies (Cobram) Pty Ltd	125,672	92,136
Lease Revenue - Duxton Farms Ltd	222,666	187,333

Transactions between related parties are on commercial terms and conditions and are periodically reviewed by the Independent Directors.

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

	2022 $	2021 $
Amount due to (from) Duxton Capital (Australia) Pty Ltd	2,680,647	(73,617)
Amount due to (from) Duxton Dairies (Cobram) Pty Ltd	-	(405)
Amount due to (from) Duxton Farms Ltd	(3,538)	(23,043)
Amount due to (from) Duxton Viticulture Pty Ltd	24,100	(46,736)

22. FINANCIAL INSTRUMENTS - RISK MANAGEMENT AND FAIR VALUE AASB13

The following table shows the carrying amounts and fair values of financial assets and financial liabilities. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial Assets	Note	2022 $'000	2021 $'000
Financial assets not measured at fair value:			
Cash and cash equivalents	9	1,246	6,220
Trade and other receivables	10	9,568	6,784
Total financial assets not measured at fair value:		**10,814**	**13,004**

Financial Assets	Note	2022 $'000	2021 $'000
Financial assets measured at fair value:			
Financial derivative assets*		2,609	718
Total financial assets measured at fair value:		**2,609**	**718**

Financial Liabilities	Note	2022 $'000	2021 $'000
Financial liabilities not measured at fair value:			
Trade and other payables	14	3,275	944
Interest-bearing liabilities	15	125,000	106,000
Total financial liabilities not measured at fair value:		**128,275**	**106,944**

* In 2022, financial derivative on interest rate swaps appreciated in value from an asset of $0.72 million to an asset of $2.61 million.

NOTES TO THE **FINANCIAL STATEMENTS**
FOR THE YEAR ENDED 31 DECEMBER 2022

Financial risk management framework
The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

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

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

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

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

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

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

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

The fair values of financial assets and liabilities held by the Company at the reporting date are considered to be approximate to their carrying amounts. There is no significant concentration of credit risk as the Company transacts with a large number of customers.

Past due and impaired assets
Financial assets carried at amortised cost that are past due or impaired at 31 December 2022 was $0.69 million (2021: $0.68 million).

Derivatives
The Company's derivatives are entered into with bank and financial institution counterparties, which are rated AA-, based on Standard and Poor's ratings.

Liquidity risk

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

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

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

Financial Liabilities	Note	Carrying Value $'000	Contractual Cash Flows $'000	6 Months or Less $'000	Over 6 Months $'000
Trade and other payables	14	3,275	3,275	3,275	-
Interest-bearing liabilities	15	125,000	130,814	2,907	127,907
Interest rate swaps		-	(240)	(120)	(120)
Total		**128,275**	**133,849**	**6,062**	**127,787**

Market risk

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

The Company has exposure to interest rate risk through its interest-bearing loan from NAB. Movements in interest rates are not expected to have a material impact on the Company's balance sheet.

Lessor risk

The Company acknowledges there are risks associated with being a lessor. Risks can include situations where the Company does not receive its lease payments, or damage is incurred to the respected asset.

To ensure corrective measures have been taken to reduce or minimise these risks, the Company utilises mechanisms to reduce the risk associated with acting as lessor in asset leasing arrangements. The Company undertakes due diligence procedures which include:

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

Interest rate risk

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

Fair value assessment of financial derivatives

The fair value of the Company's interest rate swaps are calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Company and of the counter party; this is calculated based on credit spreads derived from current credit default swap or bond prices. Interest rate swaps are classified as Level 2 fair value financial instruments.

Fair values are not based on any significant unobservable inputs. During the year, fair value changes of $4.30 million (2021: $2.71 million) were recognised as interest expense in the Statement of Profit or Loss and Other Comprehensive Income. There were no transfer between fair value levels during the year.

At 31 December 2022, it is estimated that a general increase/(decrease) of 1% in interest rates would increase/(decrease) the Company's profit before tax by approximately $1.25 million (2021: $0.51 million).

Interest bearing liabilities (carrying value)	2022 $'000	2021 $'000
Fixed debt (IRS arrangements)	15,000	55,000
Variable debt	110,000	51,000
Total interest bearing liabilities	**125,000**	**106,000**

Interest expense	2022 $'000	2021 $'000
Cash interest expense	3,529	2,319
IRS cash interest expense	(2,409)	-
IRS non-cash interest expense	(1,891)	(2,710)
Total interest expenses	**(771)**	**(390)**

Capital management risk

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

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. The weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) for 2022 was 3.0% (2021: 2.2%).

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

23. CAPITAL COMMITMENT

At 31 December 2022, the Company had not entered into any contracts to acquire permanent water entitlements (2021: $0.13 million).

24. SUBSEQUENT EVENTS

There have been no events subsequent to reporting date which would have a material impact on the Company's 31 December 2022 financial statements.

DIRECTORS' **DECLARATION**
FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors declare that:

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

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

> i. the financial report complies with Australian Accounting Standards, the Corporations regulations 2001 and other mandatory professional reporting requirements; and
>
> ii. the financial statements and notes give a true and fair view of Duxton Water Limited's financial position and performance for the year ended 31 December 2022.

c) the audited remuneration disclosures set out on pages 38 to 40 of the Directors' report comply with section 300A of the Corporations Act 2001; and

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

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

Edouard Peter Chairman	**Dennis Mutton** Independent Non-Executive Director

Stirling, South Australia
27 February 2023

Independent Auditor's Report

To the shareholders of Duxton Water Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the Company's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Statement of financial position as at 31 December 2022;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Director's Declaration.

Basis for opinion

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

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

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of Duxton Water Limited, would be in the same terms if given to the Directors as at the time of this Auditor's Report.

Key Audit Matters

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

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

Carrying value of Permanent Water Entitlements ($262.756m)

Refer to Notes 6 and 13 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Permanent water entitlements are recognised by the Company as indefinite useful life intangible assets, measured at acquisition cost less any impairment in value since acquisition. The carrying value of permanent water entitlements is a key audit matter as: • they are the most significant value assets on the Company's Statement of financial position and form the basis of the Company's future long term revenue and cash-flow; and • the Company engaged an external expert to assist with the fair value less costs of disposal impairment assessment of permanent water entitlements. The fair value less costs of disposal impairment assessment applied a market approach fair value valuation technique to assess permanent water entitlements for impairment. This valuation technique used prices observed in the market for identical or comparable transactions to determine an Fair Market Unit Value. We focussed our audit effort on evaluating the selection of comparable transaction data to determine an Fair Market Unit Value.	Our procedures included: • we assessed the Company's external expert's methodology of a market approach as a fair value valuation technique, and the adjustment of observable selling prices, against the criteria in the accounting standards; • we assessed the scope, competence and objectivity of the external expert engaged by the Company; • with involvement of our valuation specialists: - we assessed the Company's market approach fair value valuation technique of using prices of recent identical and comparable transactions to calculate a Fair Market Unit Value to determine the recoverable amount of the permanent water entitlements, against industry practice; - we formed an independent expectation of Fair Market Unit Values and compared these to the Company's Fair Market Unit Value. Where the Company's valuations deviated beyond our acceptable tolerance, we investigated differences to challenge the external expert's assumptions used in calculating the Company's recoverable amount of permanent water entitlements. This process involved obtaining transactions, by water entitlement type, from brokers and state government water trades register websites and assessing the attributes of the transactions (date, water volumes and water zone) for comparability to the entitlements held by the Company; - we compared the results of our independently developed Fair Market Unit Values to the recoverable amount applied in the Company's assessment of impairment and determination of impairment charge by entitlement type. We considered this impairment against our knowledge and understanding of the economic factors impacting the price of permanent water entitlements, and government regulation and allocation; • we considered the sensitivity of the recoverable amount, by permanent water entitlement and in aggregate, to a reasonably possible range of dollar price per mega litre, to identify those permanent water entitlements at higher risk of impairment; and • we assessed the disclosures made in the financial statements using our understanding obtained from our testing and against the requirements of the accounting standards.

KPMG

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Duxton Water Limited for the year ended 31 December 2022, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 38 to 40 of the Directors' report for the year ended 31 December 2022.

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

KPMG

Darren Ball
Partner

Adelaide

28 February 2023

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is effective as at 31 January 2023 (unless otherwise stated).

TWENTY LARGEST EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities as at 31 January 2023 are listed below:

	ORDINARY SHARES	
Name	**Number held**	**Percentage**
BNP PARIBAS NOMS PTY LTD <DRP>	13,746,905	**11.65**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,081,328	**8.54**
PRESALI AUSTRALIA HOLDINGS PTY LTD	4,891,392	**4.14**
FRIDAY INVESTMENTS PTY LTD <GOLDBURG FAMILY A/C>	4,151,981	**3.52**
NATIONAL NOMINEES LIMITED	3,223,340	**2.73**
CITICORP NOMINEES PTY LIMITED	2,830,028	**2.40**
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,288,984	**1.94**
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	1,531,799	**1.30**
ALADY SUPER PTY LTD <ALADY SUPER FUND A/C>	1,390,000	**1.18**
GEAT INCORPORATED <GEAT-PRESERVATION FUND A/C>	1,300,000	**1.10**
ELATA INVESTMENT CO PTY LIMITED	1,286,664	**1.09**
INARI INVESTMENT CO PTY LIMITED	1,284,463	**1.09**
OMURA INVESTMENT CO PTY LIMITED	1,284,462	**1.09**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,036,603	**0.88**
WKM HOLDINGS PTY LTD <THE RONWYNNE NO 3 A/C>	1,035,302	**0.88**
CHAR PTY LTD <HANDLEY RETIREMENT A/C>	1,010,511	**0.86**
BOND STREET CUSTODIANS LIMITED <MARKWI - D74118 A/C>	988,529	**0.84**
TRUE NORTH PROPERTY MANAGEMENT PTY LTD <SAVCHENKO A/C>	940,000	**0.80**
REP SUPER PTY LTD <REP SUPER FUND A/C>	820,120	**0.69**
HARRIETVILLE PTY LTD <HARRIETVILLE FAMILY A/C>	770,000	**0.65**
WHAM INVESTMENTS PTY LTD <WARWICK HUTCHINS FAMILY A/C>	770,000	**0.65**
Total	**56,662,411**	**48.00**

DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding as at 31 January 2023 are listed below:

	ORDINARY SHARES	
Holding	**Shares**	**No. of Holders**
1 - 1,000	433,517	841
1,001 - 5,000	2,139,802	830
5,001 - 10,000	3,007,224	376
10,001 - 100,000	33,828,968	1,035
100,001 and over	78,628,668	119
	118,038,179	**3,201**

SUBSTANTIAL HOLDERS

Substantial holders of ordinary shares in the Company as at 31 January 2023 are listed below:

	ORDINARY SHARES	
Holding	**Number Held**	**Percentage**
BNP PARIBAS NOMS PTY LTD <DRP>	13,746,905	11.65
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,081,328	8.54

HOLDERS OF EACH CLASS OF EQUITY SECURITIES

Number of holders in each class of equity securities as at 31 January 2023 are listed below:

Holding	Number
Ordinary shares	118,038,179

VOTING RIGHTS

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

VOLUNTARY ESCROW

The table below shows a breakdown of the vendor shares subject to voluntary escrow as at 31 January 2023:

Escrow period	Total
No escrow	118,038,179

CORPORATE **DIRECTORY**

Non-Executive Chairman
Edouard Peter

Non-Executive Director
Stephen Duerden

Independent Non-Executive Directors
Dirk Wiedmann
Dennis Mutton
Vivienne Brand
Brendan Rinaldi

Company Secretary
Katelyn Adams

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

Legal Advisors
Cowell Clarke
63 Pirie Street
Adelaide SA 5000

Share Registry
Computershare

Auditors
KPMG
151 Pirie Street
Adelaide SA 5000

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

Stock Exchange Listing
Australian Securities Exchange
Share Code: D2O

DUXTON
WATER